

# CAN WE CREATE BETTER JOBS IN AFRICA'S BOOMING CONSTRUCTION SECTOR? LOOKING TO MARKET SYSTEMS ANALYSES TO POINT US IN THE RIGHT DIRECTION

By Steve Hartrich, November 2018



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If you take a stroll through Kigali, Rwanda, chances are you won't wander long before stumbling across scaffolding, cement blocks, excavated soil, hard hats and shovels. What's evident in a walk-through of Kigali is obvious to most of the three billion urban dwellers in Sub-Saharan Africa and South and East Asia<sup>1</sup>: building construction is booming and city landscapes are changing at the blink of an eye.

So what is driving the construction boom? Some might say these economies are playing catch-up. In low income countries where urbanisation rates are highest<sup>2</sup>, roughly one in three people live in cities – a stark contrast to the four out of five in high income countries. In poorer countries, population growth is exploding, youth are moving from farm to city faster than before and the growing middle class is demanding larger and more modern buildings. These changes have all put a

<sup>1</sup> As calculated from *United Nations, Department of Economic and Social Affairs, Population Division (2018). World Urbanization Prospects: The 2018 Revision, Online Edition.*

<sup>2</sup> 4% per year, as calculated from *United Nations, Department of Economic and Social Affairs, Population Division (2018). World Urbanization Prospects: The 2018 Revision, Online Edition.*

surge on demand for housing units – particularly for the low-income segment – as well as shopping malls, office buildings, schools and hospitals in areas where the building supply was already highly inadequate or outdated. As a result, building contractors ranging from micro local handymen to large foreign-owned conglomerates are rushing in to get a piece of the construction pie.

Although some contractors have found riches over the past few years, the sector generally has not provided as favourably for the overwhelming majority of its workforce. The poor and vulnerable often gravitate toward temporary, high-risk, physically demanding and poorly paid work on construction sites. They shovel dirt, push wheelbarrows, relay stone blocks back and forth, and often don't know if they'll have a job in a month's time let alone receive a pay check for the work they've done already. They also have limited opportunity to upskill and transition into higher paid, more stable, less demanding trades – often resigned to moving from site to site, living week-to-week and chasing short-term contracts which they hope can support survival at home.

With a building boom on one hand and a poor and vulnerable workforce on the other, building construction will surely become more relevant for development practitioners in the near future. So how can they more effectively deliver projects that can improve the lives of the sector's most vulnerable? The Lab – a knowledge generation project focused on how the market systems development approach addresses decent work outcomes – has analysed the building construction market systems in Mozambique, Zambia and Rwanda, and in the process, has discovered some common factors related to its potential challenges, constraints and opportunities.<sup>3</sup> This brief looks at how the lessons from these analyses can help development practitioners more quickly hone in on and understand the challenges in a complex and increasingly relevant sector.

<sup>3</sup> Reports from the three countries are sourced here: [https://www.ilo.org/empent/Projects/the-lab/WCMS\\_638747/lang-en/index.htm](https://www.ilo.org/empent/Projects/the-lab/WCMS_638747/lang-en/index.htm)



## CONSTRUCTION 101: A CRASH-COURSE ON THE BASICS

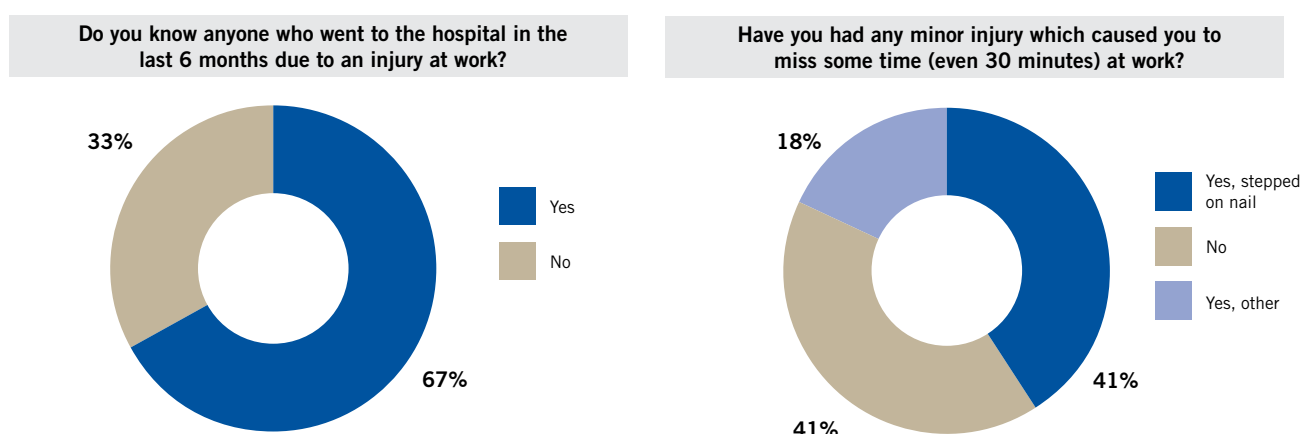
Before jumping to conclusions, it may be worth understanding a few basics on the construction sector and the businesses and workers that operate within it.

### WHAT IS IT LIKE TO WORK ON A CONSTRUCTION SITE?

Simply put, job quality in building construction is poor. In both Rwanda and Zambia, most workers have limited contract stability or upward career mobility and often are not paid on time, a knock-on effect from contractors not being paid on-time by their clients. They work in unsafe conditions and have little to no social protection. Of these job quality concerns, Rwandan construction workers identified that they struggled most with late payments and irregular contracts – two factors which have a direct impact on their ability to provide for their families. When workers in Rwanda weren't paid on time, they borrowed money from friends and family or bought from the local stores on credit – something they were uncomfortable doing with such regularity.

Though personal safety may not be a top priority for the average worker, it certainly persists as a challenge. Working on a construction site involves staying out of

**Figure 1: Worker perceptions of safety in Rwanda**





the way of heavy materials, operating high force, sharp or heat intensive machinery and working at heights. Major hazards are everywhere, preventive training is almost non-existent and safety gear is haphazardly worn. Injuries are common – nearly three in five workers surveyed in Rwanda said they had missed time off work due to injury. And the most common injuries are often the easiest to prevent – like stepping on nails (see Figure 1).

#### BOX 1: A DAY IN THE LIFE OF A FEMALE CONSTRUCTION WORKER<sup>4</sup>

Meet Susan. Susan works on a building construction site in Rwanda. She's a single mother with a three-year-old child and gets no support from the father. She has been shovelling earth and moving building materials around various construction sites for about five years, and during that time, her salary hasn't changed from USD 2.35 per day. On this particular day, she's the only woman on the site - any bathroom breaks involve going to the communal toilet, a hole in the ground behind the bushes. She'd like to train to move up from her current position in the most labour intensive and poorly paid job on site. She says there is a training school right around the corner, but a complete training course would take a year, limit her time to work, and would cost USD 235 - about 40% of her annual income.

Every morning, she wakes up, gets herself and her child ready to go, drops her child off at a neighbour's place and arrives at work. When she gets home she buys the neighbour a soft drink as a thanks, if she can afford it. On observation, she appears to be showing early stages of pregnancy, something that she tries to hide as it could bring her misfortune, particularly as her foreman just told the research team that pregnant women are perceived as weak and get rotated off the site fairly quickly. It seems a construction site is no place for a pregnant woman.

## WHO ARE THE WORKERS?

On the surface, the construction sector lives up to the stereotype of being male dominated – 19 in 20 construction workers in Zambia and Mozambique are men. In Rwanda, women have carved out a larger niche where they represent nearly one in five workers. However, they almost exclusively work in the lowest-skilled, poorest paid, manual labour jobs. They are also exposed to sexual harassment and are not contracted during and after pregnancy, times when they have few other options for income and when they are likely to depend on it the most.

The majority of workers on construction sites do manual labour tasks which require little skill or experience. They are thus a haven for the poorly educated (see Figure 2) and those who land in urban environments for the first time with few skills. For many working in manual labour jobs, construction is a means of survival, not a career prospect (see Figure 3).

Figure 2: Education attainment profile of Rwandan construction workers<sup>5</sup>

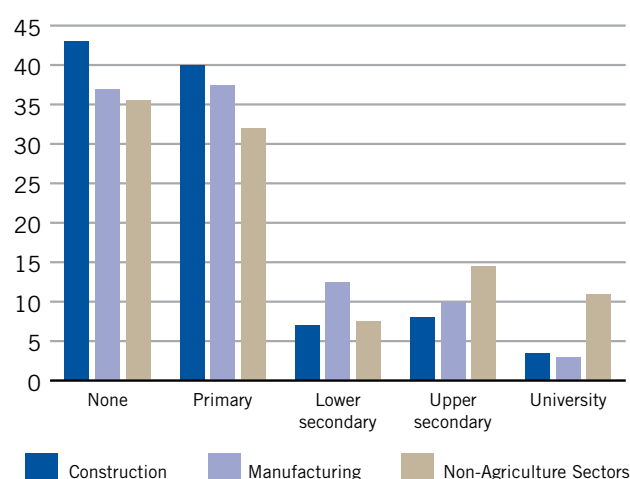
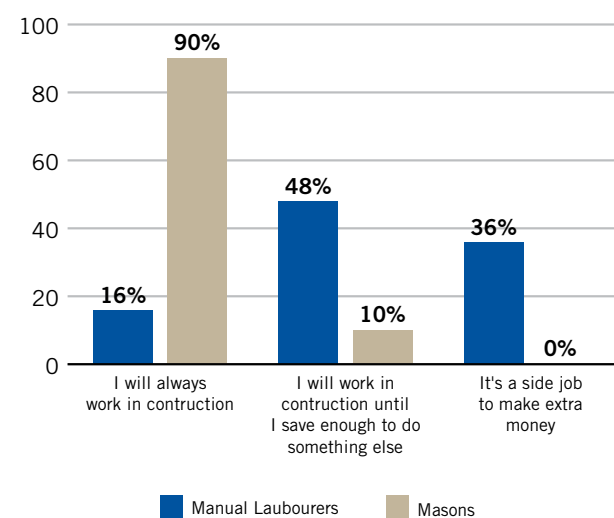


Figure 3: How do you feel about working in the construction sector? (in Rwanda)<sup>6</sup>



4 Extracted from the Lab's *Laying a Foundation for Better Working Conditions: A Market Systems Analysis in Rwanda's Building Construction Sector*. September 2018

5 Ibid

6 Ibid



## WHAT BUSINESSES SHAPE THE CONSTRUCTION GAME?

Construction contractors are quite heterogeneous when it comes to size, ownership and specialisation. Large, often foreign-owned contractors scoop up the major government contracts. Foreign contractors have backing from external financial institutions which provide clear advantages in the public tendering process. In Zambia, state-owned Chinese construction companies landed three-quarters of the contracts on a large road construction scheme (Figure 4), largely because of their ability to access low-interest loans which pre-finance work and purchase machinery – helping tick the boxes for tender evaluation criteria while keeping their financial proposal and in turn, operating costs down. Domestic contractors backed by local financial service providers simply cannot compete when they have to pre-finance work and buy or lease machinery at commercial lending rates of 20-25%.

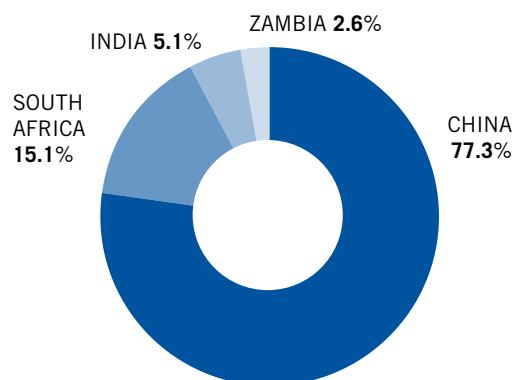
In Zambia and Rwanda, the majority work on small-scale, single residential houses. In such projects, the contract, contractor and workers are all informal and the game can be risky. One roofer in Rwanda reported that he wasn't paid for 20% of his work contracts. That has knock-on effects to his business and ultimately his ability (or inability) to pay his workers.

Smaller-scale contracting is more competitive too. Here, customer preference focuses on price rather than quality of the craft or product differentiation. Given that the small-scale contractor space is crowded (Figure 5) and that contracts are almost always awarded to the bidder with the lowest price, contractors cut costs as much as they can to win the work. This facilitates a race to the bottom. As one Rwandan contractor explained, 75% of his costs are out of his hands (building materials, taxes and financial guarantees). He can only compete on the remaining 25% - labour costs and profit – which affects his ability to invest in both his workers and his business.

## WHY IS THE SECTOR SO INFORMAL?

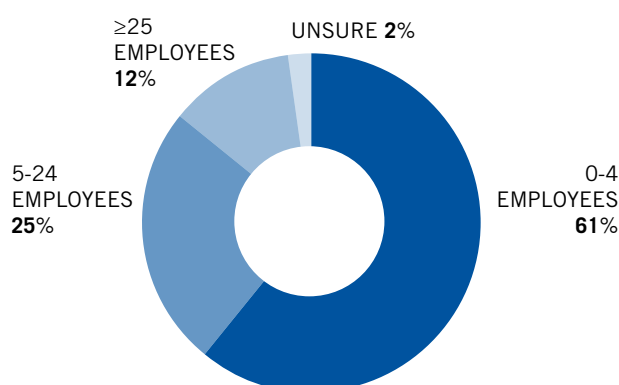
In one of the most advanced economies in the world (Switzerland) and on major renovation project at the headquarters of institution tasked with advancing decent work across the globe (the ILO), more than 50% of the building renovation workers were employed on temporary contracts<sup>9</sup>. Although, the contractor, client and workers all operated within the legal framework, this case highlights that even in an ideal scenario, construction is often built by the hands of workers in precarious conditions. In less ideal scenarios, the workers are worse off, largely employed on informal contracts with limited protections to their vulnerable situations.

Figure 4: Nationality of contractor in award of road infrastructure projects (Zambia)<sup>7</sup>

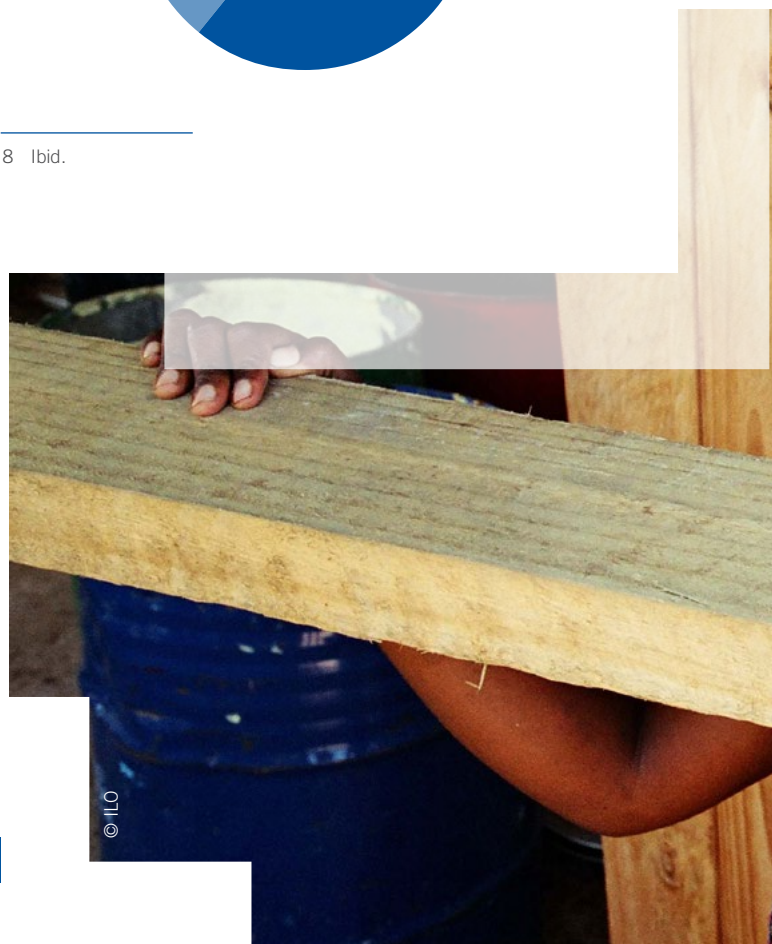


<sup>7</sup> Figure extracted from the Lab's *Good Working Conditions, Good Business? An analysis of Zambia's building construction market system*. November 2014.

Figure 5: % Construction workers by firm size (Zambia)<sup>8</sup>



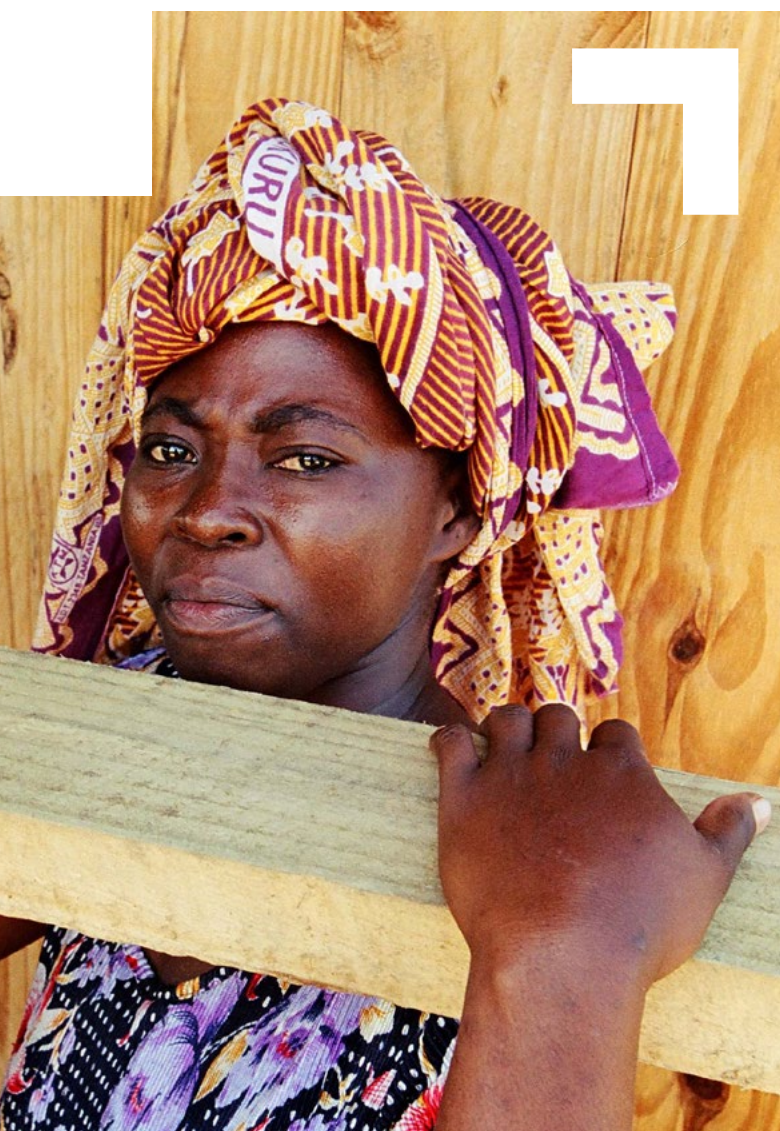
<sup>8</sup> Ibid.



<sup>9</sup> As extracted from <https://www.letemps.ch/economie/unia-accuse-orlati-preciser-chantiers>. (20<sup>th</sup> August, 2018).

So why is the sector's workforce so informal? For starters, project contracts depend on variable client demand which limits how many formally contracted workers a contractor can have on their books – it's difficult to know how many contracts will be won or workers needed in six months, let alone five years. The skills required throughout the life of a construction project change, shifting from many labour intensive workers at first to fewer, specialised trades toward the end. A contractor needs manual labourers to excavate dirt at the beginning, brick masons and steel benders during the building phase, and roofers, plumbers, electricians and painters toward the end of a project. Few workers have skills that cut across multiple trades so contractors constantly need to hire workers to fill short-term tasks.

Formalising workers has a cost too. In Rwanda, formalising a mason adds a 42% cost increase for the contractor while the potential benefits to both workers and employers are perceived to be limited. For example, formalisation does not bring improved health insurance protection for workers. For contractors, the additional cost is not offset by a discernible benefit, as workers cannot create 42% more value through more stable contracts and a small pension contribution.



## THE MARKET SYSTEM: WHAT TO KNOW BEFORE KICKING THINGS OFF

### FINANCE MAKES THE WORLD GO ROUND

In just about every market system, access to finance is flagged as a key constraint. Construction is no different in this regard, but the way finance limits the construction sector is slightly different - it's beyond the more classic constraints of the high cost of borrowing capital or the inability of smaller businesses to articulate a bankable business plan or have sufficient collateral.

Contract guarantees are a costly necessity for contractors participating in the public procurement space. In Mozambique, procurement regulations specify that contractors guarantee the contract through a financial institution which requires a deposit of about 5-7% of the contract value. In Zambia, it's 2%. For larger contracts in Rwanda, both public and private, contractors need a suite of financial guarantees which cost 12% of the contract value. Such requirements are particularly limiting to MSEs that generally lack the financial wherewithal, working capital, and collateral to access these guarantees.

In this regard, relationships between contractor and financial institution are exceptionally important. If a contractor misses a payment, trust falters and the borrowing terms worsen. This is important as it can drive investment decisions away from workers. In one case, a Rwandan contractor said he prioritised servicing his bank payments over paying his workers – it seems that the ramifications of an angry bank are a harsher business reality than a disgruntled workforce.

### A UNIVERSAL NEED FOR SKILLED WORKERS

In Zambia, Mozambique and Rwanda, contractors regularly flagged skills development as a key constraint. In Rwanda, contractors in specialised trades such as cabinet making and painting sourced workers from Kenya and Uganda during periods of surge demand.

Some other trades were filled predominantly by non-nationals from nearby countries who took up residence in Rwanda due to the availability of work.

The lack of skills development is partly due to poorly oriented national skills development programmes and curricula. In Mozambique and Zambia, graduates are





churned out in trades with little market demand from institutions with inadequate facilities and poorly qualified trainers. In Rwanda, training simply is not accessible to those who need it most – the low-skilled, poorly educated. Those with only primary education or less (87% of the workforce), must first go to a TVET foundation course of at least three months before enrolling in a specific TVET course which will last another three months. For unskilled workers, accumulating savings to pay for six months of training while taking such a period of time off work is an impossibility.

One consequence of having a predominantly informal workforce in which workers move from site to site is that contractors perceive their workers as short-term consultants rather than members of a larger team. That is, they view the workers as being paid to deliver specific tasks and do not feel that they can invest in workers. A couple of small, specialised contractors in Zambia and Rwanda said that they had invested in developing worker skills, but as soon as workers had the necessary skills, they hit open market to find employment elsewhere, sometimes with competitors. In their view, worker investment was a lost cause.

## PROCURING POOR JOB QUALITY AND SLOW MSME GROWTH

Public procurement can be an effective tool for normalising the rules of the game between contractors in the public space. However, in Zambia, Rwanda and Mozambique, procurement has not been effective in benefiting local smaller-scale contractors<sup>10</sup> or incentivising investment into better working conditions. In Zambia, 90% of the contractors qualified to participate in the public procurement space were classified as micro, small and medium enterprises (MSMEs). However, they were awarded just 10% of the total value of public works contracts. In Mozambique, on contracts valued at USD 5 million or more – those with the potential for the best margins – only five large-scale contractors met the procurement bidding requirements.

In an effort to redistribute some of the contracts to local MSMEs, the public procurement authorities in Rwanda and Zambia specified that a proportion of

larger contracts should be sub-contracted to local MSMEs<sup>11</sup>. In theory, this should level the playing field – giving local contractors a chance to work alongside of, and learn from, larger scale contractors, while providing an opportunity to participate and grow in a less competitive space. In practice, large contractors sub-contract the least profitable or riskiest parts of the work to the SMEs.

The Rwanda Public Procurement Authority has guidelines in place to improve the terms for contractors and their workers. These guidelines specify that tenders should be awarded to the lowest “responsible” bidder and that “knowledge transfer” could be evaluated as a part of the bid. However, in practice, tenders are solely awarded on the financial proposal of pre-qualified contractors and the authority had no mechanisms to evaluate or monitor skills transfer.

11 On road construction projects in Zambia, this equated to 20% of the total contract value

10 In Rwanda, local contractors seemed to be more active in public procurement contracts.







## FINDING THE OPPORTUNITIES

Throughout rapidly growing, lower-income, urbanising economies – where development projects most commonly operate – building construction is becoming more relevant both in scale and as an employer to the most vulnerable. And as projects work to address challenges which adversely impact the most vulnerable, practitioners have a real opportunity to deliver benefits in this sector, which have only been realised in a handful of projects to date.

Given that construction is relatively new to the development community, previous experiences can be useful to help projects more quickly identify and understand where opportunities lie<sup>12</sup>. In building construction, the two most common opportunities that the Lab has found relate to enhancing skills development and improving the rules and regulation that govern contractor investment into job-quality.

### ENHANCE SKILLS TO FACILITATE A TRANSITION TO BETTER JOBS

The idea with addressing skills development is to help facilitate a transition out of lower-skilled, manual la-

<sup>12</sup> The Lab believes in analysing and understanding the context in which projects operate – each is unique and jumping to pre-packaged solutions, often does not effectively tackle market constraints or their corresponding root causes.



bour positions, into more specialised, stable, higher demand, higher paid jobs which are less exposed to precarious working conditions. As a starting point, understanding construction skills as its own market system may be helpful. This involves analysing the constraints to skills supply and demand to get to bottom of why workers cannot transition into higher-skilled jobs where demand exists. This type of analysis will point to a number of context specific opportunities. Some less traditional opportunities that the Lab's analysis uncovered include.

- **Developing the market for short-courses:** Learning by doing on construction sites is relatively commonplace, but contractors don't want to foot the bill of developing a worker from scratch. Developing short, technical courses through TVET institutions could be an opportunity – they open up opportunities to low-skilled workers that have little savings or time to take a longer course and develop skills which can put workers onto a site where they learn the rest. This will not work for all trades - learning to be a painter is less time intensive than to be a cabinet maker – but the nexus between the easy to learn and the high demand could be an opportunity.
- **Training workers through material suppliers:** In Rwanda, three major companies supply paint to the market, and together, they train close to 2,000 painters a year through a two-week course. This isn't corporate social responsibility. It's a means of building product loyalty. The paint retailers recruit workers for their supplier training who, after being trained, purchase the supplier paint from the retailers. Such a model has opportunity for other material suppliers, particularly for materials where contractors can't find tradespeople to get the work done and materials suppliers can't shift their product quickly as a result of the skills bottleneck.





## GET TO THE BOTTOM OF THE RULES AND REGULATIONS

Enhancing skills of lower skilled workers is a great start, but it also falls short of delivering change to the most vulnerable. That is, regardless of whether skills development initiatives help workers transition to better jobs, contractors will continue to find the vulnerable to fill the low-skilled, poor quality jobs. To improve the job quality, and ultimately the livelihoods of the lowest skilled construction workers, the rules and regulations of the market system should be understood and addressed. However, work here takes time and is highly dependent on the level of bureaucracy behind the change process as well as the incentives and capacities of the government actors driving it. Here, some project opportunities could coalesce behind:

- **Finding a way to protect contractors:** Contractors don't invest in workers because their clients don't want to pay for it. If the law both mandates and enforces better job quality, all contractors would have to provide it. This gives contractors leverage to push back against their cost-cutting clients, shifting worker investment into a non-negotiable project cost that the client considers from the outset. Such a change would shift the responsibility of poor job quality from the worker to the client.
- **Understanding how public procurement can deliver better job quality:** The way that public procurement can improve job quality is so context specific that it is worth unpacking this a bit more. In Zambia, improving the opportunities for SME engagement through procurement was identified as way of developing national construction capacity while providing some additional cover for SMEs to invest in better working conditions. In Rwanda, helping the procurement authority understand that evaluating the benefits of responsible contracting was identified as a starting point. Responsible contractors help ensure better quality construction while the up-front costs associated with procuring better working conditions could actually be a net neutral – social security and tax payments eventually come back to the government and improved occupational safety and health may reduce public medical costs.

## GETTING BETTER RESULTS FOR YOUR PROJECT

Building construction is a complex sector with challenges that can seem insurmountable, but development projects do have opportunities to deliver long-lasting benefits to those that need them most. The foundation for better project delivery is solid analysis – it helps projects understand the challenges and in turn, find the opportunities that can strengthen business and government incentives to invest in better jobs. Such analysis should dive head first into understanding current market structures and competitive pressure for contractors as well as factors that attract and keep workers in vulnerable jobs. It should also look to understand how the sector's supporting services, especially finance and skills development, and rules and regulations impact contractor and worker decisions.

Projects should use this analysis to define context specific opportunities. From the Lab's previous work, projects might look for opportunities to enhance skills development through new, sustainable training models or find ways to strengthen the rules and regulations such that contractors are incentivised to invest in better working conditions in a highly competitive space.

But that shouldn't limit the scope of the analysis – one should keep an open mind toward understanding a wider band range of constraints. Analysis in other contexts might uncover different challenges which point to other opportunities such as incremental improvements to social security or the organisation of employers and workers for collective action to improve their negotiating position and reach common goals – better business and better working conditions.