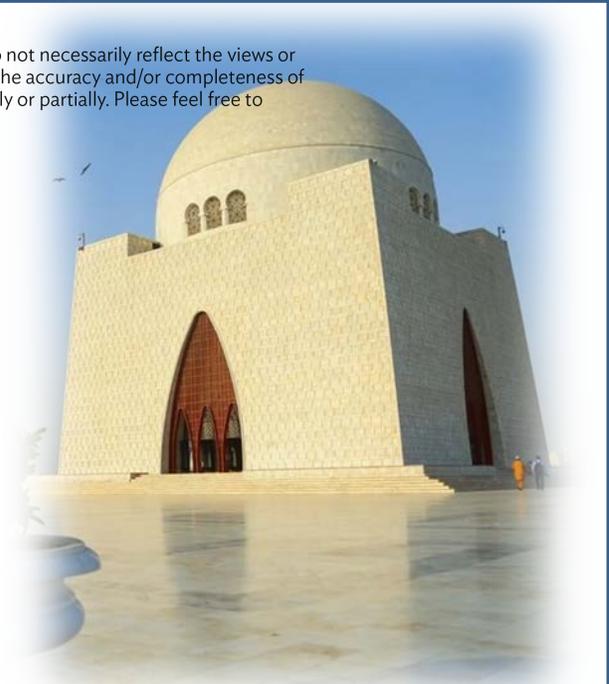


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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

صَلَّى اللهُ عَلَى حَبِيبِهِ مُحَمَّدٍ وَآلِهِ وَسَلَّمَ

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MAJOR CHALLENGES OF THE CONSTRUCTION INDUSTRY

BY

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&

PRESIDENT (KCA)





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INTRODUCTION OF CAP

- Constructors Association of Pakistan (CAP) was established in 1997.
- Registered with Director General Trade Organization of Pakistan (DGTO) as the sole representative of construction industry.
- Incorporated under Companies ordinance and licensed by Ministry of Commerce.
- Member of the governing body of Pakistan Engineering Council (PEC) and member of executive committee of Federation of Pakistan Chambers of Commerce & Industry (FPCCI)
- Office Bearers located in all provinces of Pakistan.



CAP facilitates and propagates construction industry issues at all government, semi government and other related forums. Some major initiatives of CAP :

- Contributing to the revision and preparation of Pakistan Standard Bidding Documents based on FIDIC 2017 being undertaken by PEC
- Revision of escalation formulas
- Efforts to establish CIDB
- Implementation and enforcement of PEC Bidding/Contract documents
(Letter issued on 24th December 2009 by Planning and Development Division)
- Planning Commission of Pakistan, after approval from ECNEC, directed all federal and provincial governments to use PEC standard bidding documents for procurement of engineering goods, works and services.
- Economic Affairs Division (EAD) was instructed to include provisions for use of this document in all loan agreements. (No.6/WR/PC/2008) - (12th February 2008)



CONSTRUCTION INDUSTRY

- Construction Industry is defined as the three C's (Client, Consultant & Contractors).
- Construction is a service industry.
- Marked difference between a constructor and a developer.
- Associated industries/Vendors/Suppliers
 - Road Projects- 12+
 - Building Works - 40+
- Largest Employment generator after Agriculture.
- It is said - **“When construction moves, the country moves”**
- Unfortunately, the share in GDP in the regional context is the lowest:

India	Bangladesh	Pakistan
8.2%	4%	2.46%



MAJOR CHALLENGES FACED BY CONSTRUCTION INDUSTRY

Challenges can be classified in the following five broad based parameters:-

- 1) Business environment
- 2) Human Resource
- 3) Technical & Financial Capacity
- 4) Plant and Equipment
- 5) Materials & Supply Chain



1. BUSINESS ENVIRONMENT

1. Bidding Documents
2. Business Processes
3. Tax, Financial & Procurement Policies
4. Unrealistic Prequalification Requirements



1.1 Bidding Documents

- Lack of balanced and equitable bidding documents.
- Clients unilaterally change or delete those clauses in the Particular Conditions of the Contract which safeguards the rights of the constructors.
 - Time of Payment
 - Acceptance of insurance guarantees
 - Taking over Certificates
 - Delays in provision of drawings and decisions
- Weak enforcement and implementation of notified bidding documents by the Regulator (PEC)



1.2 Business Process

- Business Process:
 - Entire project cycle is plagued with problems making it difficult to identify a single critical weak link.
 - Endemic corruption which restricts growth and hampers merit:
 - Corruption alone was estimated to account for an approximate loss of over Rs. 100 billion which was the equivalent to the entire PSDP for major infrastructure for financial year 2023.
 - Lack of Contract Enforcement making risk management impossible.
 - Projects normally take three times as long and twice as much of the planned cost primarily due to extra contractual processes.



- Poor planning & weak implementation capacity of clients, consultants and contractors
- Too many projects are taken up in the development programs without adequate funding resulting in poor delivery.
- Audit carried out by non-technical staff resulting in unnecessary problems, delays and disputes.
- Imbalanced contracts and non-adherence to procurement guidelines.
- Lack of Transparent Market Based Construction Cost data resulting in:
 - Low-Cost Estimates
 - Non-Transparency in the estimates
 - Inaccuracy of Project Cost
- Adverse security situation in remote project areas.



1.3 Tax, Financial & Procurement Policies

- Tax at source under the presumptive tax regime had been increased. It is now at 8% as minimum tax.
- GST has recently been imposed on construction services by the Federal & Provincial Government which needs to be rationalized.
- Social Security & EOBI contributions are implemented in a non-transparent and arbitrary way.
- Lack of Project Based banking facilities
- Both contractors and consultants are working on low rates.
- Procurement on least cost basis instead of best cost basis.

Standard Cost Break Up of A Construction Project



S. No.	Description	Percentage	Total Impact
1-	Construction Material	50 %	
2-	Diesel	5 %	
3-	Labour	20 %	
4-	Engineering Consultant (Design Drawing)	5 %	
	Total Cost of material & services		80 %
5-	Advance Income Tax upon constructors	8 %	8 %
6-	Other taxes	2 %	2 %
7-	Constructor's Profit	10 %	10 %
	Total	100 %	100 %

Federal Taxes of Any Construction Project / Constructors



S. No.	Description of Tax / Duty / Fees	Collecting Agent	% Of Taxes	Amount
1-	General Sales Tax as all Construction materials and Supplies which is non-adjustable/non-refundable.	Federal Government G.O.P	@ 17 %	850000
2-	Paying Income Tax / Withholding Tax on main Contract @ 8% deducted by Employer at source.	Federal Government G.O.P	@ 8 %	800000
3-	To collect U/S 153 (1a) Income Tax / Withholding Tax on Purchase of material to the suppliers @ 4.5 % as collecting agent.	Constructor is collecting Agent on behalf of G.O.P	@ 4,5 % of Cost	250000
4-	To collect U/S 153 (1) b, Income tax / withholding Tax to any services provider @ 10%. As collecting agent.	Constructor is collecting Agent on behalf of G.O.P	10% of cost of service	150000
5-	To collect the Income Tax or withholding tax to any Commission agents @ 12 % as collecting agent.	Constructor is collecting Agent on behalf of G.O.P	12% of commission	50000
6-	To collect in case of payment of any type of rent @ 20%	Constructor is collecting Agent on behalf of G.O.P	20% of Rent	50000
TOTAL FEDERAL GOVERNMENT TAXES		2150000		
Which is 21.5 % of project cost.				

Provincial Taxes In Sindh Provinces



S. No.	Description	Collecting Agent	% Of Taxes	Amount
1-	i- Sindh Revenue Board Sales tax on services	Constructor	4.5% to 14 % of contract value	450000
	ii- Paying the tax in advance @ 0.30% on the value of Construction contract gross amount under the Stamp duty Act, 1899.	Constructor	0.36 %	36000
	iii- Rs. 100,000/- per year under Sindh Professional Tax.	Constructor		100000
	iv-Trade License fee as per annual turnover.	Constructor		200000



1.4 Unrealistic Pre-Qualification Criteria

- Cost of previous projects not adjusted to present value.
- Timeline for experience of similar project is impractical.
- Value of previous projects rather than the quantities executed form the basis of evaluation.
- Area specific experience demanded.
- Requirement of equal value executed projects rather than giving margin for growth.
- Unrealistic demand of equipment, machinery & plant.



2. HUMAN RESOURCE

- Lack of required Human Resource both in terms of numbers and skills level. This is across the board in all related professions, trades and among all stakeholders
- Acute shortage of Planning Engineers with practical knowledge of Field operations.
- Lack of Certified Skilled Tradesman.
- Construction Industry bears the cost of training and development of adequate skills in the form of redoing faulty work and rectifying defects.
- Nearly half of the number of engineers produced in the country each year find employment overseas due to the wide disparity in remuneration.



3. TECHNICAL & FINANCIAL CAPACITY

- Transfer of technology ceased with abolition of local JV partner requirement.
- Slow growth of supporting service industry.
- Lack of project-based financing
- All banking facilities (fund or non fund based) are on asset-based collaterals.
- Delayed payments
- Unavailability of timely project financing in PSDP & ADB projects.



4. PLANT & EQUIPMENT

- Availability and Price- Plant and equipment prices have skyrocketed both due to the devaluation of Rupee and increase in the Dollar price.
- Financing/Leasing- There is no loan scheme developed for the constructors for the purchase of plant or equipment to successfully execute the projects and to build their capacity.
- Spare parts and maintenance
- Operators



5. MATERIALS & SUPPLY CHAIN

- Most construction material used in the industries are imported and those manufactured locally are on import based raw materials. Examples are:
 - Steel Rebars
 - Copper Cables & Conductor
 - Cement (Imported Coal)
 - Aluminum
- Quality- Material Specifications are not standardized.
- Lack of data
- Absence of framework for escalation in the cost of major materials.



THE WAY FORWARD

(Creating an enabling Environment)

- Establishment of Construction Industry Development Board (CIDB) and PICC (Pakistan Institute of Cost and Contract)
- Adoption of Pakistan Standard Bidding Documents (Under Preparation) by ADB & WB for all projects.
- Establishment of a Procurement Ombudsmen
- Setting up of a Construction Bank.
- Developing and institutionalizing linkage between academia and industry to ensure relevance of curriculum
- Adequate time for project planning and design.
- Import duties and sales tax on construction equipment & plant be reduced to zero for 10 years to help build capacity.



- Only fully funded projects be undertaken for peoples' welfare rather for political considerations
- Procurement on best cost rather than least cost basis.
- Development of small and medium industry stakeholders.
- Technical Capacity of Contractors to be enhanced through technical training which can be done through adding Technical staff to provisional sums on every project.
- Direct award of projects to SOE's without private sector competition be stopped.
- Seminars and Awareness campaigns to be launched by PEC to change the present mindset from **Us** (Consultant /Client) Vs **Them** (Contractor) to **Us** (Client/Consultant/Contractor) Vs Project
- Indexation of project value must be incorporated either to the US \$ or to the price of major construction materials for pre-qualification purposes.



Unfortunate

“Many of the measures identified were already recommended almost 20 years ago in report prepared by the WB and similarly at an international conference on the construction industry held in 1990 in Islamabad. GOP did not follow through with the reforms suggested at that time; otherwise, the industry may not be in the crisis it now finds itself in today”

“Concerned efforts are required to implement the reports recommendation as Pakistan simply cannot afford to wait another twenty years”

World Bank Report –
Pakistan Infrastructure Implementation Capacity Assessment (PIICA) - dated Nov 22, 2007