

# **Bureaucracy: Major Barrier for Payment to Contractors in Nigeria**

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## **Abstract**

This paper titled “Bureaucracy: major barrier for payment to contractors in Nigeria” intends to investigate the payment procedure of public construction projects in Nigeria. Payments problems are old age issues that permeate the Nigerian construction industry. Many a times, contractors and other parties down the supply chain complain either they are not been paid or payments have been unduly delayed by the client. A literature study was carried out to ascertain the state of payment procedure in Nigeria. The payment procedure of Nigeria is compared with that of Scotland and this is because Nigeria is adapting the conditions of contract being practice in UK. The findings of the study reveals that government bureaucratic procedure is contributing significantly to the late payment and nonpayment issues in the Nigerian construction industry with it associated negative consequences on projects in particular and the industry at large. The findings will be useful to the government for the review of current payment procedure through policy formulation and implementation, which will improve payment practice of public projects and by extension improve the performance of the construction industry.

**Keywords:** *Bureaucracy, Barrier, Payment, Contractors, Nigeria*

## **1. Introduction**

Lack of honouring payment due to the contractor by the employer is a serious problem to the construction industry of many countries Nigeria inclusive. Payments problems could be traced as far back as 1964 in a report of (Banwell) and thirty years after Latham (1994) and Egan, (1998) (Ayodele & Alabi, 2011) they all believe that payment problem need to be addressed. When there is late payment or nonpayment it creates problems of cash flow, financial hardship and stress to the contractor and other parties down the supply chain. The parties down the supply chain could be faced with problem of losing their monies (Eugenie, 2006). In Nigeria, bureaucracy is a major barrier for successful delivery of construction projects (Dlakwa, 1990). Late payment and non payments could result to high cost of construction projects (Ayodele & Alabi, 2011; CIDB, 2006; Eugenie, 2006 & Okpala 1988), Late payment and non payments leads to abandonment of construction projects, disputes among the parties (CIDB, 2006; (Ayodele & Alabi, 2011); (Greenspan & Kennedy, 2005; Odeh & Battaineh, 2002) Kennedy, 2005; (Sheridan, 2003); (Greenspan & Kennedy, 2005; Odeh & Battaineh, 2002) & (John & Srivastava, 1999).

Late payment and nonpayment is mainly due to “cannot” and “would not” pay attitude or a combination of both. It was reported in large number of construction projects were the employer simply fails to honour payment due to contractors on completion of the project. There are some situations whereby the employer has no sufficient funds or sources of the funds for the project but still went ahead to starts the project and contractors often agree to be paid after the project has been partially or practically completed (Meng, 2002).

Payment problem may be associated with payment systems or culture within a particular construction industry. Some construction industries accept that delay for payment for few days as acceptable. The usual practice is that contractors are paid on an interim basis followed by final payment on completion. It is usual for certain percentage from 5% to 10% of the contract sum known as retention to be withheld until the project is completed.

## **2. Bureaucracies involved in honouring payment to the contractor**

Bureaucracy can be defined as a set of bureaus or simply division of labour, a hierarchy of authority etc (Brown & Jackson, 1986)(Jackson, 2001). After examining the procedure, it could be observed that bureaucratic barriers as the major reason for honouring payment by the employer to the contractor on the due date.

## **3. Payment practice in Nigeria**

In Nigeria, the Federal government has federal Ministries and Agencies located in the federal capital of Abuja. In addition, each of the 36 States has also State Ministries and Agencies located in their various States Capitals. Some of these Ministries and Agencies have their in-house construction professionals (example Ministry of Works and Housing, Ministry of Land and Physical Planning etc), in which case, they can supervise their projects. While on the other hand some of the Ministries and Agencies do not have their in-house construction professionals (example Ministry of justice, Ministry of Information, Ministry of Social Welfare etc). In this situation, other Ministries or Agencies with technical expertise could be assigned to supervise their projects or engaged the services of consultants. In Nigeria the procedure for making payments at the federal level and state levels is almost similar. (Dlakwa 1990)

According to Dlakwa (1990), where a project is classified as capital project, this has a sub-head in a different Ministry (Ministry of Finance). Figure 1 illustrates where three Ministries are involved; the client Ministry, the supervising Ministry and Ministry of finance. This is an extreme situation where three ministries are involved; Ministry of Works and Housing, client Ministry and Ministry of Finance, all playing a particular role as illustrated in figure1. For payment to be made on such projects, an interim valuation of the work in progress is carried out by Quantity Surveyor in charge of the project. The valuation is entered on a valuation certificate ascertaining the value of work done to date with the requisite deductions in accordance with the provision of the condition of contract. The valuation certificate will then be forwarded to the Chief Quantity Surveyor (Step1) who will through his secretary (Step 2) forward same to the Honourable Commissioner who is the chief executive (Step3).

The Honourable Commissioner of the supervising ministry has to give his consent to any request for payment before an action can be initiated. When the Honourable Commissioner approves the processing of the payment, He/She will forward the file to the Permanent Secretary who is the administrative head of the Ministry (Step 4, 5 & 6).

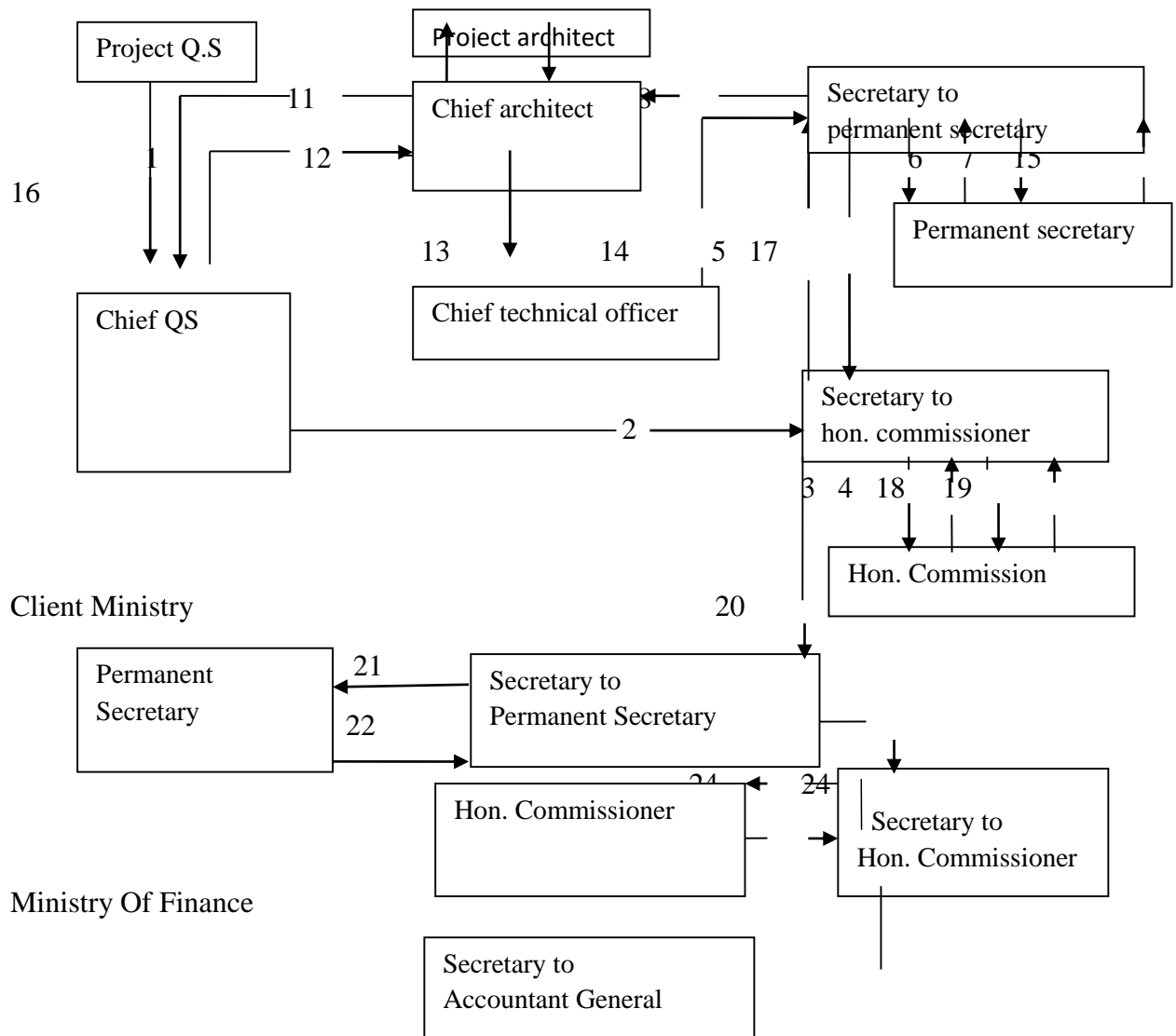
When the valuation certificate is endorsed by the Permanent Secretary, he/she will forward it to the Chief Architect (Head of Department) (Step8). The head of department will pass the “valuation certificate” to the Architect in charge of the particular project (Step 9) to prepare the “interim certificate” which will be approved by the chief architect (Step10) and pass it to the Chief Quantity Surveyor (Step11). The

Chief Quantity Surveyor will check the “interim certificate” before passing it to the chief technical officer (builder). This will be done via the Chief Architect/Head of department (Step12 & 13).

The Chief Technical Officer’s (Builder) staff will then entered the valuation on to appropriate record register before forwarding it to the Permanent Secretary via his/her Secretary (Step14, 15 & 16), who will also pass it to the Honourable Commissioner for his final approval (Step17, 18 & 19). From the Commissioner’s office the file will be transferred to the client Ministry (Step 20) where it has to be endorsed by the permanent secretary of the Client Ministry (Step 21 & 22) and His Commissioner (Step 23, 23 & 25). The file will then be forwarded to the Ministry of finance (Step 26). In the Ministry of Finance, the Accountant General (Step 27 & 28) will check the interim certificate and approve payment, then pass the file to the chief accountant (Expenditure Control) (Step 29) who will ascertained that the project is within the approved expenditure (budget) before passing the file to Accountant (Step 30, 31 & 32) to raise voucher and pass it to treasury for payment (Step 33).

In the treasury, the clerk will first check the submission (Step 34 & 35) before passing it to the internal audit for certification (Step 36 & 37). The cheque is written by an Executive Officer Accounts in the treasury (Step 38) and signed by two signatories the Treasurer (Step 39) and the Assistant Treasurer (Step 40). Then, the cheque is released to the contractor (Step 41).

Ministry of Works, Housing & Transport.



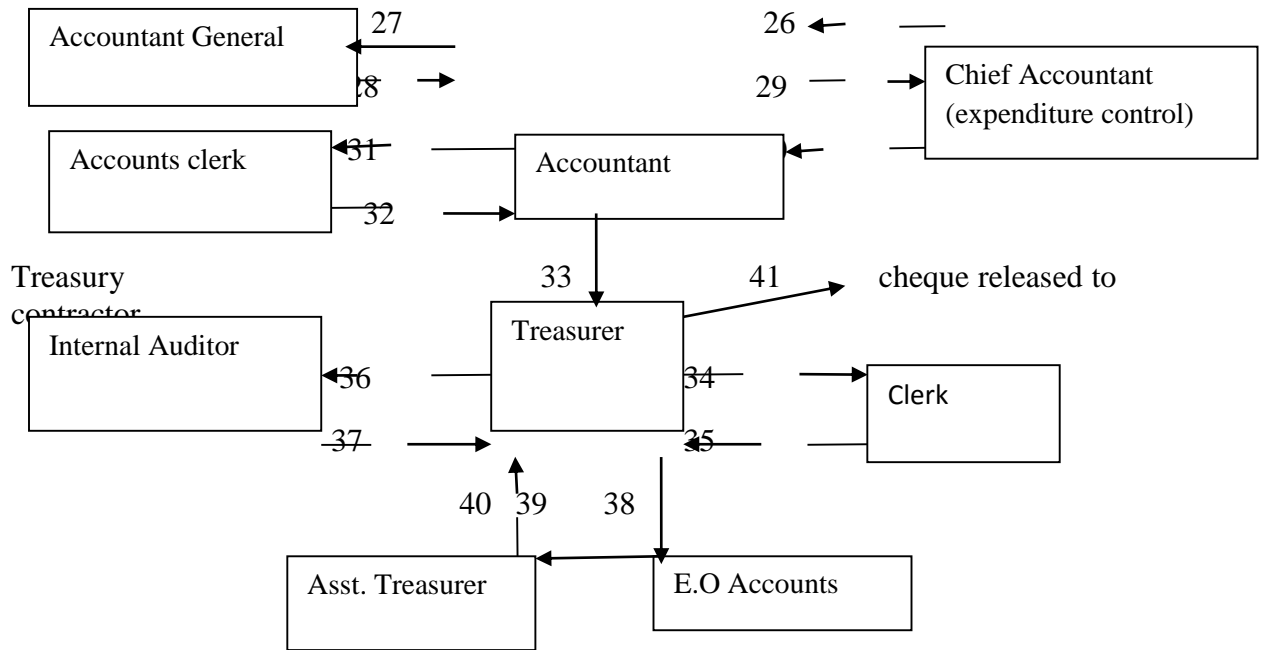


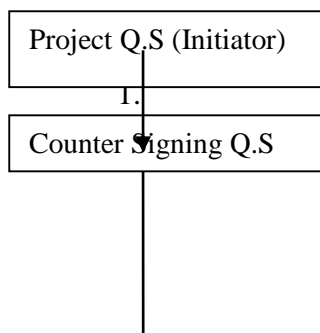
Figure 1: Nigerian payment procedure for capital project with subhead in the Ministry of Finance, Ministry of Works & Housing supervising the project and another Ministry as the Client.

Source: Dlakwa (1990)

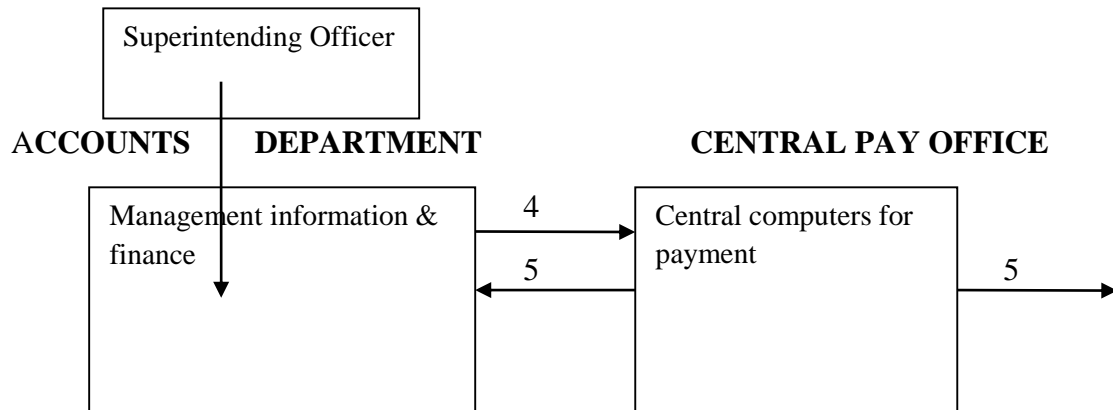
#### 4. Scottish Payment Practice

According to Dlakwa (1990) in comparing Nigeria with Scotland the practice in Scotland is relatively straight forward for a similar category project that is a capital project sponsored by a different department (Figure 2). In the Scotland payment practice, the Quantity Surveyor prepares the valuation certificate and forwards it to the countersigning Quantity Surveyor (step 1). The countersigning Quantity Surveyor will check the valuation certificate and pass it to superintending officer (step 2). The superintending officer approves for payment and passes document to management information and finance (step 3). The management information and finance prepares payment voucher and cheque and forward to central computers office to make payment (step 4). The central computers office makes payment to contractor at the same time notify the management information and finance that payment to the contractor has been made (step 5). This suggests that there is a need to study the current practice of payment in Nigeria with a view to improve the payment procedure to meet up with the challenges of the modern world.

#### PROPERTY SERVICE AGENCY



2



Cheque send to -

Contractor by mail

Figure 2: Scottish payment to capital project for a government department financed by central government and handled by the property services agency of the department of environment.

Source: (Dlakwa, 1990)

## 5. Conclusion

From the two highlighted scenarios, it could be observed that the procedure of making payment to the contractor in Nigeria is too bureaucratic when compared with that of Scotland. In the Nigerian scenario, payment has to pass through forty one (41) steps before it could be honoured by the employer to the contractor whereas in Scotland, it there are only five (5) steps to honour payment.

The conditions of contract have clearly spelt out the payment process, the parties that are involved, the roles of each of the parties that are involved in the process and the action to be taken in the event of breach by either of the parties. According to Joint Contract Tribunal (JCT), there are three stages in the payment process namely: application for payment by the client, application process by the consultants and payment process by the employer. The contractor is expected to apply for payment one week to the due date, interim certificate should be issued to the contractor and employer one week after receiving application and the employer is expected to honour payment to the contractor within two weeks after receiving certificate.

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