



International  
Labour  
Organization



# ► Small-scale contractor development in the construction sector

Employment-Intensive Investment Programme (EIIP)

## Why is action needed?

### Linking infrastructure development to employment creation through local contractors

The construction industry is an important source of employment in both developed and developing countries. It accounts for 7.6% of the total global employment equivalent to about 230 million people<sup>1</sup>. Construction typically contributes 5% to 9% to GDP in developing countries and provides backward and forward linkages to the rest of the economy.

The construction industry as a whole is largely made up of small firms. It provides entrepreneurial opportunities for many small businesses and plays an important role in the distribution of income. Due to the considerable variation in construction demand, contractors are at greater risk of changes in their working environment. Small contractors often experience difficulties in managing labour, materials, finance and equipment. They have limited capacity to influence the business environment, including the regulatory framework of the industry.

In the past, public infrastructure works were normally carried out by local government agencies using their own resources or by engaging large-scale contractors. Over time, government efforts on decentralisation have shifted the responsibilities for the execution of civil construction and maintenance works from public authority to the private sector. However, the use of large contractors was considered economically unviable for local-level small-scale construction works because applying heavy equipment increases the overall cost of work.

Local infrastructure works are in fact more effectively carried out through local contractors managed and

supervised by local authorities. The use of locally-based contractors are likely to be more labour intensive, which is an advantage, among others, as they have chosen to establish their operations and business where the infrastructure is located. Some other advantages include rapid and less costly mobilisation of services, engaging local labour, local procurement of materials and equipment, long-term working relationships with local clients, and having the reputation of protecting the interests of local communities.

Over the last 40 years, the ILO, through its Employment-Intensive Investment Programme (EIIP), has been instrumental in demonstrating that labour-based methods can be cost-efficient and produce quality results for a wide range of infrastructure development and related activities. Facilitating sustainable and resilient infrastructure development now forms an important element of the 2030 Agenda for Sustainable Development, with a specific goal (SDG 9). The ILO has been a key player in incorporating decent employment dimensions in infrastructure development with emphasis on enabling a construction environment for local small-scale contractors, sustainable procurement management, and governance for the inclusion of decent working conditions. The EIIP approach to infrastructure development makes optimal use of local resources (workforce, material, technology, among others) as a major input to perform the work.

## What is the ILO's approach?<sup>2</sup>

### Developing SMEs for the national construction industry

Small and medium-sized enterprises (SMEs) are major players in the construction industry. When SMEs in the construction industry (hereafter “small-scale contractors”) enter the market, they often face various difficulties competing with existing large-scale contractors. The challenges and difficulties that local contractors face have been quite similar across countries. Some of the challenges that small-scale contractors face are directly related to their own capacities and operations

in managing work (i.e. **endogenous** factors), while others are issues over which they have little control (i.e. **exogenous** factors) although they form an important aspect of the business environment.

Related to the endogenous factors, small-scale contractors often: (1) fail to estimate required costs correctly during a preparatory phase for a bidding process, as tender specifications are complex and difficult to understand for emerging contractors; and (2) when a contract is awarded, these small-scale contractors then have difficulties multi-tasking business management (e.g. financial and human resource management) and

<sup>1</sup> ILOSTAT employment distribution by economic activity (by sex) – ILO modelled estimate Nov 2019

<sup>2</sup> For more detailed information, please refer to “Developing the construction industry for employment-intensive infrastructure investments.”

construction site monitoring (e.g. technical supervision). To help overcome these difficulties, the ILO provides support to those contractors with limited experience for effective business management, such as effective budgeting, balance sheet preparation, and accounting. The ILO also helps introduce the most effective Local Resource-Based (LRB) approach, which optimizes the use of local labour and skills, as well as locally available materials, tools and equipment through local suppliers. This is seen in ILO development cooperation projects, throughout the project cycle - from the planning stage through to implementation and maintenance.

For issues related to the exogenous factors, such as government policies and procurement systems, developing countries often lack an effective legal and decentralised system or an environment that supports the rights and obligations of local contractors in the design and implementation of infrastructure

programmes and projects. As a result, contractual relations between the client, consultants and contractors are not regulated on an equitable basis. Therefore, the ILO works closely with government authorities and aligns itself with long-term national development and public investment plans, which often prioritize specific types of infrastructure that requires labour-based methods and/or preferential procurement measures to generate an enabling environment for local contractors.

As such, the ILO has contributed to building and improving the capacity of both the public and private sector involved in infrastructure development. The ILO has identified a number of strategies and actions to better involve small-scale contractors in labour-based works to develop the construction industry through the following 4 pillars:

<b>Pillar 1</b>	<b>Enabling environment</b> in which small-scale contractors can operate and deliver projects	<ul style="list-style-type: none"> <li>▶ Alignment with national development framework</li> <li>▶ Orienting public investment plan</li> <li>▶ Procurement system and good governance (including identification and registration)</li> <li>▶ Decentralization and community participation (including community contracting)</li> </ul>
<b>Pillar 2</b>	<b>Appropriate management of contracting</b> and administrative procedures	<ul style="list-style-type: none"> <li>▶ Defining scope of works that can be performed by contractors</li> <li>▶ Targeted procurement procedures</li> <li>▶ Payment systems and procedures</li> <li>▶ Technical specifications in bidding documents</li> </ul>
<b>Pillar 3</b>	<b>Building capacity</b> for labour-based methods of work	<ul style="list-style-type: none"> <li>▶ Human resources management and workforce development</li> <li>▶ Access to equipment</li> <li>▶ Access to credit</li> </ul>
<b>Pillar 4</b>	<b>Knowledge of and skills on labour practices</b> and social and environmental safeguards	<ul style="list-style-type: none"> <li>▶ Decent work practices</li> <li>▶ Occupational Safety and Health (OSH) in employment-intensive works</li> <li>▶ Safeguards in employment-intensive works</li> </ul>

## Pillar 1: Enabling environment and policy

### National development framework

The success of small-scale contractors depends on the availability of business opportunities, and their capability to make use of such opportunities. However, business opportunities for the local construction sector and its development are to a great extent determined by government policies and strategies. Governments

thus need to allocate sufficient resources that are concentrated in strategic sectors and programs, notably in employment-intensive investments, which in most cases relate to the construction industry. Such “selection and concentration” gives local contractors the maximum support. The national development plan includes more specified instruments such as public investment plan, national employment policy, SMEs development plan,



education system, and rural development and poverty reduction plan, among others. It is therefore essential for governments as well as development partners to ensure policy coherence with these nationally or locally identified priority areas to concentrate their efforts for maximum impact of intervention on employment creation and SMEs development.

## Public investment plan

The public investment plan set out by the government projects long-term investment trends, determining the size of future infrastructure programmes in different sectors and subsequently, the market prospects for local contractors. It also often indicates clear priorities for certain types of infrastructure which is often labour intensive. For instance, when the investment plan targets rural accessibility and connectivity, priority is given to rural roads programmes. Similarly, if agricultural development is identified as key for the country, labour-based irrigation infrastructure may be prioritized. These prioritized sectors and fields receive a large share of funding. Effective dissemination of such policy information at local level to relevant small-scale contractors enables them to prepare and position themselves in the market to orient their business plans towards specific labour-based investments and sectors and ensure the continuity of works.

## Procurement system and good governance

Contracts management system contains procedures allowing the *contracting agency* (often the public sector) to procure works and services from the *contractors* (the private sector) within a framework in which the obligations of both parties are clearly defined, making

it clear how to achieve the defined work outputs. The ILO encourages taking measures to build a sustainable procurement system and to improve public procurement policies and procedures, at both central and decentralized levels, in order to ensure full involvement of community-based organizations, encourage the LRB approach, and facilitate access of local businesses to employment-intensive works.

In developing contracting documents with local authorities, special requirements could be added to the documents in order to ensure decent working conditions and the LRB approach. The ILO helps mainstream the LRB approach with appropriate clauses on the recruitment of local workers (i.e. inclusive community participation), specific work conditions in line with the International Labour Standards, as well as timely payment arrangements, in addition to other relevant social and environmental safeguards.

## Contractor identification and registration

Enabling classification and selection of contractors is of utmost importance for opening the public infrastructure construction market to emerging and small-scale local contractors. National registration and classification systems are often not responsive to the specific requirements of labour-based work methods, thus excluding entrants of labour-based contractors, particularly SMEs. The ILO supports its partners to open up business opportunities for SMEs through the following steps:

- **Identify** the potential market for local infrastructure works, highlighting the industrial capacity gaps and required measures;

### ► Box 1. South Africa's Expanded Public Works Programme (EPWP) and Code of Good Practice

The ILO has long worked with the government of South Africa in support of its nation-wide "Expanded Public Works Programme (EPWP)". The Government has established the Code of Good Practice that was agreed by all stakeholders, including community members, under the programme. The Code of Good Practice includes conditions of work, wage, grievance redressal procedures and other disciplinary actions/ standards among the different sub-programmes with different layers of contractors. It also promotes a common set of good practices and

minimum standards in employment practices such as inclusion of women, youth, and those with disabilities.



- ▶ **Profile** small-scale contractors and their sustainability for local infrastructure works, and illustrate potential paths for local delivery capacity development;
- ▶ **Outline** transparent and fair contractor selection procedures; and
- ▶ **Introduce** contractor classification and registration systems.

Small-scale contractors are usually found in all parts of a country. With the global trend of decentralization, local small-scale contractors can be competitive in providing timely and cost-effective quality construction and maintenance works at the local level, when they are properly organized. However, existing certification criteria for national contractor registration are often based on human and financial resources, capital assets, and work experience which put small-scale contractors at a disadvantaged position. One way to overcome the challenge is to recognize the value of training and business development support (BDS) and certify contractors trained on LRB works in a special category. For this purpose, the ILO often works closely with national accreditation authorities.

## Decentralization and community participation

Using appropriate delivery systems or contracting arrangements for local infrastructure works is essential, particularly in the context of **decentralization**. The shift of government functions and resources to local levels often creates particular opportunities and challenges (see Table 1). The decentralization processes in many countries are crucial for the creation of decent work opportunities for young people as well as for offering business opportunities to local contractors through increased participation in the construction and maintenance works of public funded infrastructure in rural and peri-urban areas.

One approach for local delivery is through **community contracting** in which a community manages and executes a project<sup>3</sup>. Community contracting requires strong technical and management support combined with tailor-made training and mentorship throughout the entire project. In contrast to conventional contracting, through this modality, both local authorities and contractors retain experience and skills related to managing infrastructure works. Furthermore, as community contracting ensures inclusive participation of the community, a strong sense of ownership is created, providing maximum benefits for the local communities.

Opportunities	Challenges
Increased community participation in the planning, implementation and supervision of works	Distinguishing devolution with decentralization
Funds allocated to locally identified needs	Lack of capacity within local authorities to take over responsibility and to implement
Beneficiary involvement in monitoring the work	Political involvement and power struggles
Improved transparency and accountability	Restricted resource allocation and distribution
Increased utilization of locally available resources, including local technical and management capacities	Reluctance of central government departments to reform and devolve functions

## Pillar 2: Administrative procedures and contractual documents for the implementation of employment-intensive works

### Defining appropriate scope of works

Packaging works into appropriate size contracts can increase the participation of local contractors. Thus improved access to work in turn develops their capital

base and facilitates their growth. The small-scale and low-risk nature of the work should normally allow easing of bond/guarantee/security conditions of the contract. Contracts can be arranged according to the types of works, as well as appropriate volumes of work that

<sup>3</sup> Refer to “EIIP Policy Brief on Community and Local Resource-Based (LRB) Approach” for more details and examples.

corresponds to the technical and financial capacity of local contractors. There are several ways to package works into manageable size contracts suitable for the development of small-scale contractors. Possible arrangement can be: 1) one contract where a main contractor manages all works and subcontracts specialized works; or 2) separate contracts issued by the contracting agency to smaller or specialized contractors to avoid subcontracting and to retain direct supervision. The principal requirements for suitable contract types are those that deliver intended outputs most efficiently, enable contractors to develop their business, and allow for efficient management of the works by all parties in the contract.

### Targeted procurement procedures

Targeted procurement is a competitive system that rewards tenderers who meet or exceed certain specified socio-economic criteria in the tender. A targeted procurement system awards points to those that make the optimum economic use of one or more elements, such as local labour, targeted groups of workers (i.e. vulnerable or marginalized groups), local resources including local artisans and local materials, as well as certain categories of small contractors.

The procurement process should secure open and effective competition, quality outputs, value for money, accountability, and equal opportunities and inclusiveness for workers. Particular attention should be given during procurement procedures to equality to develop local contractors, as well as to promote the participation of women, youth and people with disabilities in the construction works, creating new employment opportunities in local infrastructure construction works. For this purpose, the procurement process requires close consultations with contractors and engineers and contracting arrangements should take into consideration the participation of community groups and their characteristics (e.g. gender, vulnerability, etc.), as well as their capacity to deliver the specified tasks.

### Payment systems and procedures

Wage rates for workers should be set through social dialogue and negotiations, respecting the national minimum wage legislation and social agreements reached. These wages should be paid to the workers at predetermined intervals without delay. Payment delays from contracting agencies incur serious damage for small-scale contractors, as they depend on a healthy cash flow in order to pay the workforce on a timely basis, and at the same time pay off bank loans. Adequate cash flow must be secured through timely and regular disbursement and payment procedures. For this purpose, frequent, decentralised and timely payment certificates should be issued to ensure a steady cash flow for contractors. The

approval of work outputs should be based on a milestone for the specified activities and no other justification should be required before effecting payments. It is key, therefore, to clearly regulate how works should be measured in order for the payments to be effected.

### Technical specifications in the bidding procedures and implementation

There is a need to be very specific about how locally available human and material resources can be used and incorporated in the work design in order to allow the use of labour-based methods. A range of initiatives has been experimented on by the ILO towards “neutral specifications” and tender procedures. These include: 1) considering alternative and effective construction methods at the design stage; 2) making construction specifications suitable for different work methods (e.g. labour-based methods); and 3) developing tender documentation specifically to cover alternative tenders.

Technical specifications and required administrative documents should be applied in the way that allows and encourages the use of labour-based methods by local small-scale contractors and communities. Simplified bidding methods, including the treatment of bonds and guaranties, have proven to be an effective approach for emerging entrepreneurs in the initial stages. It should be noted however that task rates for labour-based construction and maintenance works should be developed in a way that reflects decent working conditions as well as productivity rates of workers using different types of light equipment. Once fully trained, the emerging contractors can gradually be exposed to competitive bidding in an open market.

Several contract documents have been developed by the ILO and these have proven to be effective for allowing local contractors to excel. Examples of the contract documents include: 1) unit price contracts based on bills of quantities for projected work items for which contractors quote their unit rates; 2) lump-sum contracts based on a fixed price for works or services with a clear scope and a defined schedule; 3) performance-based contracts based on the condition of a minimum of infrastructure maintenance over a specified period of time; 4) petty contracts based on employment of labour-only community groups who are not registered as a business entity and who are without necessary skills; 5) subcontracts based on small-scale contractors engaged in carrying out part of the works on behalf of principal contractors; and 6) community contracts based on the engagement of community groups, with common interests, to plan and implement specific works. Crucial in these contracts is specific requirements to secure the use of the LRB approach.

## Pillar 3: Capacity building for labour-based methods of work

### Workforce Development

**Effective management of human resources** is a challenge for local contractors. Sufficiently qualified personnel for local infrastructure works ensures a sound business flow. However, in many countries, local contractors and contracting agencies find it difficult to

identify suitable personnel for technical, managerial and support works, although the performance at construction sites depends to a large extent on their skills. Training programmes therefore offer a wide range of construction competencies thereby diversifying local employment opportunities.

### Technical knowledge and skills development

Effective vocational and professional education is a major development factor for striving contractors. Vocational training is often under-funded, as a result

#### ► Box 2. Chantier école model in Mauritania for workforce development

The Government of Mauritania, with ILO's technical support, has developed the "chantier école" model of capacity building, which combines in-class theoretical trainings and on-site practical trainings. The chantier école was developed in collaboration with the higher training authorities (Ministère et Direction de la Formation Professionnelle) and accredited through the national certification system, thereby increasing the network of nationally qualified professionals and enhancing their employment prospects. Chantier école helps develop the capacity of national contractors as well as young male and female workers who work with these contractors. Participants are granted a national diploma of competencies after the projects ends, making it easier for contractors to identify professionally qualified people to implement technical construction works. The certification module also enhances the employability and capacity of the participants to find new employment or even to launch a new enterprise or cooperative.



#### ► Box 3. Labour-based training center in Madagascar

The ILO has supported the establishment of similar labour-based training institutions in 13 countries, including Botswana, Cameroon, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Mali, Tanzania, Togo, Tunisia, Uganda, and Zambia. The ILO's support for these centres consisted of preparation for curriculum development as well as quality control.

The ILO has for many years supported the Government of Madagascar, for instance, in applying the LRB approach in their infrastructure investment planning. As part of the support, a labour-based training centre was established in 2000 to enhance the capacity of both public and private sectors through classroom and on-site training modules. A wide range of professionals have been trained, including Ministries, local engineers from municipalities, managers and engineers of local contractors, local communities, and NGOs.





of which most local contractors conduct their business without sufficient access to training. The lack of access to training significantly affects the quality of works, costs and sustainability, increasing maintenance needs. In order to ensure sustainability in delivering quality training services, the ILO works with national training institutions to transfer technical knowledge and promote labour-based work methods and the optimal use of local resources. Trainers at these centres are usually from the areas where there are local infrastructure works and therefore are well informed of existing conditions in which local construction works are to be conducted.

Building the technical and administrative capacity of the contracting agency (e.g. public institutions such as sectoral ministries and local bodies) is also essential to fulfil their contract management responsibilities. These public entities should be familiar with labour-based technologies, tendering procedures, including transparent awarding of contracts, certification of works, timely payment methods, and other contract administration necessities.

**Labour-Based Training Centres** exists in many countries in order to train all the relevant stakeholders involved in the design and implementation of employment-intensive works (see Box 3). Specific arrangements are often made to levy fees from beneficiary contractors, or for the contractors to finance the participation of their employees in the training.

## Access to equipment

**Access to appropriate equipment** is one of the first major challenges for emerging local contractors due to the limitation of capital assets. The employment-intensive approach means less dependency on expensive and imported heavy equipment. Light equipment is more suitable for this type of works, requiring only modest

capital investments and do not pose as big a challenge as heavy equipment to small contractors.

The optimal balance of well-maintained high quality equipment and labour is an important management issue for employment-intensive works. High quality hand tools for the works can however be difficult to obtain in local markets, and many countries have limited capacity to produce quality hand tools. Since labour is the main means of production in LRB works, good quality hand tools and their designs play a significant role on the productivity of workers. Investing in equipment however poses a major challenge for small-scale contractors that requires a key management decision, as the decision is based on their anticipation for future work prospects as well as financial capacity. To help overcome these challenges, discussions on the choice and comparative costing of equipment should be introduced during training sessions for contractors. Having the discussion enables the contractors to estimate true costs of equipment and realistically compare available technology options within their budget limit.

## Access to credit

**Funding** for the training and capacity building opportunities is a key issue for many contractors. Training opportunities are provided often through projects, although capacity needs go a lot beyond the project life-cycle. Training is more effective and sustainable when coordinated into one coherent programme. From this viewpoint, governments need to envisage long-term financial support and other support arrangements to promote the capacity of the construction industry. The ILO continues to work with such government initiatives to systematically provide training opportunities for contractors.

## Pillar 4: Labour Policy and practices

A productive workforce in a safe environment is key to infrastructure works applying the LRB approach. It is also the contractors responsibility to ensure workers' rights and obligations. Furthermore, contractors are becoming more and more accountable for the effects of their activities on society and the environment.

### Decent Work

The **ILO's Decent Work Agenda**, which is closely linked to SDG 8, should be implemented to protect the working conditions of all workers in a safe environment, preventing disputes between contractors and workers. International Labour Standards always apply to EIIP works, including the Fundamental Conventions such as

the right to collective bargaining, abolition of forced and child labour, as well as equal remuneration for women and men, and no discrimination at work.

The EIIP approach therefore ensures that construction works carried out through the LRB approach are productive and workers are offered sufficient income to improve their livelihoods with the internationally agreed working conditions. With the ILO being the only tripartite UN agency, the EIIP approach also facilitates social dialogue among workers, employers and governments. Well-established contractor associations, for instance, often share effective business and contracts management support and advice, as well as economic and political information.



## Occupational safety and health in employment-intensive works

The construction industry is considered to have some of the most hazardous jobs with a high frequency of occupational accidents. For this reason, the ILO applies appropriate **Occupational Safety and Health (OSH)** measures in specific local contexts, including the provision of safety gears and quality tools as well as access to water, food, sanitary and medical facilities, along with other managerial measures including appropriate labour inspection and supervision. The ILO organizes OSH training for social partners at the onset of construction works not only to prevent any occupational hazard, but also to raise awareness among social partners.

## Safeguards

Infrastructure works can address critical development issues through **social and environmental safeguards**, while creating employment opportunities. Social safeguards pertain to universal values and compliance with the International Labour Standards by all the involved stakeholders. Assessing and establishing appropriate social and environmental safeguards with clear reporting requirements mitigate the risks not only during the lifecycle of construction works but also throughout country efforts to attain sustainable outcomes.



## Recommendations

### ► Create an enabling environment for small-scale local contractors so they can deliver local infrastructure construction works

With the current trend of decentralization, local contractors have many advantages to engage in local infrastructure works, including cost-efficiency with the use of local resources and enhanced community participation. However, these contractors face various challenges competing with large-scale contractors as they enter the market. For the difficulties that they face within their control, governments and development partners can provide managerial and technical skills development opportunities. For the issues outside the control of local contractors, governments need to reflect on long-term national development strategies to develop emerging contractors, one way being targeted procurement for small-scale contractors.

### ► Introduce an appropriate system for fair and open contracts management and selection procedures, and certify contractors trained on local resource-based works

Widespread corruption in the construction sector is hindering the growth of the industry, and preventing the entry of local contractors. Transparent registration and selection systems are of utmost importance to combat fraudulent activities and ensure productivity. When reviewing the system, it is recommendable to recognize the importance of training and business development support, and officially certify these contractors who undertook the training. This process requires consultations with national accreditation authorities.

### ► Develop an effective vocational and professional education mechanism to enhance the quality of works, costs and sustainability

The capacity of contractors as well as public bodies, local institutions and communities is key for quality works. Capacity building should be conducted through a series of skills training that is aligned with the national procurement and education systems in the way that meets the labour market demands. Training and business development opportunities for local contractors need to be considered as a long-term commitment and not an ad-hoc intervention. Systematizing the training system and its funding mechanism is key to achieving sustainable outcomes. One way to achieve this is to review existing training institutions and/or to develop labour-based training centres which serve as a strong driver for the optimal use of local resources and appropriate technologies.

### ► Ensure that infrastructure constructions works are also addressing other cross-cutting development issues through social and environmental safeguards

Ensuring decent work conditions and adhering to the International Labour Standards need to be at the forefront of private and public sector development. Leveraging infrastructure construction works (with its multi-disciplinary nature) with sufficient social and environmental safeguards is key to ensuring the spillover effects that unfold from such investments.

## ► Employment Intensive Investment Programme (EIIP)

- Employment impact assessments
- Public employment programmes (PEPs)
- Public and Private Sector Development
- Green works
- Local resource-based approaches and community infrastructure
- Emergency employment

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