

Ten Challenges in Public Construction CEIC-CMI Public Sector Transparency Study



Nobody questions Angola's need for infrastructure and housing – and compared to many other countries in the region, the level and outputs of the country's investment in construction activities are impressive. What we question in this study is whether the government gets 'value for money' in its many construction projects. Indeed, a culture of low transparency around government decisions not only creates suspicion of collusion and corruption, it facilitates these kinds of problems. Better governance of the construction sector is likely to lead to more and better infrastructure as well as increased popular trust in government.

KEY CHALLENGES IN ANGOLA'S PUBLIC CONSTRUCTION SECTOR

1. POOR PEOPLE'S NEEDS COULD HAVE BEEN TAKEN BETTER INTO ACCOUNT

- Priorities in infrastructure investment could have been better guided by an awareness of poor people's needs.
- Despite a decade of huge infrastructure investment (2002-2009: US\$ 30,4 billion invested) and oil production, poverty remains a serious challenge (with 38% of the population living below the official poverty line).
- Poverty reduction from public sector construction tends to depend on an intended redistribution of benefits, employment

opportunities, and how efficient public expenditures are being spent (i.e. whether returns from higher growth can be reserved for direct poverty reduction).

- *Consistent with characteristics of corruption?* Pro-poor priorities will rarely serve corrupt interests and corruption is likely to reduce the social rate of return for the poor.

2. PROJECTS LACK FEASIBILITY STUDIES AND COST ESTIMATES

- Many projects are launched without proper preparation and feasibility studies – and this implies that it might have been too easy for many construction firms to get approval for start-up.

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The study aims to support the Government of Angola in its strategies to promote better outcomes from its investments in public construction projects. Results and recommendations will be presented in a book to be published during 2012. In general and therefore crude terms, this short note lists what appears to be some of the most serious challenges in the sector. Although there are few cases of corruption brought to court in Angola, we find that each of the challenges can be found consistent with the characteristics of corruption. Given the difficulty of getting facts about the sector, some of our assumptions might be sheer speculations, and we recommend the government to examine the identified risks of corruption carefully – in order to enhance the ‘value for money’ in public construction projects.

- Estimates of project costs are not well enough prepared and made known upfront, and therefore, it is impossible to detect cost overruns at completion of the construction.
- Many projects lack adequate funds set aside for maintenance – and thus, the projects are not durable/sustainable.
- There seems to be no culture for systematic evaluation of project performance after completion – and therefore, the opportunity to draw lessons learned for future projects is not fully exploited.
- *Consistent with characteristics of corruption?* The apparent lack of knowledge about what should have been done – and what the price should have been – makes it easier to hide biased decision-making. This could facilitate corruption.

3. SOFT BUDGET CONSTRAINTS AND DEBT TO THE CONSTRUCTION INDUSTRY

- Without feasibility studies and proper cost estimates, the government seems to operate with soft budget constraints in many projects (that is, no strict ceiling on costs; expenditures considered as they appear).
- In 2009 the government owed the construction sector as much as US\$ 9 billion in unpaid bills (now reduced to US\$ 4-5 billion) – in part the accumulated result of the slack practices.
- Payment delays hit the private sector hard, particularly Brazilian and Portuguese small and medium-sized enterprises (the Chinese firms are paid directly from Beijing). Serious chain effects from delayed payments followed.
- While more frequent use of public-private partnership arrangements will reduce this problem in future contracts, there is still a big problem with current commitments.
- *Consistent with characteristics of corruption?* While there might be many reasons why a government has difficulties paying its bills, the

propensity to accept too big commitments (possibly in return for personal benefits) is consistent with low accountability and even corruption.

4. LACK OF COMPETITION FOR PROJECTS

- Contracts are awarded without competition. Direct contracting’ is common and before the 2008 election it seems to have been as high as 90% of all projects. There is also very limited competition for design work (one company for the Chinese-financed projects and one for the others).
- Case-studies conducted as part of our research confirm flawed procedures in the procurement process, including cases where there are no competitors in the tender – or no tender proposal has actually been submitted by the “competitors.” Price-fixing seems to be a frequent problem and the contract price is sometimes increased after the contract has been awarded. The final cost of a project is often much higher than what has been indicated during the procurement process.
- Companies contracted to implement projects funded by the China Exim Bank must be Chinese and this is obviously a barrier to international competition (although there is competition for Angolan contracts in China). The risk of biased decision-making on the side of the Angolan government was one reason why the Chinese wanted to control the funds.
- *Consistent with characteristics of corruption?* The more constraints on competition, the higher the rents available for illegitimate rent-seeking, and the better the opportunities for cartel behavior – often facilitated by corruption.

5. DIFFICULTIES IN DEVELOPING A DOMESTIC COMPETITIVE CONSTRUCTION INDUSTRY

- Angola has not managed to exploit its opportunity to develop a competitive construction sector expertise despite its overwhelming construction needs after 27 years of war.
- Angolan firms could have benefitted from government support in order to reach a higher level of performance, for example in terms of being offered better access to credit, electricity and training.
- There have been attempts of demanding local content – for example, the Chinese were supposed to use Angolan companies, but instead, they have gotten away with using Angolan labor.
- Brazilian, Portuguese and Chinese companies have now entered into competition also on smaller projects – where Angolan companies do have a market.

- *Consistent with characteristics of corruption?* Not necessarily, foreign firms might be more competitive in terms of offering better 'value for money'. However, corruption might be an explanatory factor if those who could have contributed to developing the Angolan private construction sector benefit personally from giving preference to collaboration with foreign enterprises.

6. LACK OF TRANSPARENCY THROUGHOUT THE SECTOR VALUE CHAIN

- It is very difficult to get detailed information about construction projects, including details of finance, planning and other decision-making processes.

- Without information it is hard to tell who's benefitting through ownership shares in the sector, and this seems to be an important mechanism for self-enrichment. It is also very difficult to get information on the allocation of funds across projects.

- According to the IMF between US\$ 5 billion was unaccounted for between 1997 and 2001. Demand for transparency is one of the reasons why the collaboration with IMF was ended for several years.

- *Consistent with characteristics of corruption?* Very much so, the more difficult to get information, the easier to hide corruption – and also, the stronger the reason to suspect corruption. Why would it be difficult to get information if there was nothing to hide?

7. POWER TO AUTHORIZE PUBLIC EXPENDITURES REMAIN WITH THE EXECUTIVE

- Provincial government agencies can authorize expenditure only up to US\$ 1,8 million. Ministers can control projects in the area of US\$1,8-10 million.

- Everything above has to be authorized by the President of the Republic, an allocation of authority that leaves him with a huge personal responsibility. Proposals from sector ministries and provinces are evaluated by the Ministry of Planning and the Ministry of Finance, most importantly on how they match political instructions from the highest level of the State.

- Like in any country, concentration of political authority needs to be met with well-functioning checks and balances, including a democratically elected Parliament and its Auditor General. These control systems are not strong enough in Angola.

- *Consistent with characteristics of corruption?* The Head of the Executive holds the formal responsibility for securing an efficient administration and allocating



funds for contracting. However, without sufficient checks and balances, this power can be misused without any significant consequences.

8. POLITICAL PLAYERS INFLUENCING ADMINISTRATIVE PROCESSES

- There have been several incidents that confirm problematic political influence on administrative processes, a problem addressed by the Governor of Luanda earlier this year (on Radio Luanda on 15.05.2011).

- For example, administrative and political processes are not sufficiently separated if, as an example, supervision of construction projects is outsourced to private Angolan companies that are owned by MPLA's business company (GEFI).

- We know that some contracts are allocated to the benefit of political allies, in one example to companies controlled by the chairman and CEO of Sonangol. Besides, political allies have got the opportunity to benefit from the sale of apartment buildings in central Luanda.

- *Consistent with characteristics of corruption?* The opportunity to benefit personally through political influence on business deals is clearly consistent with the characteristics of political corruption.

9. LOW QUALITY CONSTRUCTION WORK

- Serious weaknesses in the planning process and control during project execution have resulted in many examples of low quality construction (examples include apartment blocks and Luanda General Hospital). Only few years after construction many buildings show serious signs of structural damage.

- Likewise, lower prices offered by Chinese firms compared to competitors from other countries have not always been translated into

The Angola Brief series is an output of the CEIC-CMI Cooperation Programme for research in social and economic issues concerning Angola. The series aims to contribute research findings and policy recommendations to enhance public debate in and about Angola.

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better 'value for money'. There are cases of inferior quality of the constructions.

- A government body, the INRQ (Instituto Nacional de Regulação de Qualidade) is responsible for certifying quality on

construction projects. In practice, they are unable (or refused) to control many construction projects.

- *Consistent with characteristics of corruption?* Companies can profit from skimping on quality if they know that control is weak or absent and if there is little "risk" of being held responsible for low quality construction work. Corruption can be one reason why the official control is not conducted more comprehensively and systematically.

10. PROCUREMENT REFORM – ON PAPER ONLY?

- Clearly, a lack of laws and regulations is not the main reason why there are challenges in Angola's construction sector. Instead, it has to do with the weak compliance with the laws that do exist – throughout the entire project cycle.

- Nevertheless, a new procurement act which came into force in 2010, is a step forward in the sense of organizing a scattered legal framework and by promoting competition and procurement expertise.

- However, the new law is notable for its number of exclusions to its provisions for competitive tendering. Besides, few changes are expected since most of the previous laws have been copied into the new law and most decision-makers are the same.

- The central procurement agency, organized directly under executive/the President and established by the new procurement act, will be responsible for the procurement process only, and is not expected to deal with the whole range of weaknesses in construction sector governance.

- *Consistent with characteristics of corruption?* Very much so. The law makes it look like reform is taking place. If citizens (and voters) are kept satisfied for a while, corruption can continue with less "risk" of reactions and democratic sanctions.

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ISSN 1892-3933

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