

*Technical Note*  
**CONSTRUCTION INDUSTRY OF BANGLADESH**

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**ABSTRACT :** The contributions of the construction sector is quite remarkable in the national economy, but its existence is absent from the national economic plan. Only recently in the last industrial policy government has identified the sector as an industry. There are different Sector in construction, and through various activities the GDP contribution of the construction industry is about 1/5th that of contributions of the agriculture Sector. Here an attempt is being made to identify the construction industry of Bangladesh through different parameters. Proper identification of problems and information about the industry will enrich the contributions to the national economy.

**KEYWORDS :** Construction industry, construction output, construction environment, entry condition, market condition, cash flow pattern.

**INTRODUCTION**

There is no existence of the construction industry in the national economic plan of the government. Neither any initiative been made regarding the need to acknowledge construction as and industry in their plan, nor there been plans to consider areas for development strategy for the industry itself. Very recently government has recognized the construction sector as an industry in the last announced industrial policy. There are many construction sectors in Bangladesh, like the transport, gas, electricity and water supply sector, and housing and flood control sectors etc. From the study of the statistical information's it is observed that the construction industry of Bangladesh, which accounts for 6.19% of gross domestic product, is increasing (Statistics 1997), and the forecasts indicate it will rise to 7% by the end of this century. Although large numbers of projects have been undertaken in the last two decades, the output of construction has not risen satisfactorily. The construction industry can be defined through different parameters as follows:

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## **CONSTRUCTION OUTPUT**

The construction industry of Bangladesh is involved in the repair and maintenance of works; including internal finishes and services, and a wide variety of different type of new works such as road, bridge and dam construction as well as housing, electricity, water supply and gas supply, embraced by the term 'Civil Electrical and Mechanical Engineering works; During 70's and 80's it suffered a severe contraction in both absolute and relative size, and GDP share rose by 6.19 over the period 1996-97 from 6.06% in 1991-1992 (Statistics '97).

As Bangladesh is a agriculture intensive country, agriculture holding 32.41% of GDP, which is 5.24 times of construction output of 1997 (Statistics' 97). The ratio was 6.08 in 1991-1992, which give an indication of increase of construction output with respect to agriculture sector. Government expenditure in construction, e. g: in public housing, flood control, education, training, and building construction, communication especially road and bridge construction, has been increased in the period 1987 to 1997.

## **SIZE AND STRUCTURE**

The construction industry of Bangladesh comprises of a large number of predominantly small firms. The same can be seen to be true for most other countries (Johnson, 1988). A major part of the industry's labour is employed through direct works departments by most local authorities and by other public bodies. They predominantly execute the repair and maintenance work only. The actual structure of the industry is not possible to measure as there are no published papers on the total number of firms. There are some 25000 nos. of local contracting firms registered with the government agencies with a varying range of financial capacities. They are categorised as large, medium and small size construction companies and are usually known as class one, two and three contractor.

Within the building construction sectors, the larger firms are capable of constructing even high rise building projects. However, in the other sectors, construction of major roads and bridge projects, gas pipe line projects, electricity supply projects, dam and sluice gate construction etc. are implemented by international contractors and the joint venture companies (foreign and local).

## **EMPLOYMENT IN CONSTRUCTION**

It is estimated that, the construction industry employs 1.83% in 1995-96 (Statistics '97) of the total labour force, it was 1.05% in 1990-91 (Statistics '97). It is claim by (Dipu, 1998) that on an average 20 persons are engaged with each of the registered contractor, that is 20 lacs peoples are employed by the contracting firms. If each family comprises of four members, so total 80 lacs peoples (6.15% of total population of the country) are dependent on the construction industry for their living. The economical and political significance of the industry is even greater than this figure suggest, as it captures the major part of the national investment. A substantial part of the industry is devoted to the repair and maintenance of the existing stock, rather than the new construction. About 46% of the total construction labour force are involved in building, 50% in construction, repair and maintenance of roads and bridge works, and 4% are involved in construction, repair and maintenance of other activities.

## **ENTRY CONDITION AND GROWTH OF FIRMS**

There is no existence of any natural or artificial barriers to entry. It is not to say that a new entrant is able to enter and compete in any field of construction, tackling jobs of any size and type. But availability of large volumes of small repair and maintenance works, coupled with the limited financial and capital requirements of firms, ensure easy entry and free competition within the construction industry. it is not so easy for a new entrants to extend the range and scale of their activities over time and thus to challenge the larger existing firms. In addition, some domestic contractors in the building sector have access to overseas market but, in the other sectors, local contractors are less capable of competing with the foreign companies, due to variety of reasons:

1. Very less initiative from the Government to improve the capacity of the local contractors, such as through,

- Easy credit and plant hire facilities.
- skill and manpower development through in-house training.

2. Most of the major projects other than the building sector are largely dependent on foreign funds. The rules and conditions of the donor agencies always favour the foreign contractors.

It is to note here that very recently some of the local firms gained little capacity through joint venture projects, and are now trying to

compete with the international companies. Presently some local firms are engaged in constructing few road and bridge projects, under Roads and Highways Department, which earlier, usually were constructed by foreign international firms. The interesting feature is that construction is a cumulative effort of different activities as such : supplying of construction materials, skilled man power, equipment's etc. which may be considered as sub contracting.

### **MARKET ENVIRONMENT AND COMPETITION**

Construction projects are mostly carried out in accordance with the individual requirements of the client organisations. The requirements are normally translated into particular designs and specifications by the architects and/ or civil and structural engineer, and other consultants working under client organisation. The contractor who is responsible for the construction of the project, plays no part in the design process, he only appears when the design process is complete, and the contract is ready to be let.

The construction industry of Bangladesh operates under varying types of ownership and control. Usually the large firm in the market are not in competition because they are small in number. In general some contractors are able to exert some control over the market environment in which they operate. Apart from speculative work and contracts obtained by negotiation, firms are dependent on the success from competitive tendering for their survival.

For medium to large contracts, competitive (selected) tendering is often preferred. In small works, open tendering is used in order to secure low prices. This does lead to low prices, but delays are common causing poor quality of work and ultimately increasing the cost to the client. In the private sector (only housing) works, the contractor provides the design and implements the project according to the approval of the client organisation and the respective government organisation. In the private sectors works are awarded mostly through selective tendering.

### **WORKING CAPITAL AND CASH FLOW**

Almost all companies run with severe working capital problems and subsequent cash flow problems. The reason is the initial capital and high cost of borrowed capital. Credit discipline is very low,

particularly between organisations in the public sector. The delays (decision making, fund management, tendering, payments to contractor) in the public sector organisations naturally affect the cash flow. There is also a problem of lack of finance. Contractors are unable to purchase new equipment. Sometimes the Civil engineering firms need plant investments about 20-30% of the value of the project in order to be competitive and to be able to qualify on major jobs and also to be able to compete with the international contractors.

There are also other problems that contribute to cash difficulties of contractors. Payment delays are common by the client organisation, sometimes in the seasons of flood and years of political instability, the public sector client organisations face severe credit and cash flow problems. The facilities extended to the contractors in Bangladesh are very poor in terms of supply of plant and equipment and training of the contractors. There is no negotiated contract system with the public sector client organisation unless the contractor is selected directly by the client without any tendering.

## **CONCLUSIONS**

Earlier construction was treated as trading, only from last year the government has included the construction sector as an industry in the national industrial policy. In the future this sector will enjoy the facilities of the industrial sector, specially in the financial discipline and in importing of essential construction equipment and materials from other countries. To register the construction sector as an industry, it is essential to study the activities in different sectors of construction and find out the sector-wise construction output, record and published for information of all concerned. Regular future forecast bulletin about the construction industry will guide the investor to be aware of the market condition and competition of the construction industry. Considering this sector as a promising industry, government should also be more concerned about the construction sector, in monitoring the investment and the output of the sector as well as its contribution in the national economy.

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