

Construction Industries of Developing Countries: An Assessment from Two Perspectives

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Abstract

The practice of employing labour through subcontractors (often referred to as the "outsourcing" of labour) is both long established and widespread in the construction industries of developing countries. Recent studies show that it is also increasing in both developing and developed countries. An assessment of the advantages of the practice from the viewpoint of the contractors and of the labour force, suggests it is unlikely to disappear. The paper goes on to explore the implications for the development of the construction industry, as well as for the welfare of the workers and the achievement of broader development objectives. It is concluded that interventions may be needed to deal with some of the negative repercussions, but they have to accept and build on current labour practices.

Keywords

Labour market, Construction, Outsourcing, Subcontracting, Employment, Regulation

INTRODUCTION

The functioning of the construction labour market (the source of labour, the basis on which it is employed and the way it is treated) has profound implications for skill development, productivity and quality in the construction industry. These are issues which are of immediate concern to construction managers. Studies of the labour market should therefore assume high priority in construction research.

Issues relating to the employment of labour in the construction industry are also the legitimate concern of a broader group of politicians, development researchers and practitioners. In many countries the construction industry provides much needed employment for large numbers of the poorer and least well educated members of society. The terms under which construction workers are employed and the conditions under which they work on construction sites, as well as the number of jobs in construction, can affect the achievement of social objectives such as the alleviation of poverty and promotion of economic and social security.

This paper seeks to look at the employment of labour in the construction industry in less developed countries from these two perspectives. The focus of the study is the practice of employing labour through intermediaries. A review of the literature reveals that this is now the predominant form of employment in the construction industry of developing countries. It is also increasingly common in developed countries. This suggests there are many advantages in the use of the practice from the employers (contractors) point of view and possibly also from that of the workforce. However labour contracting is believed to lessen the degree of control that the main contractor can exert over the labour force. The practice has also been criticised on the grounds that it poses a barrier to training and innovation, with implications for the longer term development of the industry. For this reason it has come to be regarded as posing a "problem" to be tackled through some form of intervention.

From the perspective of the workforce, the practice of labour contracting also seems to offer some advantages. But it is widely condemned on the grounds that it is exploitative. While the use of intermediaries

little doubt that exploitation does take place, there has been the issue, particularly from the workers' point of view. A further point is that employment through subcontractors is generally compared with permanent direct employment with the main contractor, whereas in reality the only real alternative may be direct recruitment as a casual worker. A question is raised as to whether those recruited individually and employed directly as "casuals" by contractors are any less susceptible to exploitation in a labour surplus situation.

The paper is divided into five sections. In section one selected literature is reviewed to demonstrate the predominance of labour contracting in the developing world. The advantages offered by this particular labour system from the viewpoint of the contractor and the worker are assessed in section two. The third section focuses on some of the problems associated with labour contracting for the industry and for the workforce and explores various initiatives to deal with them. The concluding section summarises the arguments and highlights areas for further research.

EVIDENCE OF THE PREDOMINANCE AND GROWTH OF LABOUR SUBCONTRACTING

The recruitment of labour through intermediaries is a long established practice in the construction industry in many developing countries. The intermediaries who recruit and control the workforce are known by a variety of names: *mistri* or *jamadar* in India, *kepala* in Malaysia and Singapore, *oyaji* in the Republic of Korea, *naikea* in Nepal, *gato* in Brazil, *maestro* in Mexico, etc. Although they may take on varying levels of responsibility, their function is essentially the same. They bring labour to the construction site when it is needed and take it away when it is no longer required. Thus they constitute a bridge between the labourers seeking work and contractors or subcontractors who can offer work (Vaid, 1999).

A report prepared by the author for the International Labour Organisation (ILO, 2001) documents the practice of labour contracting in the construction industry in a large number of developing countries. Drawing on an extensive literature, it is shown that the practice is deeply embedded in India (Vaid, 1999; van der Loop, 1992), Malaysia (Abdul-Aziz, 1995), Korea (Yoon and Kang, 2000), Philippines (Yuson, 2001), Egypt (Assaad, 1993), Brazil (Saboia, 1997; Zylberstajn, 1992) and Mexico (Connolly, 2001). It has also developed in China following the launch in 1984 of a reform programme in the construction industry entitled, *Separation of Management from Field Operations* (Lu and Fox, 2001; Sha and Jiang, 2003).

Evidence is presented in the same report of an increase in the practice of labour contracting in some countries in recent years, as workers who had previously been employed directly on a more permanent basis, have been laid off and re-employed through subcontractors (ILO, 2001). For example, analysis of data from the national household survey in Brazil shows that construction employees registered with the Labour Ministry (assumed to be the permanent staff of contractors) fell from 41% of the construction workforce in 1981 to 21% in 1999, while unregistered and self-employed workers rose from 57% to 75% during the period. At the same time there was a big expansion in the number of employers, most of whom are believed to be labour contractors or *gatos* (PNAD, 1999).

More recent studies in sub-Saharan Africa show a similar decline in the permanent, directly employed workforce and a corresponding increase in the number of workers employed through subcontractors and intermediaries. A study of construction labour in Cape Town found that almost all of the workers on construction sites around the city were employed by subcontractors and two thirds of the employers were labour-only subcontractors (English, 2002). The third who were supplying both labour and materials were in turn outsourcing their labour requirements to labour only subcontractors. Further evidence of contractors having recently shed their directly employed labour in favour of outsourcing lay in the fact that many of the employers of labour had previously been employed themselves in larger construction companies and had been retrenched. They are now supplying labour to their previous employers (English, 2002).

ed in other countries of sub-Saharan Africa. Published data in the construction sector in the construction sector to have stagnated or declined, while the informal sector surveys have picked up a large and increasing number of construction workers in enterprises with less than five or ten employees (Wachira, 2001; Wells, 2001; Wells and Wall, 2003). This apparent shift in employment to very small enterprises suggests that the larger contractors operating in these countries have shed their directly employed workers and resorted to subcontractors and other intermediaries for their labour supply. Recent studies from both countries confirm that construction workers with some skills (known locally as *fundis*) are now acting as gang leaders and suppliers of labour to larger firms, with whom they may once have been employed and from whom they learned their skills (Mlinga and Wells, 2002; Mitullah and Wachira, 2003; Jason, 2005).

These developments mirror a much more dramatic decline in the direct employment of workers in the construction industry in some of the developed countries that has been on-going since the early 1970s. The trend to outsourcing of labour can be detected in the majority of countries in Europe, as well as in the United States (ILO, 2001). But it has progressed furthest in the United Kingdom, where the past three decades have seen a massive shedding of labour by contractors. The construction industry is now characterised by the "hollowed out firm" relying on nominally "self-employed" labour, most of which is supplied by labour agencies or subcontractors (Winch, 1986; Harvey, 2000). In 1977 self-employed labour comprised under 30% of the construction workforce but by 1995 the level had risen to over 60%. While the process of outsourcing labour has also affected other industries, construction has been disproportionately affected, accounting for 45% of all self-employed workers in 1993 compared with 7% of the total workforce (Harvey, 2000).

It may be concluded that the bulk of the construction workforce in the majority of developing countries today, as well as in many developed countries, is recruited through intermediaries. Although the system of labour deployment is described by some authors as a "pre-modern" or "pre-capitalist" (van de Loop, 1992), its growth in the late 20th century suggests that "post modern" may be a more appropriate description.

ADVANTAGES OF LABOUR CONTRACTING

Perspective of Contractors

The persistence and growth in the construction industry around the globe of the practice of outsourcing labour through subcontractors can be explained by the significant benefits it offers to contractors. First and foremost is flexibility in the recruitment of labour. Outsourcing enables contractors and subcontractors to get the labour they need when they need it and to pay for it only when needed (Vaid, 1999). Hence labour becomes a variable rather than a fixed cost. This kind of flexibility is particularly important in construction due to fluctuating labour requirements, which stem in part from variations in the contractor's workload, but also from changes in the product mix. Neither construction products nor skills are homogeneous. Building construction in particular requires a wide range of skills with frequent, often daily, variations. The skills required in civil construction are more homogeneous and this could be related to the fact that outsourcing seems to be less common in this field.

Flexibility in the use of labour can be achieved without resorting to outsourcing provided there are no effective regulations restricting the hiring and firing of labour. If labour can be employed on a short-term basis and released when no longer required, flexibility can be combined with direct employment through the use of short-term or daily employment contracts. However in many countries, contractors have been pushed into outsourcing by restrictive labour regulations. Assaad (1993) explains that labour regulations in Egypt allow for two types of employment contracts; permanent and temporary. Permanent contracts entitle workers to lifetime employment security after an initial probationary period of three months. Temporary contracts are fixed in duration and cannot exceed one year at a time. Workers can be laid off at the close

employed only once before the contract becomes permanent. This is particularly surprising that contractors resort to labour subcontractors and labour recruiters to gain access to a flexible workforce, rather than hire workers directly on legal contracts (Assaad, 1993). Labour subcontractors are usually small, unregulated and less visible than main contractors and generally better able to evade the restrictions on hiring and firing.

In addition to offering flexibility in the employment of labour, the outsourcing of labour offers contractors an opportunity to further reduce their labour costs. They do this by avoiding the overhead costs associated with the employment of labour, but also (and more importantly) by evading the "on-costs" associated with legal employment. In many countries labour regulations require that workers employed beyond a minimum period of time are entitled to a range of benefits including social security coverage, paid vacations etc., which can add substantially to the cost of employing them. In countries where these costs are high and the regulations are strictly enforced, there is a strong incentive to employ labour through subcontractors, who are more able to evade the regulations. Brazil is one such case where the on-costs of employing labour are very high, estimated at between 90% (Saboia, 1997) and 187% (SindusCon-SP, 2000) of the basic wage cost. One of the main motivations behind the practice of labour subcontracting in Brazil is to avoid these high charges which are imposed by law on all registered employees. Studies in Brazil (Saboia, 1997) as well as in a number of other countries (Assaad, 1993; Vaid, 1999; English, 2002; Jha, 2002) reveal that subcontractors and labour recruiters invariably hire workers on a casual basis without any form of legal contract and without any of the employment benefits guaranteed by law.

As with flexibility, low labour costs can be realised without resorting to outsourcing in countries where labour legislation is weak or where the law is not enforced. In this situation labour can be directly employed on a casual daily basis without any additional benefits being paid, so there is no need for contractors to outsource their labour. This is the situation in many parts of the developing world, including much of sub-Saharan Africa where labour regulations are non-existent or weakly enforced. If lower costs and flexibility were the only benefits to be gained from outsourcing one might expect the extent of the practice to be inversely related to the development and enforcement of restrictive labour regulations. However the fact that outsourcing of labour is also common in situations where there is little effective labour regulation suggests that it offers other advantages.

One of the additional advantages to contractors that is noted in the literature is the delegation of responsibility for supervising the labour force (Bresnan et al., 1985; Debrah and Ofori, 1997; Leonard, 2000;). Construction work in developing countries is labour intensive, and labour productivity is a key factor in total cost and hence the contractor's profit. It is important that contractors are able to control the output of labour in order to maintain productivity. Control over output can be exercised directly through close supervision, or indirectly through a contract with a supplier that has appropriate incentives written in. If labour contracts are awarded on the basis of a fixed price for a definable area of work (which is frequently the case) the labour contractor has a strong incentive to control output in order to ensure that the task is completed for the contract sum. Labour contractors bid against each other on the basis of a fixed price for a given output so they have to pay attention to productivity in order to win the tender. Hence instead of the contractor having to control the labour force directly in order to achieve the required level of productivity, control is effectively exercised through the market (Bresnan et al., 1985; Winch, 1986, 1994). Supervision by the main contractor may still be needed to ensure the quality that is required, but supervision to maintain labour output is the responsibility of the subcontractor (Bresnan et al., 1985).

Associated with the delegation of responsibility for supervision is the offloading of risks, namely the risk that the item of work may not be completed for the given price in the given time due to industrial unrest, inclement weather or other factors. The availability of a firm price for a given area of work also considerably simplifies the estimating process, saving further on overhead costs (Leonard, 2000).

the worker's experience and how labour outsourcing is a subject which has been little researched in either developing or developed countries.

There is some research in the UK that suggests there are discrete advantages and disadvantages, from the workers' point of view, in both direct and self-employment – the latter being the status of the majority of the workers employed through intermediaries in UK construction. A survey of workers in the British construction industry found that at least a proportion of the construction workforce prefer the status of self-employment, which can provide higher wages but at the expense of regular work and social security benefits (Nisbet, 1997). However others argue that the self-employed workers are in fact disadvantaged in comparison with direct and permanent employment in terms of both income and employment security (Harvey, 1995, 2000).

In the developing countries also, there is little doubt that those who previously enjoyed a permanent job, with benefits, with a main contractor (private or public) but are now obliged to work for labour subcontractors, have experienced a deterioration in their situation. A recent study in Cape Town confirmed the findings from previous studies in South Africa, that newly emerging subcontractors are not adhering to regulations for the employment of labour and are failing to observe the collectively bargained agreement on wages (English, 2002). Almost 40% of the sample of workers interviewed said they were engaged by subcontractors as "casuals" on a day to day basis, while roughly the same number said they were engaged for a fixed term for so long as the work on the project lasted. The remaining 20% said they were "permanently employed." But it was clear from the interviews that workers use permanent to refer to their relationship with their employer, rather than the continuity of work. If the employer has no contract then the workers have no work. When asked what type of contract they would prefer, almost all workers said they would prefer to be in a permanent position so as to create some security for the future (English, 2002).

Many of the workers in Cape Town have in the recent past experienced stable employment with main contractors and this is a status they would like to return to, although they do not anticipate that it will happen. However, for the majority of construction workers in the developing world, a permanent job is so far out of reach as to not even be considered as a possibility. The choice in practice is between employment with a labour subcontractor on a regular basis or trying to find work (with a main or subcontractor) as an individual worker in the casual labour market. In this context regular employment with a labour contractor has definite benefits.

In a very detailed study of the production and labour system on construction sites in two small towns in Tamil Nadu, van der Loop (1992) found the vast majority of workers to be employed by subcontractors, some supplying labour and materials but the majority supplying only labour. He distinguishes between "regular" workers and "casuals." The "regular" workers have a substantial degree of employment "stability," in the sense that many have been working for the same employer for several years. However, employment "security" is poor. Working on a building site for the same employer until the work is finished is usually the maximum degree of security that labourers have, after which they have to wait to be assigned to another site, which may mean several weeks of unemployment.

However the casual workers who gather on the squares around the city every morning and are hired by the day are objectively far worse off. While in the week prior to the interviews regular workers worked an average of 4.7 days, casuals found work for an average of only 2.5 days (van der Loop, 1992). They have neither employment stability nor any degree of security. Casuals do receive a slightly higher daily wage, but workers still prefer the status of regular workers which indicates that there may be other benefits from being associated with a group. In addition to more regular work, these include a feeling of social solidarity, some degree of social protection and (for the men) the chance to acquire skills.

for developing countries. A recent study in Nepal describes the locally as a *naikea*, in the construction labour market and the lives of construction workers (Jha, 2002). Nepal is typical of developing countries in that most construction workers are migrants from the rural areas and many still work in agriculture for part of the year. Their main priority is to find work on a regular basis and improve their income. Joining an informal group headed by a *naikea* provides an opportunity to obtain work, but also to acquire skills, which can lead to higher income. Male workers acquire skills informally through the group and after a period of 5–7 years, are upgraded to skilled status, thereby almost doubling their wage. The author concludes that the process of training delivery on the job is working well. However as in India, this opportunity to acquire skills is denied to women. Also, family and social connections are needed to join a group. Those without such connections have to find work through pick-up points in the town.

The importance of regular work with the same labour contractor as a means of acquiring skill is also reported from Korea. Normally workers start work as assistant labourers and become craftsmen in 3–5 years, although the whole process is informal and the length of time required to gain a skill can therefore vary (Yoon and Kang, 2000). In Egypt the system of traditional apprenticeship appears to be more entrenched, dating back to the guild system which dominated economic activities until late into the 19th century (Assaad, 1993). Contemporary craftsmen have a strong sense of belonging to a solidarity group, which is strengthened by socialising in the workers' coffee houses, which also serve as recruitment centres or labour exchanges. Subcontractors and labour recruiters come to the coffee houses to hire skilled workers. Some 30% of workers report being hired on a regular basis, although the other 70% have no attachment to a regular employer (Assaad, 1993).

In all of these studies in India, Nepal and Korea, the labour contractor is reported to be the one who is most in touch with the workers and to whom the workers look for help and guidance, not only in finding work and acquiring skills, but also in providing loans in times of emergency. It may be significant that *oyaji*, the term used to describe the labour contractor in Korea, actually means "father" (Yoon and Kang, 2000). The members of the labour groups interviewed in Nepal describe the *naikea* as a leader rather than an employer, while the *naikeas* view themselves as being either the leader or the employer, depending on the size and organisation of the group (Jha, 2002). In China the head of the labour gang of construction workers comes from the same rural area as the workers and identifies his interest with his workers when it comes to confrontation with the local (host) population (Chan, 2001). In Egypt also, "Horizontal ties of solidarity among craftsmen cut across the distinction between subcontractors and wage workers, all of whom perceive themselves as members of the same group" (Assaad, 1993, p. 936). Although this line of argument should not be carried too far (in Brazil the labour contractor is called *gato* which means "cat" and is generally considered to have negative connotations) it is important to recognise that labour contracting can foster close relationships among groups of workers, bringing a modicum of security to an insecure environment (Leonard, 2000).

Labour contractors, as well as more informal labour groups, are now emerging in East Africa (Mitullah and Wachira, 2003; Jason, 2005). Here also workers gain experience and some skills from working in the group, as well as a chance to secure more regular work, which can be supplying labour to contractors, subcontractors or directly to clients. As in Nepal, many of the construction workers interviewed in studies in Nairobi (Mitullah and Wachira, 2003) and Dar es Salaam (Jason, 2005) migrated recently from the countryside. Social networks play an important role in recruitment and also in sustaining workers in the urban economy. The networks can be seen as a form of social capital and act as insurance for the workers who have no formal insurance (Mitullah and Wachira, 2003).

Further details of the social role of the work group emerged from the study in Dar es Salaam, which focused on 42 informal groups of construction workers (Jason, 2005). Most of the groups involved in the study were found to have established group funds which can be drawn upon to provide financial assistance to members in times of crisis, as well as for other purposes. In fact many of the groups were established to

are more like labour cooperatives than businesses. Generally the members of the group and are certainly not regarded or acting as employers. None of these groups could become fully fledged (supply and fix) contractors as they have no capital with which to purchase materials. However the opportunities that exist to work as labour contractors led to their emergence, and also provide a way for them to grow and the possibility of upgrading to become fully fledged subcontractors in the future. Thus in the cash strapped and underdeveloped construction industry in country such as Tanzania, labour contracting can also play a positive role in the development of entrepreneurship in the construction industry.

On the basis of this short review, it is suggested that the system of labour contracting operating in many developing countries is not only beneficial to the contractors but also offers some advantages to the workers – at least when compared with the only realistic alternative which is direct employment on a casual basis. It may be concluded that the outsourcing of labour in the construction industry is a practice which is here to stay. Other authors confirm this view (Debrah and Ofori, 1997). It is therefore worthwhile to consider some of the problems that the practice is believed to present, in order to see how improvements can be made that do not require a fundamental change in the system.

COMBATING THE PROBLEMS

Perspective of the industry

From the perspective of the contractor we have seen that there are many advantages in outsourcing labour. One disadvantage that is sometimes put forward is loss of control over the work (Debrah and Ofori, 1997) particularly in relation to the achievement of quality standards. However there are many different forms of labour contracting, with differing degrees of delegation of risk and associated control over labour (Yoon and Kang, 2000). If the contractor considers direct control of the labour force to be important, for example if quality is a key factor, then he can adopt an arrangement whereby the labour is sourced through a labour supplier but paid and supervised by the main contractor. This seems to be a common practice in many countries, particularly in African countries where labour contracting is not yet well developed or entrenched. Even when all of the risk is passed over to the labour contractor with a fixed sum paid for a package of work; Bresnan et al. 1985 have shown that the site manager, who is employed by the main contractor can still exercise a considerable degree of control. Control can be enhanced further through the use of known subcontractors with whom the main contractor has a long standing relationship or through the employment of subcontractors with specialist skills. The authors argue that through these measures main contractors can enjoy all of the benefits of outsourcing labour without any detrimental effect on the quality of work (Bresnan et al., 1985).

A rather more serious problem for the future development of the industry is the effect of outsourcing labour on the development of skills. Most construction workers in developing countries are trained on the job through an informal apprenticeship system and specialised labour contractors are instrumental in the process of training. This has worked well in many countries and proved to be an effective, cheap and self-sustaining way of passing on skills from one generation to the next. The effectiveness of the system is demonstrated by the fact that in the Philippines the supply of skills through the apprenticeship system was able to keep pace with the demand (albeit with a time lag) even in the context of a massive outflow of skilled labour for work overseas (Tan, 1987).

However the informal process of skill formation may sometimes fail to meet the requirements of the industry for a variety of reasons. First, the quality of training is only as good as the skills of the craftsman who is doing the training and in some countries the trainers themselves have only limited skills (Fluitman, 1989). The system can also be found wanting if there is a demand for higher quality building or the introduction of new technologies requiring new skills. A third problem is the restriction of learning opportunities to certain groups:

Apprenticeship is often kept within the family, clan or tribe and when the skills are transferred to outsiders there may be some dilution, with not all of the skills being passed on (Pridemore, 2001). There may therefore sometimes be a need to inject additional skills into the system or to open it up to a wider section of society. Alternatives that have been tried to achieve these objectives are grading of the skills of those already in work or training of new entrants. The system of labour contracting can be seen as presenting a barrier to both alternatives.

A number of training schemes have been developed and implemented to upgrade the skills of those already in work, including schemes whereby the cost of such training is borne by the industry as a whole through the imposition of a training levy. But very often the opportunities are not taken up because the main contractors are no longer employers and the subcontractors who are the real employers of labour are excluded from the schemes. This is reported to have happened in Singapore where training opportunities abound, courses are specifically designed to suit the needs of existing construction workers and companies are given incentives to upgrade their workers (Debrah and Ofori, 1997). But under the *kepala* system workers are seldom sponsored for training as they have no attachment to a general contracting firm and a *kepala* cannot sponsor them. A similar problem has been noted in Kenya where funds accumulated for training cannot be spent because the subcontractors are not eligible to send workers for training and the main contractors have no workers to send (Mitullah and Wachira, 2003). The system of outsourcing labour is sometimes blamed for this dilemma. But a more rational response would be to argue that the scheme itself is inappropriate as it does not fit the reality on the ground.

It should not be too difficult to make adjustments to such schemes so that labour contractors who are the real employers of labour are fully involved and encouraged to sponsor workers for training. However labour contractors would have to see the benefits of training, which means that there must be a demand for enhanced skill coming from the main contractor and ultimately from the client (or directly from the client where there is no main contractor), and this must be backed up by their willingness to pay a premium for more highly skilled labour. Experience in Kenya (Haan, 2002) has shown that craftsmen are little interested in upgrading their skills unless this translates directly into an improvement in their income. Devising an appropriate method of delivering the training to workers so that they can carry on working in order to get paid is a further challenge, but not an intractable one.

Action research amongst construction workers in Dar es Salaam, Tanzania has been testing these ideas (Jason, 2005). It has shown that training can be delivered to workers who are supplying labour services on a very informal basis, who are supplying labour services on a very informal basis, some working for labour subcontractors but most delivering a service directly to clients. An initial specialised training course for 15 painters was followed by courses for 55 workers from different trades. The training enable the workers to upgrade their skills and pass a Grade Three trade test. However it is too early to tell whether the additional skill is being translated into higher incomes, although the fact that some have gone for a Grade Two test at their own expense would seem to suggest that this might be the case.

An alternative way of injecting new skills into the industry is to offer formal training to new entrants not yet in work. Here the problem lies not in the delivery of training but in integrating the recipients of such training into the workforce. Sometimes this is because the training is not appropriate. There is much evidence from around the world of training schemes which do not address the real needs of the industry and the subsequent leakage of trained workers to other sectors or to jobs overseas (ILO, 2001). But it is also clear that the system of labour contracting, with its dependence on social networks for recruitment, does throw up a considerable barrier to the integration into employment of outsiders, including formally trained recruits.

Detailed research in Egypt by Assaad (1993) points to very high attrition rates among graduates of a state sponsored formal training scheme for building workers. His interviews with experienced craftsmen indicate that graduates of these programmes find it difficult to gain acceptance by their peers who were trained in the informal apprenticeship system, because they lack both the breadth of experience of the

ks and attitudes that such training provides. While it is possible
y system which needs to become more transparent and open
so as to accommodate a wide range of entrants, Assaad (1993) attributes the failure of vocational training
in Egypt to the fact that its designers have attempted to build an entirely new "modern" system and
superimpose it on the existing system. In the words of the author, "If the existing system was deemed
inadequate to meet the demand for skilled workers and too inaccessible, an alternative policy could have
been to work on modifying it so as to make it more open and universally accessible, rather than seek to
replace it altogether" (Assaad, 1993, p. 936).

Other attempts to by-pass the existing labour system and create completely new institutions in the
construction labour market are reported from a number of countries. In Nepal, the government plans to
establish employment information centres and a data base of labourers at district level. However research
has shown that the "pick-up" points which have developed spontaneously in the major towns provide an
excellent market place where the exchange of labour and of labour contracts between contractors and
naikeas takes place. The need for additional government sponsored centres and whether they will be
patronised therefore is unclear (Jha, 2002). Pick-up points in fact exist in virtually all countries, and buyers
and sellers of labour have no difficulty getting in touch with each other. The labour market may appear
haphazard and dysfunctional but there is plenty of evidence that it works.

Perspective of the Workers

One of the issues of most concern to construction workers around the world is the insecurity of income
that comes from their temporary or casual status. Providing insurance against periods of unemployment due
to lack of work, sickness or old age is a key objective in many countries. While this objective may be difficult
to achieve in very low income countries, there are other developing countries where the economy is
growing, people are getting richer and social security schemes are in place for other groups of workers.
However these schemes generally assume permanent and direct employment with one employer.
Construction workers who have many different employers during the course of the year are often excluded.

There are a number of examples of attempts to devise special schemes for construction workers that
acknowledge their temporary status. The Government of Korea introduced a mutual aid scheme in 1996 to
provide construction workers with retirement benefits (Nam, 1997). Under this scheme the construction
worker holds a welfare card to which the employer attaches a stamp according to the number of days
worked and a benefit association later pays a retirement allowance to the worker on the basis of the
number of stamps. The scheme was introduced on a voluntary basis and it is not known how effective it has
been.

As long ago as 1992, the Egyptian Government devised a means of dealing with the social security
needs of casual construction workers with multiple employers (Assaad, 1993). Workers can receive benefits if
they pay a monthly contribution to the social security administration, while the employers contribution into
the fund is collected as a standard percentage of the gross value of a construction project, paid at the
points of applying for a building permit. However there was a problem with the scheme as the workers could
only claim benefits if they got the signature and tax file number of all the employers they worked for, or the
numbers of the social security files on the building permits. This information could rarely be obtained so few
workers were able to benefit.

India has been experimenting with construction labour welfare boards in a number of states under
which welfare benefits for all construction workers, regular and casual, are to be provided (ILO, 2001). The
workers make direct contributions into a fund according to days worked, while the employers share is
collected from a cess levied on all new building work (Nair, 2004). The scheme is in operation in Tamil Nadu
and Kerala and also in Delhi, but the intention is to introduce it in all states.

not been particularly successful, they do illustrate the direction in which the industry must move to update the needs of construction workers without requiring a fundamental change in the way in which they are recruited and employed.

In the least developed countries, where there is little economic growth and long periods out of work are the norm for the vast majority, unemployment benefits are beyond the wildest dreams of construction workers. However there are informal systems of mutual support which could be consolidated and built upon to provide at least a minimum of protection against periods of sickness. Certainly a minimum that construction workers should expect is insurance against incapacity to work due to accidents and injury to their health while they are at work.

In addition to a lack of income security, construction workers are clearly very vulnerable to abuse from employers. And this is true whether they are employed directly or through subcontractors. One of the most commonly voiced complaints is not being paid for the work they have done. Most countries have labour laws which should provide some degree of legal protection to the workers. But these also generally presume a stable employer-employee relationship and are not adapted to the reality of construction labour contracts. In fact formal employer-employee relationships are breaking down not only in construction but in many other economic sectors, as production systems become more fragmented and decentralised (Earnshaw et al., 2002). And this is happening in developed as well as developing countries. The stable employer-employee relationship once regarded as the norm in developed countries and the model to which the developing countries aspired, seems no longer to be appropriate.

In this situation labour laws are needed which lay down minimum standards of employment in terms of hours of work, time off, safety requirements, welfare provision and maybe also minimum wages. If such standards are accepted as appropriate for all workers, they could be monitored and enforced through the contract. Experimental work is now underway to assess how the basic rights of construction workers can be enhanced through the construction contract and the procurement system (Ladbury et al., 2003)

CONCLUSION AND ISSUES FOR RESEARCH

This study has examined labour contracting from the perspective of the contractor and the worker. It has shown that the advantages to the contractor from outsourcing labour are considerable. The practice enables the contractor to evade restrictive regulations on the hiring and firing of workers and maintain flexibility in the employment of labour. It allows him to lower his labour costs further by reducing the overheads associated with direct employment (including the employment of supervisory labour) and evading the cost of additional benefits payable to the workers under the labour regulations. Finally it simplifies the process of tendering and off-loads a large part of the risk.

More controversially, it has been argued that labour contracting can also offer some advantages to the workers, when compared with direct employment on a casual basis. The advantages include more regular work, the chance to acquire skills, the sense of belonging that comes from working as part of a group and some minimal degree of social protection. Although workers have no guarantee of permanent employment and no protection against periods of unemployment, sickness or provision for old age, for the majority of construction workers in the developing world these opportunities, that in more developed countries are associated with direct, permanent employment with the main contractor, have never existed anyway. The real comparison is between working on a regular basis for a labour contractor or finding work on your own in the casual labour market. The small number of studies that have allowed the workers to express their view confirm that the former is preferable. Further research is needed in this area.

From a development viewpoint, the opportunity to become a labour contractor can also foster the growth of entrepreneurship in situations where capital is hard to obtain and the possibility of becoming a

out of reach. Labour contractors work not only for general what has been called the "informal construction system." This method of organising construction projects, whereby the client provides materials and awards contracts for the supply of labour (cutting out the main contractor) has been growing fast and becoming the main method of procurement on the part of private clients in many countries (Wells, 2001; Wells and Wall, 2003). Arguments are now being raised in support of its extension to the public sector on the grounds that this would create additional opportunities for the employment and growth of local enterprises. Assessing the benefits to be gained from the direct engagement of labour contractors by public sector clients (which may be seen as a "half-way house" between private contracting and force account) is an issue that requires careful research and analysis. The situation will clearly differ widely from one country to another depending upon the level of development of the local industry and the capacity of public sector clients and their willingness to take on additional risk. Cross country comparisons are needed in this area.

Research is also required into various ways of combating some of the problems associated with labour contracting. From an industry perspective we have focused on problems in the area of training. Further research may be needed into the development of appropriate methods of both financing and delivering training that do not require a complete change to the system of labour deployment. But there must be a demand for training and a willingness to pay for it and this must ultimately come from the client. If the demand is there, it should not be too difficult to devise appropriate training schemes. Involving the labour contractors should be the starting point.

The problems facing the workers are more serious and more intractable. The practice of outsourcing labour denies them regularity of employment and is potentially exploitative. However, schemes designed to provide some degree of security to workers, as well as labour laws designed to protect workers against exploitation, invariably require a stable employer-employee relationship which is precisely what construction workers do not have. The attention of researchers needs to focus on new forms of protection and new ways of ensuring a degree of security to workers. Regulations that set out minimum standards for employment and require workers to be insured against accidents and ill health at work would be a step in the right direction. Compliance with the regulations could be monitored and enforced in the construction industry through the procurement system and the contract. The use of procurement to secure social objectives is an idea that is gaining momentum and offers some potential in this regard.

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