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Procurement Systems and Contract Pricing Methods in the Construction Industry: Perspective of Contractors in Kaduna Metropolis, Nigeria

R. B. Isa
D. M. Abeku

ABSTRACT

The provision of infrastructure is a major task that requires a sustained effort by both government and the private sector. Unfortunately, the process leading to its provision such as budgetary provision, contract pricing, the procurement process leading to contract award and the quality of work delivered leaves so much to be desired. The methodology was the quantitative approach where the instrument of a well-structured questionnaire was used for data collection. 40 (forty) questionnaires were distributed to construction companies within Kaduna metropolis and (24) Twenty four were received back which is 60% of the total distributed. Findings showed that there is still interference in the contract award process and also, contract prices are sometimes inflated and the procurement process is not totally transparent. The study recommends that the Due process office should prepare a standardized price list and a billing template which should be issued to all Ministries and Departments (MDAs) for the preparation of Bills of Quantities and Bills of Engineering Measurement and Evaluation, so as to reduce the inflation of contract pricing. There should also be sanctions for interference and for the perpetrators of price hiking.

Keywords*: Budgetary provision, Contract pricing, Transparency, Procurement process.*

INTRODUCTION

Governments all over the world are known to be the greatest provider of services or public goods to the civil society. This however, depends not only on the resources endowment of such country, but on the efficient and effective utilization of such resources at its disposal to ensure that

R.B. Isa and D. M. Abeku *are Lecturers in the Department of Building, Federal University of Technology, Minna, Niger State, Nigeria. E-mail: abekuderi@gmail.com.*

such resources are deployed in the overall interest of the people (Fayomi, 2013). The World Bank (1996) reported that Nigeria's poor economic performance over time is largely attributable to lack of transparency and accountability as well as widespread corruption. Fayomi (2013) added that, in view of the foregoing, the imperative of prudence, transparency and accountability in government spending, particularly in the procurement of goods and services for development projects cannot be over-emphasized.

Obadan and Ayodele (1990) observed that the poverty levels in Nigeria in spite of poverty programme by successive governments remain high as population continues to increase. In describing the condition of Nigeria, Fayomi (2013) said that Nigeria can best be described as a country of a paradox of being rich as a nation, while its citizens remain poor and deprived. Isa, Jimoh and Achuenu (2013) speaking on the economic background of Nigeria, posited that since independence, the Nigerian economy remains weak, narrow and externally oriented with primary production activities of agriculture, mining and quarrying (including crude oil and, gas) accounting for 65% of the GDP and over 80% of government revenues.

In addition, the primary production activities account for over 90% of foreign exchange earnings and 75% of employment. Isa, Jimoh and Achuenu (2013) added that in contrast to the foregone report, secondary activities comprising manufacturing and building and construction, which traditionally have greater potential for employment generation, broadening the production base of the economy and generating sustainable foreign exchange earnings and government revenues account for a mere 4.14% and 2% of the gross output respectively. Isa, Jimoh and Achuenu (2013) concluded that, Nigeria being a developing country, her construction industry is still struggling with a lot of challenges, ranging from inadequate technical and managerial know-how to insufficient financial, material and equipment capital base.

Elinwa and Silas (1993) identified 31 factors causing high cost of building with fraudulent practices and kickbacks ranking the second (2nd) most portent factor in Nigeria. This was agreed to by Hussaini (1999) that fraudulent practices and kickbacks occasioned by some major players in the construction industry in Nigeria.

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On the matter of procurement of goods and services and contract pricing, Cooldipo (2017) compared the Nigerian road construction pricing of the Lagos – Ibadan expressway and that of the ECOWAS road project between Lagos and Abidjan, and came up with the following findings: the Lagos – Ibadan road is 127km and it will cost Nigeria ₦167 billion; which means that it is to be constructed at a cost of ₦1.3 billion per kilometer. On the other hand, the Lagos – Abidjan road which is a 1028km road will be constructed at a cost of between ₦170 billion and ₦240 billion – that is to say that, it will cost ₦234 million per kilometer. The Lagos – Abidjan road is at international pricing standard which is acceptable to the World Bank, but no one knows the basis for the Nigerian price as it is eight times that of the ECOWAS!

Another case of inflated project cost is that of the rail project from Lagos to Kano. Alike Ejiofor reporting for Thisdaynewspapers posited that the last administration awarded the contract at a cost of $8.3 billion dollars, but the Chinese firm handling the project claimed that the contract was awarded to it for $7.6 billion dollars. This means that the price has been inflated to the tune of $700 million dollars.

The Bureau for Public Procurement (BPP) also claimed through its Director General at the 55th conference of the Nigerian Bar Association that it has saved the Federal Government a total sum of ₦659 billion between 2009 and 2014. This was made possible due to the prior review the BPP carried out on all contract prices made available by the Ministries and MDAs. The DG claimed that many contract prices are inflated, but the prior review by the BPP uncovers a number of them, hence reducing the hiked contract prices to the actual figures.

Nigeria remains an economy in need of serious infrastructural investment, howsoever, it can be achieved. More than 75% of her national budget is allocated to recurrent expenditure, it is very evident that the balance of 25% (or less due to leakages from various causes) does not, cannot, will not make (and has not made) any indelible impact on the infrastructure development deficit gap (Deloitte, 2018). Elah, Abeku and Changlia (2015) speaking on the causes of poor quality buildings by contractors who have been made to pay kickbacks here and there and who must make profit at all costs end up constructing poor quality buildings, which leads to building failure. Elah, Abeku and Changlia (2015) further

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posited that there is the need to make the quality management plan (QMP) an integral part of the documents to be submitted to the development control office when seeking for development approval, so that the QMP can be enforced on sites. Anthony (2016) also asserted that, the procurement system invariably suffer various forms of malpractice and unethical conduct, including a high incidence of vested interest, interference and insider dealings and occasional cases of retrospective approval of contract awards. Anthony (2016) added that there was significant lack of professional knowledge and expertise in the purchasing and contracting function at all levels.

It is in view of the above that this study sets out to investigate the procurement systems and contract pricing methods in the construction industry in Nigeria including the nature and characteristics of the construction industry and the challenges of the system taking cognizance of perspective of contractors in Kaduna metropolis, Kaduna State.

METHOD

The data used in this research was collected via the administration of well-structured questionnaires to construction companies resident in Kaduna Metropolis. The sampling frame was the Managing Directors /CEOs of the companies or their project managers or Heads of administration. The construction companies were the target population. Tables were used for data presentation. The analysis of the collected data was carried out using frequencies and percentages. Forty (40) questionnaires were administered and 24 were received from the respondents - this represents 60%. The response is good enough to represent data from the companies.
Find the results of the study given in tables 1 to 14 below.

Table 1: Specilization of Company

		Freq.	***%***
(i)	Road construction	4	16.7
(ii)	Building construction	10	41.7
(iii)	Civil Engineering works (dams, jetties, etc)	4	16.7
(iv)	General contracts	4	16.7
(v)	Others	2	8.3
Total		**24**	**100**

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Table 1 above shows that out of the 24 (Twenty four) companies surveyed, 10 of them which represents 41.7% are involved in building construction only, 22 of them which represents 91.8% are involved in both building and civil Engineering construction such as buildings, roads, dams, jetties and bridges; while 2 of the respondents which represent 8.3% are into general contracts.

Table 2: Qualification of Chief Executive Officer (CEO)

		Freq.	***%***
(i)	GCE	-	-
(ii)	ND / HND	6	25
(iii)	Degree	10	41.7
(iv)	PG / Masters	8	33.3
Total		**24**	**100**

Table 2 gives the number of Chief Executives who hold a degree and above as 18 which represents 75% of the total number sampled; while those with National Diploma / higher national Diploma are 6 in number which is 25% of the respondents, with none as a school certificate / GCE holder. By this, it means that all Chief Executive Officers have basic education in their various fields of education.

Table 3: Number of contracts won per year

		Freq.	***%***
(i)	1 - 10	20	83.3
(ii)	11 – 20	4	16.7
(iii)	21 – 50	-	-
(iv)	51 – 80	-	-
(v)	81 – 100	-	-
(v)	Above 100	-	-
Total		**24**	**100**

Table 3 gives the number of contracts won in a year by the company; 20 (Twenty) respondents which represents 83.3% said they win between 1 and 10 contracts in a year, while 4 contractors representing 16.7% of the respondents said they win between 11 and 20 contracts in a year.

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Table 4: Number of permanent staff in your company

		Freq.	***%***
(i)	1 - 10	5	20.8
(ii)	11 - 20	10	41.7
(iii)	21 - 30	3	12.5
(iv)	31 - 50	6	25
(v)	Above 50	-	-
Total		**24**	**100**

Table 4 answered the question on the number of permanent staff in the company's employ: 10 respondents which is 41.7% said they have between 11 and 20 workers, which was followed by 6 companies representing 25% having between 31 and 50 staff as employees; while 5 respondents which is 20.8% posits that they have between 1 and 10 staff then 3 respondents which is 12.5% have between 21 and 30 staff in their employment.

Table 5: Transparency of procurement process

		Freq.	***%***
(i)	Very transparent	2	8.3
(ii)	Transparent	18	75
(iii)	Not transparent	4	16.7
(iv)	Bad	-	-
(vi)	Very bad	-	-
Total		**24**	**100**

Table 5 gives the result of the question on transparency of procurement process: 18 respondents representing 75% posited that the procurement process is transparent; 2 respondents representing 8.3% said the process is very transparent, while 4 respondents representing 16.7% argue that the procurement process is not transparent.

Table 6: Projects awarded to companies with capacity

		Freq.	***%***
(i)	Yes	20	83.3
(ii)	No	2	8.3
(vii)	Not always.	2	8.3
Total		**24**	**100**

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Table 6 deals with the question on whether projects are awarded to companies that have capacity; 20 respondents representing 83.3% said 'Yes', 2 respondents representing 8.3% said 'No' and another 2 respondents representing 8.3% said that it is not always the companies with capacity to execute projects that get contracts awarded to them, indicating that, sometimes contracts are awarded to companies who have no capacity.

Table 7: Are contract prices inflated?

		Freq.	***%***
(i)	Accurate	14	58.3
(ii)	Inflated	6	25
(viii)	Sometimes inflated	4	16.7
Total		**24**	**100**

Table 7 reports on the question of the inflation of contract prices: 14 respondents representing 58.3% said contract prices are usually accurate, 6 respondents representing 25% insist that contract prices are usually inflatedand then 4 respondents representing 16.7% said contract prices are sometimes inflated.

Table 8: Funding of projects by the Federal Government

		Freq.	***%***
(i)	Excellent	-	-
(ii)	V. Good	20	83.3
(iii)	Fair	4	16.7
(iv)	Bad	-	-
Total		**24**	**100**

Table 8 answers the question on the funding of projects by the Federal Government; 20 respondents which representing 83.3% said the Federal Government's funding of projects is good. While 4 respondents which represent 16.7% said it is rather fair and not good.

Table 9: Funding of projects by the State Government

		Freq.	***%***
(i)	Excellent	-	-
(ii)	Good	10	41.7
(iii)	Fair	14	58.3
(iv)	Bad	-	-
Total		**24**	**100**

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Table 9 above is on the question on the funding of projects by the State Government; 10 respondents representing 41.7% posits that the funding by State Government is good, while 14 respondents representing 58.3% said the funding is fair instead.

Table 10: Funding of projects by the Local Government

		Freq.	***%***
(i)	Excellent	-	-
(ii)	Good	-	-
(iii)	Fair	16	67
(iv)	Bad	8	33
Total		**24**	**100**

Table 10 is the question on the funding of projects by the Local Government: 16 respondents representing 67% posits that funding of projects by the Local Government is fair, while 8 respondents representing 33% said Local Government's funding of projects is bad.

Table 11: Does your company have abandoned projects?

		Freq.	***%***
(i)	Yes	20	83.3
(ii)	No	4	16.7
Total		**24**	**100**

Table 11 reports on the question on project abandonment by construction companies: 20 respondents representing 83.3% agree that they have abandoned projects, while 4 respondents representing 16.7% said they do not have abandoned projects.

Table 12: Why does your company abandon projects?

		Freq.	***%***
(i)	Due to lack of payment	24	100
(ii)	Due to lack of preparation of payment vouchers	-	-
(iii)	Lack of equipment for execution	-	-
(iv)	Due to weather conditions	-	-
(v)	All of the above	-	-
Total		**24**	**100**

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Table 12 above is on the question on why the companies have abandoned projects: 20 respondents represents 100% of those with abandoned projects, submitted that their companies abandoned such projects due to lack of payment, while 4 respondents which is 16.7% of the total respondents have no abandoned projects.

Table 13: Does your company commit funds to a project to finish and wait for payment?

		Freq.	***%***
(i)	Yes	10	41.7
(ii)	No	14	58.3
Total		**24**	**100**

Table 13 above is on the question on the funding of projects by the companies to completion and then wait for payment.

Table 14: Why don't you fund a project to finish?

		Freq.	***%***
(i)	Government's attitude towards payment when work is already executed is bad	20	83.3
(ii)	It is difficult to fund major projects to finish due to the heavy cost implication.	-	-
(iii)	It is difficult to source for funds with heavy interest rates that you do not know when payment will be made – which could end up growing to unpayable levels.	-	-
(iv)	We don't have abandoned projects.	4	16.7
Total		**24**	**100**

The question on why the companies don't fund projects to finish; all the 24 respondents gave three major reasons:

1) Government's attitude towards payment when work is already executed is bad.
2) They insisted that it is difficult to fund major projects to finish due to the heavy cost implications and
3) They posited that it is difficult to source for funds with heavy interest rates when you don't know when the payment will be made which could end up growing to unpayable levels.

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The study revealed that about 91.8% of the respondents are involved in both building and civil engineering construction. A total of 75% of the Chief Executives sampled hold a degree and above. This is indicative of a reasonable training – which is good enough for project management. Marjority (83.3%) of the companies sampled win between 1 and 10 contracts in a year. Results also showed that all the companies sampled have in their employment between 1 and 50 permanent staff.

On the matter of transparency of the procurement process, 75% of the respondents posits that the procurement process is transparent, while 25% doubt the transparency of the process. As for the issue of award of contracts to companies with capacity to handle such projects, 83.3% of the respondents said 'Yes', projects are awarded to companies with capacity, while 16.7% said it is not so.

On the issue of contract pricing, 58.3% respondents posits that the prices are accurate, while 25% argue that prices are inflated and the remaining 16.7% said it is sometimes done but not always. In other words, 41.7% do not have confidence in Nigeria's contract prices. Results also showed that 83.3% said project funding by the Federal Government is very good, while 58.3% said funding by the State Government is only fair and the remaining 41.7% said it is good. As for the funding by the Local Government, 67% of the respondents said it is fair, while the remaining 33% said it is rather poor. More than three thrd (83.3%) respondents agree that they have abandoned projects and 100% of those that abandon projects insist that lack of payment is the reason for project abandonment.

On the matter of funding a project to completion before being paid, 58.3% said they don't commit funds and wait to be paid later, rather they work as the project is funded, while 41.7% said they usually commit funds particularly if the client is the Federal Government. On the question of why they don't commit funds to a project to completion and wait for payment, 83.3% posits that sometimes government's attitude towards payment when work is already executed is bad.

CONCLUSION AND RECOMMENDATIONS

The construction industry in Nigeria no doubt has its own challenges as there are contractors who insist that the procurement process is not

transparent, that it still suffers so much interference and backdoor maneuverings. Using the Lagos-Ibadan express way as an example, one can conveniently conclude that the contract price in Nigeria is inflated.
Another challenge facing the construction industry is the poor budgetary provision for infrastructural development. While about 75% of Nigeria's annual budget goes into recurrent expenditure leaving just about 25% for capital (infrastructural) development and out of the 25%, there are leakages due to corrupt practices. So what finally gets committed to the projects itself is very insignificant. As a result of this, the infrastructural gap keeps widening with no solution in sight.

i There is the need to ensure a transparent bidding process, where head offices of companies that prequalify to bid for projects should be visited to ascertain their claims in terms of their capacity to execute the projects they bid for. This will eliminate contract awards to portfolio contractors who just collect awards and end up selling same or proceed to execute poor quality projects.

ii The vetting of bills of quantities and bill of engineering measurements by the Due Process Office should be made more effective where the Due process office should insist on checking both the designs and the bills, because checking only the bills still leaves the perpetrators to get away with inflated quantities. Built environment professionals are guilty of this.

iii Those in authority should reduce their level of interference in the process of contract awards. This will enable only qualified companies to win contracts which will translate into quality construction at the end of the day.

iv There should be a standardized price list/ Billing template for the preparation of bills of quantities or bills of engineering measurement prepared by the due process office. This will go a long way in reducing the incidences of inflated bills and it will also harmonize the billing system in Nigeria.

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