How contractors can finance huge infrastructure projects

Without resources, contractors can not proceed with work on large scale projects. **Lydia Namono Wesonga** writes about the financing options they can try to avoid delays.

A cyclist rides past the Entebbe Expressway recently. Contractors should partner with potential partners in order to finance large scale infrastructure projects. PHOTO BY RACHEL MABALA

Most businesses today are surviving thanks to collaborations. Similarly, contractors need to partner with financiers to ably finance large scale infrastructure projects.

However, most contractors struggle to finance their large-scale infrastructure projects because they do not present themselves to possible financiers adequately. Often times, their paperwork does not show an accurate picture of the contractor's profile.

Speaking at a Top 100 Mid-sized companies' construction sector meeting which is an initiative of *Daily Monitor* and KPMG, in Kampala, recently, Mr Ronald Kasasa, the head of business banking at dfcu Bank, says: "Companies should share the profiles of contracts they have worked on before. This enables the bank to assess whether the contractor has adequate resources to support the project."

Trade finance options

Mr Kasasa notes that there are ways contractors can get paid in advance for work they are doing, offering a flexible solution to contractors seeking finance. This is an advance guarantee.

"After a contract is running, it takes long for employers to pay them. So, we advance the money against their certificates then we pay and recoup our money later," Mr Kasasa explains.

Banks usually cushion themselves against such losses by carrying out a credit risk assessment. Here, they assess the contractor's performance history.

Additionally, some banks also partner with insurance companies which cover credit risk on the side of the contractor.

Insurance firms

Contractors ought to understand the complicated jargon in insurance policies.

"If you're buying an insurance policy, read through and ask where you don't understand," Ms Anette Nanfuka, the assistant manager underwriting at ICEA General Insurance, says.

Ms Nanfuka argues that since insurance is based on the law of large numbers, contractors should report claims on time to give insurers enough time to prepare.

"In a contract, it is specified that you can notify a claim within a given period of time. We are in agreement with reinsurers which have time and conditions. We could be carrying 10 per cent of that risk while the re-insurer carries 90. If a claim comes late, the reinsurer can decline the claim," Ms Nanfuka explains.

In such agreements with reinsurers, it is stipulated that they will support the insurance company at the time of claim if specific terms and conditions

IMPROVING CAPACITY OF CONTRACTORS

Mr Daniel Lokong, the executive director of Uganda National Association of Building and Civil Engineering Contractors (UNABCEC), advises that the capacity of local contractors in Uganda should be improved.

"Key players in agencies of government departments, procurement decision makers are engineers, but to see this area, developed, we need programmes to develop the capacity of contractors. Civil servants now design and package documents according to what they expect for themselves, so it becomes difficult for contractors to compete with them," Mr Lokong emphasises.

The law required to improve the income status of local contractors is also lacking in Uganda. Mr Lokong, therefore, urges government to expedite the passing of the Local Content Bill 2017, which seek to, among other things, maximise value-addition and job creation through using local expertise.

Top 100 Mid-sized companies' survey is an initiative of *Daily Monitor* and KPMG and sponsored by Vodafone, South African Airways, Uganda Investment Authority, ICEA group and dfcu Bank.

CamScanner