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IMPRINT

Abakaliki [Nigeria] : Department of Political Science and Public Administration, Ebonyi State University, 2004-

PHYSICAL

DESCRIPTION

v. ; 25 cm.

Green Library

Today's hours: 8p - 4a

Stacks

Library has: [v. 1(2004)]

JQ3081 .A1 A37 V.1:NO.1

✓ Available

2004:MAY

More options

Find it at other libraries via WorldCat

Creators/Contributors

CONTRIBUTOR

Ebonyi State University. Department of Political Science and Public Administration.

Subjects

SUBJECT

Democracy > Nigeria > Periodicals.

Nigeria > Politics and government > 1993- > Periodicals.

Bibliographic information

BEGINNING DATE

2004

TITLE VARIATION

African journal of political & administrative studies

AJPAS

FREQUENCY

Semiannual

VOL/DATE RANGE

Vol. 1, no. 1 (May 2004)-

ISSN

1420-6750

[Catkey: 5756822



A THEORETICAL EXAMINATION OF CAUSES OF HIGH COSTS OF GOVERNMENT CONSTRUCTION CONTRACTS IN NIGERIA

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Abstract

Based on uncontested evidences, the costs of executing construction contracts in Nigeria are extremely high. It has been widely acknowledged that Nigeria pays times-two more than any other country in the World particularly her immediate African neighbours for implementing government construction projects in a bid to provide social and economic infrastructures for the citizens. This phenomenon has had enormous devastating consequences for the country's economy over the years. Amidst this situation, the generally held view is that "corruption" in the public procurement process is the most singular factor responsible for this undesired development. This paper is opposed to this conventional assumption. It argues that, while corruption is one of the contributory factors, it is not the only major factor underscoring the high costs of public contracts in Nigeria. In the view of the paper, other factors such as; inflation and currency devaluation; project design, quality target and time; project environment, scarcity and shortage of materials, poor cost forecast and management, bureaucracy and budgetary delay, etc., are among the major causes of the high costs of implementing government construction projects in the country. However, by way of proffering solution to the problem, the paper recommends some measures as strategies for addressing the situation so as to save the country further waste of scarce financial resources that has drained the economy over a long period. The paper is theoretical and qualitative in approach. Data for the paper were derived from secondary sources, and the data were analyzed using the descriptive analytical method of qualitative writing. These methods were found most suitable and appropriate for the study as they enhanced the achievement of the paper's main objective.

Key Words: *Costs of Governance, Economy, Government Construction Contracts, Socio-Economic Infrastructures, National Development, Public Procurement.*

Introduction

The phenomenon of high costs of executing public contracts in Nigeria has been a great source of general concern to both the government and the citizenry over the years. The trend has remained one of the major challenges being faced by successive governments in Nigeria in an effort to realizing the development agenda of the country as it has produced much overbearing effects on the economy. It has been practically and theoretically proven that Nigeria pays several folds more in implementing government contracts than other countries in the World especially her neighboring African states. The largest proportion of the country's annual budgets goes to the procurement sector as parts of efforts by government to providing basic social and economic infrastructures to the citizens in order to improve the general quality of life, and engender good governance for development in the country. However, despite government's enormous budgetary spending on development projects, Nigeria has only recorded very minimal progress in the efforts at attaining sustainable development of the country and alleviating extreme poverty and sufferings among the majority of its citizens since independence. The huge government financial expenditures on development projects over time are yet to match the general expectations and development needs of the country and its citizens.

The common opinion among Nigerians and the close observers of Nigeria's public procurement practice and system is that the singular factor responsible for this unsatisfactory development is the menace of corruption in the public procurement sector of the country. This view has held sway and attracted popular support among the various segments of the Nigerian society for a long time. Notwithstanding, this paper holds a contrary view to this general assumption. While the paper does not dispute the fact that corruption plays a contributory role in the evident high costs of implementing government projects in Nigeria, it posits that other factors such as; inflation and currency devaluation; project design, quality target and time; project environment, scarcity and shortage of materials, poor cost forecast and management, bureaucracy and budgetary delay, etc., are equally some of the major factors responsible for the trend.

To adequately buttress its argument, the paper is divided into five parts. The first part of the paper is made up of the introduction, while the second segment consists of evidence of the high costs of government construction contracts in Nigeria. The third section examines the remote causes of high costs of implementing government construction contracts in Nigeria. The fourth segment suggests effective strategies for addressing the problem so that the country would cease to experience undue wastages of scarce resources that have inhibited its social and economic development over the period. The fifth segment is the final conclusion of the paper.

Evidence of High Costs of Government Construction Contracts in Nigeria

In spite of pragmatic effort by government demonstrated through series of reforms in the public procurement system to curb the incidence of high costs of implementing public construction contracts in Nigeria, government expenditures on capital projects has steadily been on the increase. Apparently, Nigeria has continued to pay more than ever before in delivering social and economic infrastructures to its citizens without appreciable corresponding development impacts. It is mainly for this reason that the view has been advanced that procurement reform is likely to produce the most beneficial outcomes when it is approached as an integral part of a broader programme of reform, including developing the rule of law, improving the investment climate, reducing corruption, implementing e-government, enhancing service delivery and improving public financial management (Development Assistance Committee, 2005). The integration of procurement reforms with complementary efforts to improve other aspects of financial management, so that procurement is made a mainstream part of the public financial management system, are seen as crucial to overall success (Agaba and Shipman, 2006).

Absence of this integration of public procurement reforms with the overall financial management scheme explains why reforms has not yielded the anticipated results in Nigeria in terms of reducing the persistent high costs of government contract in the country. Consequently, the cost of construction in Nigeria is undoubtedly higher than in most other countries even within the ECOWAS sub-region and other parts of the world. Construction and procurement contracts in Nigeria are about 20-30 per cent higher than comparable contracts in other parts of the world (Nigeria Exchange News, May 27, 2010). Outside crises-ridden parts of the world, Nigeria pays more for construction contracts than any other country in the world. Construction of basic infrastructure such as roads and other physical structures and supplies also takes up almost 65% of all annual budgets. Virtually all reliable estimates show that Nigeria pays at least three times what it costs for equivalent projects in most African countries (Ahmed, 2011). The Federal

Executive Council (FEC) has alluded that a contract of say one kilometer road in Nigeria costs significantly more than it costs in Ghana or Benin Republic, Nigeria's closest neighbours in the same region and under the same climatic conditions (Nigeria Exchange News, May 27, 2010).

The above statistics are underestimated in order to avoid exaggeration. Howbeit, it is pertinent to note that Nigeria spends a greater proportion of her yearly budget on the provision of public infrastructures, and the effects of this on the economy and overall government performance has remained worrisome. In response to this the Federal Government has set up an inter-ministerial committee, the Presidential Projects Assessment Committee (PPAC), led by the Vice-President, Namadi Sambo, to review all government contracts and ensure that they are not inflated. The Federal Executive Council (FEC) approved the constitution of the inter-ministerial committee on high cost of contract in Nigeria which is said to be the highest in West Africa, as Nigerian contracts are 30 per cent higher than other West African countries (Nigeria Exchange News, May 27, 2010). Moreover, President Goodluck Jonathan has asked the Minister of Finance, and Coordinating Minister for Economy, Ngozi Okonjo-Iweala to chair a team which should devise templates for reducing civil engineering contracts in Nigeria. The team is to propose improvements in the evaluation methodologies for construction contracts and supplies to bring cost of executing contracts in Nigeria to acceptable international, or more specifically, African standards. The team will include other stakeholders from the private sector and international consultants, and its work is intended to address and reduce the cost of governance (Ahmed, 2011) in Nigeria. The process is on-going as the government is committed to rid the country of this problem.

Remote Causes of the High Costs of Government Construction Contracts in Nigeria

As earlier mentioned, the excessive high cost of executing government construction contracts in Nigeria is generally attributed to the phenomenon of embedded corruption in the public procurement system. While this paper does not absolutely overlook the influence of corruption on costs of government contracts in Nigeria, it traces the remote causes of high costs of public contracts beyond corruption in the public procurement process. Hence, this section of the paper is not concerned with the examination of corruption as a major factor responsible for the ugly trend. It rather looks at the unnoticeable huge contribution of other factors that are not often mentioned in explaining the remote cause or causes of high costs of implementing public contract in the country. Some of these factors are as followed:

Inflation and Currency Devaluation: Owing to its fragile and weak nature, the Nigerian economy is highly prone to inflation. Inflation being the condition of extreme rise in the prices of goods and services due to increased supply of currency, shortage in quantity of goods and services, and decrease in the purchasing power of money, is one of the major causes of high costs of government contracts in Nigeria. Increase in the costs of building materials influences the costs of project execution (Elinwa and Buba, 1993; Okpala and Aniekwu, 1989). A construction contract awarded at 1,000,000 naira for instance, during normal economic condition would likely demand extra 5,000,000 naira to be fully completed if inflation erupts as the prices of building materials would certainly increase beyond the original estimate on the basis of which the contract was awarded initially. The decrease in the buying power of money results to an accompanying decrease in the quantity of building construction materials that the available

amount can buy at the moment. Hence, to complete and deliver the project within stipulated time-frame, extra-budget expenditure would be incurred to avoid delay or outright abandonment of on-going projects. If the project is to be completed later than the originally scheduled time, much more adverse socioeconomic effects would emerge.

Project Design, Quality Target and Time: Time, cost, quality target and participation have been identified as the main criteria for measuring the overall success of construction projects (Dissanayaka and Kumaraswamy, 1999) in (Obalola, 2011). Of these, cost and time tend to be the most important and visible, always considered as very critical because of their direct economic implications if they are unnecessarily exceeded (Ogunsemi and Jagboro, 2006) in (Obalola, 2011). A successful project means that the project has been completed on time, within cost and to the required quality standard (Chan and Kumaraswamy, 1997) cited in (Obalola, 2011). Delay in completion of project within specified time is common in Nigeria and leads to cost overrun as prices of materials keep changing particularly towards the increase side. Quality prescription and design of projects greatly affects their costs. For instance, it would cost less to build ten blocks of public secondary school classrooms with mere bricks in Ghana or elsewhere than to construct same with solid mixture of concrete in Nigeria. The same applies to the specified design of the classrooms. Provision of plain classroom blocks in Ghana would cost less than constructing the same type of classrooms with complex features in Nigeria (see Akintoye, 200). It has also been revealed that owing to the complexity of construction works, it is hardly impossible to complete a project without changes to the plans or the construction process itself (Ssegawa et al, 2002) in (Obalola, 2011). This variation causes undue uneasiness to stakeholders because of their effects on the successful delivery of project in terms of cost, time, quality and utility (Obalola, 2011). This costs variation is not to be viewed from the perspective of inflation or any other factor but of the specified quality standard, level of complexity and design of projects.

Project Environment: The impact of project environment factors on time and cost in the Nigerian construction industry cannot be overemphasized. Project environment factors are set of circumstances, facts or influences which contribute to the projects outcomes. These are the influential forces which either facilitate or impede project success (Obalola, 2011). Walker (1985) in Obalola (2011) enumerates factors environmental factors that can affect construction time, cost and quality performance of a project as legal/political, institutional, cultural/sociological, technological and economic. For instance, it is unarguable that change in the governmental administrative machinery in Nigeria creates continuity problem that spells unprecedented effects on the progress and estimated costs of current construction projects. Nigerian politicians are generally known for their attitude of not continuing with contracts awarded by their predecessors in government especially if the in-coming government is a product of another political party than the out-going government. In most cases, this usually leads to outright abandonment of construction project and the initializing of new one for the same purpose. Whereby the new government is fair enough and wants to display some measure of economic sensitivity or consideration, contracts are usually re-awarded to new contractors for new sums and under new terms. What this means is that a particular project is awarded two-times leading to double spending. The economic implication of this has been adversely enormous

as resources that ought to be used for other developmental purposes are lavished on single project.

Scarcity and Shortage of Materials: The frequent fluctuation in the quantity of building materials supply to the market is not to be neglected in this discourse. Non-availability of building materials to serve the increasing demand of users creates untold scarcity and excessively increases their market prices beyond normal estimate. These increments in the prices of materials as a result of shortage in their supply bring about significant changes in the costs of construction projects (Okpala and Aniekwu, 1989). Off course, the market forces of demand and supply are self-regulatory. Thus, while bidding or bargaining the monetary cost of projects Nigerian contractors do not often take the role of these forces into consideration, hence their unexpected influence on delivery costs of works in the long run.

Poor Cost Forecast and Management: The lack of requisite techniques or acumen for effective cost forecast and management among majority of Nigerian contractors is another factor influencing the costs of government construction projects. Building costs are incurred by a contractor in carrying out works and its elements include labour, material, plant and machinery costs and other expenses, categorized into direct and indirect costs. Direct costs are traceable to an activity/work item, contributing enormously (between 65% and 93%) to total project costs (Chitkara, 2006). Poor cost management leads to cost overrun, delay, abandonment, profit loss, contractors' bankruptcy and insolvency, quality loss, clients' dissatisfaction and disputes (Ujene, 2012). The changing dynamics of Nigerian market and the inability on the part of contractors to ~~conduct proper cost forecast results in remarkable change in the intended~~ cost of completing and delivery public projects. Inaccurate cost forecast eventuate into shortage of fund for the completion of an on-going construction work, calling for unbudgeted expenses on the part of client/government (see Amusan, 2011). In many occasions, this creates contractual disputes between the client/government and the contractors such that projects are abandoned for a long time before completion.

Delay in Budgetary Process: The excessive delay in the preparation and passage of government annual budget in Nigeria also has immense effects on the cost of implementing public construction projects as the economic factor of inflation. While contractors await budgetary approval and release of fund by appropriate authorities to commence work or continue with an on-going project, changes do occur in the prices of building materials and hiring of labour. These changes in prices of materials and labour are not usually included in the initial costs of projects before awarding them as they are not often anticipated. This situation normally compels contractors to either abandon public works as a result of insufficient fund or demand for additional sum from the client/government to complete the project. On the part of government the additional sum is extra-budget expenses.

In view of the above analysis, it becomes apparent that the social and economic effects of the incidence of high costs of executing government construction contracts in Nigeria are unprecedented and cannot be accurately measured using any parameter. The trend constitutes a major drain on the economy and it is one of the underscoring factors for Nigeria's infrastructural underdevelopment and decay. It has impeded diversification and adequate allocating of resources

to other spheres of the economy for the purpose of actualizing the long-time national development agenda of the country. Howbeit, the problem is not insoluble; it could effectively be curtailed if proper actions are taken by the major stakeholders in the Nigerian construction industry. The next section of this paper offers some possible strategies for checkmating the persistency of the trend.

How to curtail the trend

For Nigeria to surmount the problem of high costs of executing public construction contracts, the paper puts forth the following strategies as ways of addressing the issue:

Legitimized authorities in the Nigeria construction industry such as; the Bureau of Public Procurement, Ministries of Works and Finance, the National Assembly which performs oversight functions on government contracts as well as the Presidency must first of all, address the problem of overarching corruption in that sector of the economy.

Policy makers and economic planners should device effective modalities for regulating the country's economy so as to ensure its relative stability and avoid fluctuations leading to incessant inflation which in turn causes excessive rise in the costs of implementing government construction project.

Contractors seeking government contracts in Nigeria should develop adequate knowledge and understanding of the country's market dynamics and acquire necessary cost-forecasting skills to enable them determine the real cost of projects at initial stage. This would help to checkmate the client-contractor disputes that impede on the success of public construction projects.

The cost of addressing unforeseen changes in project plan which arises due to variation in design and complexity of projects should also be taken into account by contractors at the out-set when bargaining for government construction works to avoid demand for unbudgeted expenses leading to incremental change in costs and unnecessary delay in project delivery.

Successive governments in Nigeria should imbibe the culture of continuing with projects initiated and awarded by their predecessors so as to save the country of huge wastes and financial misappropriation that has sapped the economy and hampered the country's social, economic and structural development over the period.

Relative measure of flexibility should be adopted in the preparation and passage of annual budget so as to reduce excessive delay that affects the costs of executing contracts in the long run. In this wise, the MDAs should also avoid unnecessary delay in releasing funds to contractors to ensure timely completion of projects as specified.

Conclusion

The high cost of executing government construction contracts has attracted considerable attention in Nigeria. It is a known fact that Nigeria pays more than double folds in implementing public projects than what it takes to execute equivalent contracts in her neighbouring countries. This trend has been a major concern of successive governments in the country for many years,

and it is generally attributed to the high level of corruption that permeates the country's public procurement system. However, this paper has argued that corruption is not the singular major factor responsible for the problem of high costs of government construction projects in Nigeria. As the paper has argued, other factors such as; inflation and currency devaluation; project design, quality target and time; project environment, scarcity and shortage of materials, poor cost forecast and management, bureaucracy and budgetary delay, etc., are among the major causes of the high costs of implementing government construction projects in the country. Nevertheless, it is believed that careful application of the strategies advocated by the paper would go a long way in addressing the problem of high costs of executing construction contracts in Nigeria and avert its unfriendly economic implication for the country.

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