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Foreign-Local Interactions, Working Conditions, and National Policy in the Ghanaian Construction Industry

A Case Study

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Abstract

This research presents a case study investigation of the construction sector in Ghana, and links the debate on foreign direct investment (FDI) dependency to that on FDI and working conditions. To this aim, the study combines the points of view of policy-makers with those of managers and workers of both foreign and domestic construction companies. The results, firstly, highlight the role that exposure to international business models plays in the industrial upgrading of local Ghanaian contractors. Secondly, they shed light on wage formation dynamics and on workers' definition of satisfactory employment conditions. Thirdly, they show that an integrated policy reform approach is needed to address the interdependency of the latter two findings. Finally, the study discusses some options to deal with the public financial constraints that prevent the implementation of administrative and policy reforms in the sector.

Keywords: Industrial development, construction sector, working conditions, FDI, Ghana.

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1. Introduction

This article aims to contribute to the discussion on industrial development and FDI presence in sub-Saharan Africa (SSA), by presenting a case study of the Ghanaian construction sector. The research brings together two related debates: the debate surrounding the impact of FDI on domestic industrial policy and the debate concerned with the impact of FDI on local working conditions. While, typically, these two dimensions are addressed separately; we present evidence suggesting that they feed into each other to create a vicious circle. We rely on these findings to argue that an integrated industrial policy approach is needed.

More specifically, the empirical evidence on the impact of collaboration/competition interactions between foreign and local firms in low income countries is divided. It has been suggested that this may be linked to varying degrees of exposure to foreign presence (Aitken et al., 1999; Obwona, 2004; and see de Mello, 1997, for a review). Our analysis contributes to this debate with case study evidence from Ghana, which shows that production capabilities, competitiveness, and working conditions in local firms improve with gradually increasing degrees of exposure to international business models.

Furthermore, the study discusses the debate on FDI and working conditions by comparing foreign and domestic contractors. The research explores wage formation dynamics and unpacks the definition of satisfactory working conditions with arguments put forward by workers' own narratives. The evidence will show that the debate on working conditions is closely linked to that on domestic capability upgrading and exposure to international business models.

Finally, the structuralist industrial policy literature has emphasised the role of capability building in overcoming exclusive reliance on foreign investors (Amsden, 1989; Lall and Wangwe, 1998; Lin and Chang, 2009). In Ghana, the existence of a domestic contractors' base has the potential to avoid uneven development; as, often, only local contractors are willing to undertake relatively unattractive infrastructural projects such as the construction of schools or health facilities in rural areas (Kirmani, 1988; Miles and Ward, 1991; Eyiah and Cook, 2003). The study highlights the importance of public financial constraints as an obstacle to implementing administrative and support policy reforms in the sector; and it explores options related to the reallocation of external funding sources to deal with such issue.

From the methodological point of view, our case study approach relies on in-depth interviews collected among foreign and local actors in the Ghanaian construction sector. As explained in Silverman (2000), this approach is used to reveal the how and why of phenomena. And in our case, it will allow us to uncover competitiveness challenges as described by managers, redefine the notion of satisfactory working conditions based on workers' own narratives, and reveal policy constraints to the development of the sector as identified by local policy-makers. Furthermore, as most of the available empirical evidence concentrates in Latin-America and Asia, our study provides evidence on institutional, production, and employment dynamics from the under-represented SSA region.

The rest of the study is structured as follows: section two provides a theoretical background that further develops the debates introduced so far. Sections three and four outline some theoretical perspectives on the contribution of the construction sector to industrial development, and present

specific details regarding the construction sector in Ghana. Section five describes the research methodology, alongside the data and sample specifications; section six outlines the findings; while sections seven and eight discuss some policy implications and conclude.

2. Theoretical Background

2.1 FDI and domestic investment

The debate surrounding the impact of foreign investment inflows on domestic investment in SSA has traditionally been divided between the “modernisation theory” type of arguments and the “dependency theory” type. The first relies on neoclassical and endogenous growth theories’ attribution to FDI of a potential to foster economic development through capital accumulation, efficiency spillovers, and transfer of technological knowledge (see Adams, 2009 for a review). To the contrary, the second maintains that the contribution of FDI to local development is more controversial, owing to a number of factors. Firstly, it is argued that, due to the nature of foreign companies, the internal multiplier effect generated by foreign investment is limited (Anim, 1974). In addition, the structuralist industrial policy literature emphasises the importance of capability building and linkage formation as key in overcoming exclusive reliance on foreign investors (Amsden, 1989; Gereffi, 1995; Lall and Wangwe, 1998; Morris, 2001; Kaplinski et al., 2003, and Lin and Chang, 2009).

Empirical evidence on SSA is scant and often contradictory. Ndikumana and Verick (2008) posit that the contribution of foreign investment presence to the domestic production sector in SSA countries could be much bigger if there were more synergies between foreign and domestic investment actors. But Adams (2009) finds that, in practice, a net crowding out effect of FDI on domestic investment prevails in the region, due to the negative consequences of competition. On this point, specifically, Pack (1993) argues that competitive pressure can only lead to improved efficiency of local SSA firms if accompanied by learning by doing both at the productive and managerial level.

The more general evidence on other low income countries is also divided. Some of the studies on Eastern Europe, Latin-America, and East Asia find positive spillovers generated by foreign investors’ presence (e.g. Blomstrom, 1986; Kokko, 1994; Blomstrom and Sjöholm, 1999). Others, instead, find none due to lacking forward and backward linkages (Aitken et.al. 1997); or they find that positive spillovers are limited to the cases where joint-ventures between foreign and domestic firms are formed (Aitken et al., 1999). Regarding competition, some studies find that Multinational Enterprises (MNEs) crowd out domestic investment by forcing less productive firms out of the market (Cobham, 2001; Konings, 2001; Smarzynska, 2002); while others find that crowding in prevails (Cotton and Ramachandran, 2001).

Host countries’ capacity to absorb foreign technology and the degree of exposure to foreign presence have been used to explain such variety of empirical evidence (Obwona, 2004; and de Mello, 1997 for a review). This case study will back-up such argument with evidence that increasing exposure to international business models acts as a proxy for increasing absorptive capacity and best practice adoption, in Ghanaian constructions firms.

2.2 FDI and working conditions

The second debate surrounding FDI presence and working conditions in low income countries consistently attracts the attention of media and international anti-sweatshop campaigns (see for example Ikenson, 2012; Hobbes, 2015; Sandler Clarke, 2015). It is, instead, a much less heated debate in the academic literature, which almost universally finds that MNEs pay higher wages than domestic companies (see for example Aitken et al., 1996 for Mexico and Venezuela; Lipsey and Sjöholm, 2004, Te Velde and Morrissey, 2004, and Tomohara and Takii, 2011, for Indonesia; OECD, 2008 for Brazil and Indonesia; and Lipsey, 2004, for a review).

In general, there is a tendency in the literature to recognise that corporate social responsibility, home country regulations, and a need to retain brand image and reputation push MNEs to offer better working conditions (Richard et al., 2001; Sethi, 2003). It is also argued that MNEs often locate in high-tech sectors with high productivity, where wages are typically higher; that MNEs offer higher wages to discourage workers' mobility and avoid technology spillovers; and that MNEs offer higher wages are to compensate for lower worker monitoring ability in foreign countries (Bellak, 2004; Fosfuri et al., 2001; Feliciano and Lipsey, 1999).

Other studies focus more specifically on the "race to the bottom" hypothesis, with partially contradictory results. Some find no correlation between FDI and lower labour standards (see Rodrik, 1996; Kucera, 2002; OECD, 2004; or Bhagwati, 2007, and Brown et al., 2013 for a review). Whereas others find evidence that MNEs are attracted to countries with lower labour standards and that host countries undercut each other's labour standards to attract FDI (Olney, 2010; Davies and Vadlamannati, 2013).

3. The Construction Sector

Industries such as electronics, automotives, or chemicals tend to attract much of the attention in the study of FDI due to their perceived upgrading potential (see Moran, 2005). The construction sector, however, plays an equally crucial role in industrial upgrading and overall national development of low income countries. Construction sector's investment is, in fact, responsible for a high multiplier effect, thanks to extensive opportunities for backward and forward linkages with other sectors of the economy (Riedel and Schultz, 1978; Park, 1989; Ofori, 1990). It also has the capacity to boost the productivity of other economic sectors. This is due, on the one hand, to the creation of infrastructure, and, on the other, to its housing investment component which responds to demographic and urbanisation pressures (Hillebrandt, 2000; Anaman and Osei-Amponsah, 2007; Giang and Sui Pheng, 2011; Ofori, 2012; Osei, 2013).

In addition, the construction sector has high employment generation potential, especially among the unskilled. Furthermore, because a large part of the investment in construction is public, the sector can act as a regulation mechanism for the rest of the economy. In other words, governments can vary their level of spending depending on economic phase and desired targets (Hillebrandt, 2000). Construction activities tend to be highest during countries' early stages of development, when most of the basic infrastructural needs are to be met. Consequently, in low-income countries,

insufficient capacity of the construction sector will act as a limiting constraint on both investment and growth (Edmonds and Miles, 1984; Wells, 1986).

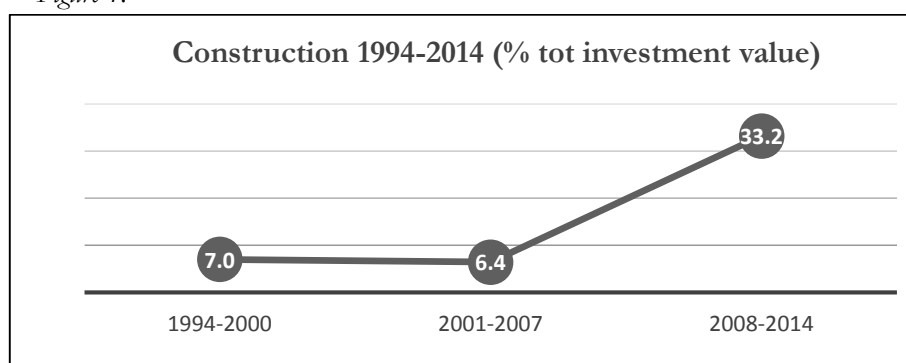
This is the essence of the Ghanaian housing crisis that has been ongoing for over 15 years. At an estimated 3% urban growth rate between 2000 and 2030, Ghana's national housing deficit is predicted to increase even beyond the current level (NDPC, 2014). Such deficit is, however, disproportionately concentrated in the low-income housing sector, which is a much less profitable and attractive investment. As a result, the deficit is already being compounded in the expansion of vast slum areas, especially in the capital, Accra (MWRWH, 2015).

Eyiah and Cook (2003) show that lacking financial access and inadequate policies to facilitate it represent the main constraints to the development of the Ghanaian construction sector. A study by Osabutey et al. (2014) also points towards the inadequacy of the existing policy frameworks and the lack of foreign-local technological transfer and collaboration. Such type of evidence is mirrored in studies on the construction sectors of Asian economies (Raftery et al., 1998). In addition, a theme emerging as common across sub-Saharan Africa is the inability of domestic contractors to compete with foreign firms (see Aibinu and Odeyinka, 2006, for the case of Nigeria; Debrah and Ofori, 2006, for the case of Tanzania; Corkin, 2012, for the case of Angola).

4. The Ghanaian construction sector in context

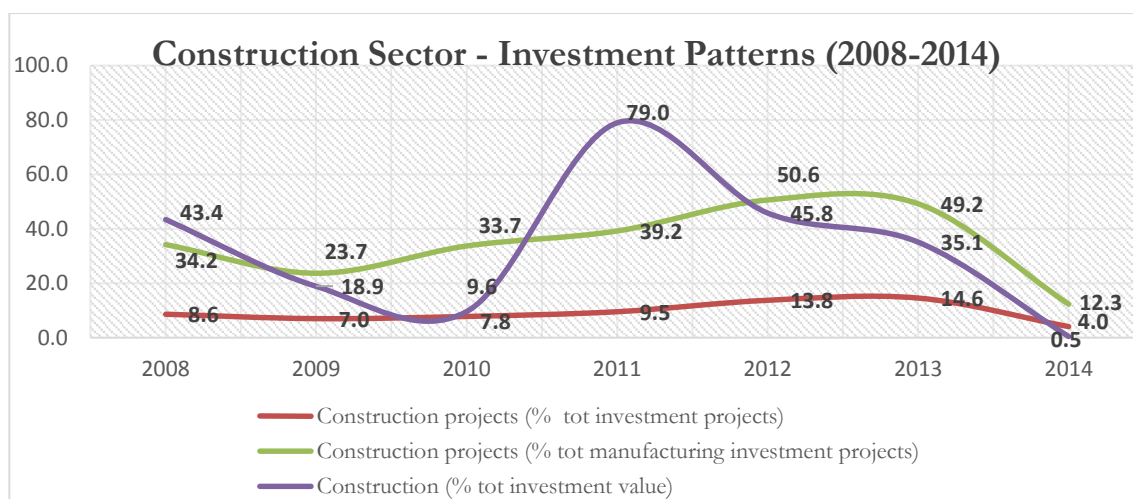
The importance of the construction sector's contribution to the Ghanaian economy has visibly increased in the last decade. Osei (2013) reports that the GDP share of the construction sector went from 7.6% in 1994 to 9.9% in 2011; while its output as a share of total industrial output grew from 30% to 35.9% during the same period. Data from the Ghana Investment Promotion Centre (GIPC) shows that, on average, the construction sector's investment made up to 6-7% of the total national investment value between 1994 and 2007, and jumped to an average of 33% in the 2008-2014 period (Figure 1).

Figure 1.



Source: Ghana Investment Promotion Centre

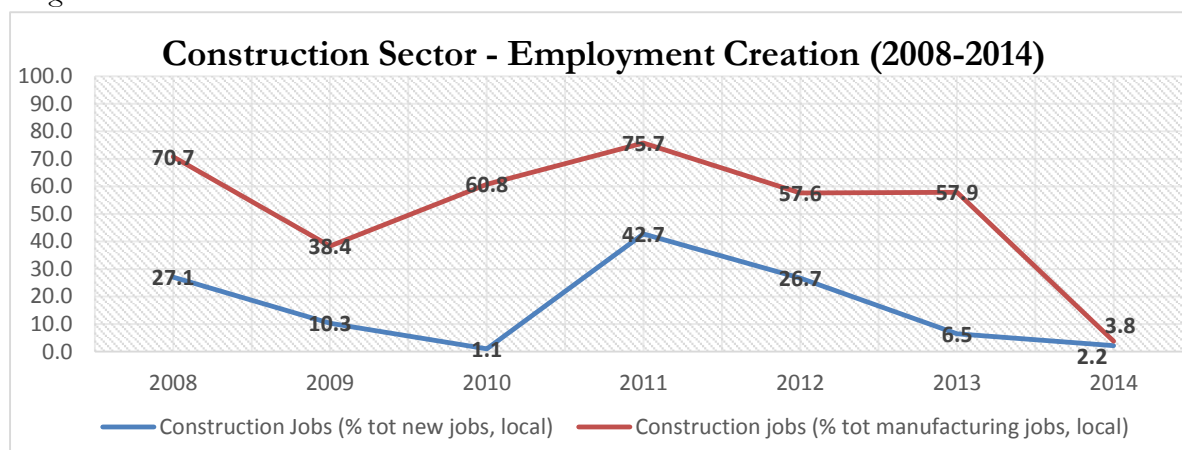
Figure 2.



Construction Sector – Investment Patterns (2008- 2014)	2008	2009	2010	2011	2012	2013	2014
Construction projects (% tot investment projects)	8.6	7.0	7.8	9.5	13.8	14.6	4.0
Construction projects (% tot manufacturing projects)	34.2	23.7	33.7	39.2	50.6	49.2	12.3
Construction (% tot investment value)	43.4	18.9	9.6	79.0	45.8	35.1	0.5

Source: Ghana Investment Promotion Centre

Figure 3.



	2008	2009	2010	2011	2012	2013	2014
Construction Jobs (% tot new jobs, local)	27.1	10.3	1.1	42.7	26.7	6.5	2.2
Construction jobs (% tot manufacturing jobs, local)	70.7	38.4	60.8	75.7	57.6	57.9	3.8

Source: Ghana Investment Promotion Centre

Figure 2 tracks some of the components of such overall performance over the 2008-2014 period. Values fluctuate both for the construction share of total investment and for the share of new construction projects as a fraction of all manufacturing projects. The first series shows a peak of 71% in 2011, while 50% of all manufacturing projects initiated in the construction sector between 2012 and 2013. The share of construction projects as a fraction of overall investment projects in the country fluctuates less and grew from 8.6% in 2008 to 14.6% in 2013.

Figure 3 plots the employment generation contribution of the construction sector in Ghana, between 2008 and 2014. Again, this fluctuates, sometimes considerably, depending on whether a new construction project started in any given year. The graph shows that, in 2011, 43% new

employment was created by the construction sector alone. In addition, between 2008 and 2013, the construction sector accounted for an average share of 60% new employment created in the manufacturing sector as a whole. The sharp 2014 drops in both figures could partially reflect the overall worsening of economic conditions, which followed the 2013's change of government.

Alongside this progress, however, Osei (2013) argues that lack of health and safety policy enforcement persists in the domestic sector; together with poor technical capacity, material quality, and timeliness. As anticipated, other studies identified the main constraint in financial access, in the form of credit shortages or high interest rates (Eyiah and Cook, 2003; Laryea, 2010). This paves the way to foreign contractors' competition, which displays higher levels of technical knowledge, uses better quality materials, and relies on foreign funding sources.

Assibey-Mensah (2009) explains that these patterns emerged already with the International Monetary Fund's Economic Recovery Program (ERP) in the 1980s, and the following World Bank's Road Rehabilitation and Maintenance Project (RRMP). Many of the companies involved in the RRMP were in fact foreign, because Ghanaian companies were rarely able to compete due to lack of capacity. In addition, they were often also found to engage in rent-seeking behaviour, by obtaining payment advances from the government, while not making efforts to complete projects. This led the government to priorities more and more bids from foreign contractors. We will show that such trend continues today, and leads to the creation of a dual-speed sector characterised by the existence of a competitive core of foreign companies and a lagging domestic contractor base.

5. Research methodology

5.1 Theoretical Framework and Data

The study relies on a case study design and on two types of data. One is in-depth interviews with workers and managers of four construction firms, and with institutional actors; the other is secondary macroeconomic statistics on national funding sources. The first was collected between March and June 2015 through individual interviews, for managers and policy-makers, and through interviews and focus groups of 3 to 5 participants, for workers. The second were obtained in part from the OECD's Official Development Assistance (ODA) database, and in part after the interviews with institutional actors. In particular, these interviews gave us access to detailed industry-level FDI statistics of the GIPC, which are otherwise not publicly available.

The use of semi-structured interviews and open questions allowed us to identify additional analytical categories in respondents' narratives, which were used to update the initial theoretical framework. Interviews were carried on until data saturation was achieved. Finally, to triangulate the information, some of the managers and policy-makers were re-interviewed at the end of fieldwork to clarify issues that emerged during the interviews with the workers. In addition, for each topic, we asked the same questions to at least two of the three categories of respondents.

Results are first presented by pooling interviews across the three categories of respondents. Subsequently, they are broken down by company, so as to identify the impact of progressively higher degrees of exposure to international business models.

5.2 Selection of Companies

Companies were selected from an official list provided by the Ghana Chamber of Commerce, following a purposive sampling framework. There are two types of contractors in Ghana: road contractors who operate with a licence from the Ministry of Roads and Highways; and building and civil contractors, who operate with a licence from the Ministry of Water Resources, Works, and Housing (Eyiah and Cook, 2003; Laryea, 2010). Only companies in the latter category were considered, because the involvement of local companies in bigger infrastructural projects is limited. In addition, only the Greater Accra region was considered, as head offices of MNEs and big Ghanaian-owned contractors are most often based in the capital or its surroundings.

The four firms in the sample were chosen to represent progressively higher degrees of exposure to international business models and practices, with the highest degree being a Southern European MNE and the lowest a small Ghanaian firm which mostly relied on public contracts. The other two companies were a fast developing middle-sized domestic contractors operating in the private luxury real estate sector, and a Ghanaian owned company that used to be a European MNE affiliate up to two years prior to interview.

5.3 Selection of Individual Respondents

We conducted a total of 54 interviews across the four firms, categorised as in Tables 1 and 2. For the selection of managers, we used purposeful sampling techniques and interviewed two to four managers in each firm. Specifically, we aimed to always interview the Human Resource (HR) manager for questions regarding working conditions; and we interviewed at least one project manager in each firm. Unfortunately, one of the four companies did not allow us to interview the HR manager, who, after initial consent, also denied authorisation to speak to workers.

Table 1. Sample composition - pooled

Managers (Project and Site Managers; HR Managers)	11
Construction Workers	36
Officers from regulatory bodies and institutions, Policy-Makers	7

Table 2. Sample composition - breakdown

Small Ghanaian Contractor	
<i>Managers</i>	3
<i>Workers</i>	12
Medium Ghanaian Contractor	
<i>Managers</i>	2
Large Ghanaian Contractor (ex-Multinational)	
<i>Managers</i>	2
<i>Workers</i>	15
Multinational Enterprise	

<i>Managers</i>	4
<i>Workers</i>	15
Institutions (Advisors, Officers, Policy-makers)	
<i>Ministry of Water Resources, Works, and Housing</i>	2
<i>Ministry of Trade</i>	1
<i>National Development Planning Commission</i>	3
<i>Ghana Investment Promotion Centre</i>	1

Workers in the three firms that allowed access to their project construction sites were selected using a combination of snowballing techniques and purposive sampling. The incorporation of purposive sampling ensured a balance in terms of skill level, role, and work experience. Thus we interviewed masons as well as more specialised construction workers, such as engineers; and labourers who had been working for just two months as well as others who had a seniority of over 20 years. Once in the project construction sites, we relied on the indication of project site supervisors, team leaders, and other construction workers, to identify different roles and positions. As shown in Tables 1 and 2, we interviewed between 12 and 15 workers in each firm.

Institutional respondents were also purposively sampled within the relevant regulatory institutions. These included the Ministry of Water Resources, Works, and Housing (MWRWH), responsible for the infrastructural development of public buildings, housing, and hydrology; the Ministry of Trade (MOT), responsible for trade and industry promotion; the National Development Planning Commission (NDPC), responsible for reform proposals and the coordination of development programmes; and GIPC, responsible for promoting foreign and domestic investment, and disseminating information about partnerships, and joint-venture opportunities. In all institutions, we interviewed public officers, policy-makers, and advisors.

The questionnaire for managers was divided in three sections: the first described firm's activities and characteristics; the second compared activities in foreign and local companies, and gathered information on their collaboration/competition interactions; the fourth collected information on employment conditions in the firm. The questionnaire for workers only covered the employment conditions section. Finally, the questionnaire for policy-makers covered all sections contained in the managers questionnaire, but added questions on policy-making priorities and constraints, as well as on future directions and plans for the development of the sector.

6. Results

6.1 Competition and Collaboration Patterns

From the interviews with managers, it emerged that local and foreign companies hardly ever compete with each other in tendering. All managers agreed, in fact, that domestic contractors do not have enough capacity to carry out the type of projects for which multinationals compete. This may be taken as evidence that foreign and domestic companies do not compete in the same market, hence the potential to harm each other's business is low. However, in reality, competition happens

prior to tendering and its effect is one of radically excluding domestic contractors from the more advanced segment of the market.

Managers mentioned that contractors' pre-payment of project costs is common practice in the sector. However, it was indicated that it is hard for domestic companies to get loans and that interest rates are often too high, because banks cannot ensure creditworthiness. These financial access constraints translate into local contractors' inability to initiate projects; while foreign competitors rely on access to cheaper external sources of finance instead.

A partial exception was the local contractor who had been a multinational up to two years before interview. Here, managers explained that their company competed with other multinationals rather than local contractors, for bigger infrastructural developments. This is because they inherited technology, equipment, and human capacity from the previous ownership period. However, a senior project manager explained that materials of the appropriate quality could only partly be sourced internally from Ghana, the rest still had to be imported from the previous headquarters in Europe. The interviews with labourers in our sample confirmed that the quality of work and technical expertise was superior in the Southern European MNE and in the ex-MNE affiliate. Both unskilled and more specialised labourers explained that more advanced machinery in these companies made their work easier and more efficient.

A manager in the more successful middle-sized local contractor believed his company had all the technical and human capital resources needed to carry out bigger infrastructural projects. He believed governmental support was all that the company needed to be competitive. The support should have been granted to all promising domestic contractors, in his opinion, with project allocations and public investment layouts to fund the acquisition of productive capital.

This company was mainly active in luxury housing developments, and a concern expressed by policy-makers was that reliable local contractors preferred to engage in high-profit business opportunities rather than in priority sectors. As explained previously, the low-income housing sector is currently the national priority because this is where the housing deficit lies. The greatest majority of the population, in fact, can only afford this type of accommodation. This investment is, however, not very attractive because social returns are higher than profits. It was indicated that the future national housing policy strategy included the creation of a Housing Fund, to provide subsidised credit to domestic contractors engaging in national priority areas. However, no specific timeline was provided regarding actual implementation.

With respect to the exchange of knowledge, most of the local managers indicated that companies often sought partnerships and collaborations with foreign partners. However, this rarely materialised. The institutional actors we interviewed explained that a "Local Content Act" was passed in 2013 in Ghana, to establish that foreign investors wishing to enter the oil and gas sectors should establish a partnership with a local firm. A variety of initiatives exists on the part of government promotion agencies, such as the GIPC, to encourage the extension of its prescriptions to the other sectors of the economy. However, legal enforcement is still limited to the oil and gas sectors, in view of their strategic importance for future growth prospects.

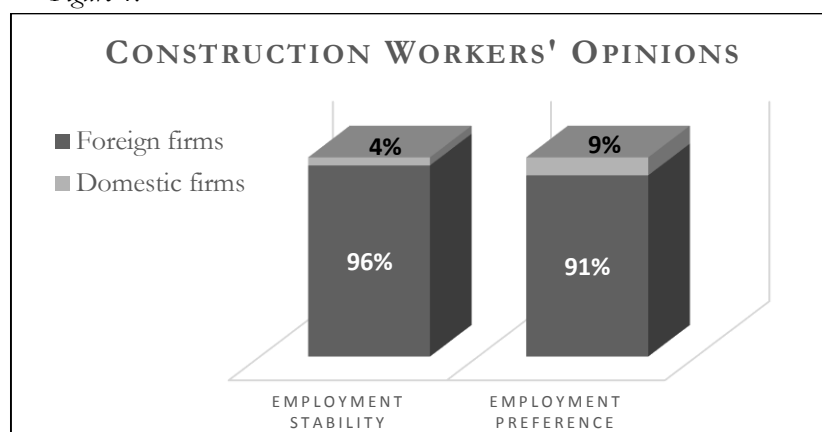
It also emerged from the interviews with policy-makers and other institutional respondents that the main constraint on the government’s ability to enact support and protection policy for local contractors was lack of financial resources. This reinforced dependence on foreign loans and FDI, in spite of the burden of conditionalities they often carry - i.e. that foreign building contractors are employed for projects realisation. The institutional respondents explained, in fact, that it is impossible to forego these foreign funding sources, because inability to replace them would lead to a halt in overall national infrastructure development.

6.2 Employment Conditions

Figure 4 shows that 91% of the interviewed construction workers would have preferred to work for a multinational, had they been able to choose. A distinction emerged, however, between casual (or daily) labourers - that is, unskilled unspecialised construction workers such as masons - and skilled or specialised labourers, such as engineers and supervisors. Only the first had a clear and defined preference for foreign companies. Whereas the second explained that salaries were higher in foreign companies but other employment benefits were not, and that the working environment in Ghanaian companies was more familiar, relaxed, and comfortable.

With regards to remuneration, we found that both foreign and local companies paid unskilled labourers with a daily, as opposed to weekly or monthly, wage rate. Domestic companies paid higher nominal wages than foreign companies, and these normally ranged between 25 and 40 Ghanaian Cedis (GHC).² Foreign companies’ daily rates ranged instead between GHC 15 and GHC 27, with Chinese construction companies paying the lower end of the range and some European multinationals paying up to GHC 27 or GHC 30 per day.

Figure 4.



Source: Authors’ own data (interviews).

The Southern European MNE had a progressive pay base for unskilled labourers, starting at GHC 18 and increasing up to GHC 27. The managers found that unskilled labour had very low levels of knowledge, so the salary increase plan was a form of incentive for learning and productivity.

² The GHC exchange rate is quite unstable; however, on average, during the first semester of 2015, one GHC converted to approximately 0.25 USD.

Unskilled workers with more specialised roles (e.g. steel benders) could earn up to GHC 42 a day, again depending on their level of effort and productivity.

It was explained by workers and managers that the daily rate offered by domestic and foreign companies was not calculated using the same criteria. Specifically, in foreign companies work flow was more stable, and, because labourers could expect to work every day of the week, they were prepared to accept a lower nominal wage. Instead, in domestic contractors, it was not uncommon for labourers to be called for work only once or twice in a week. Figure 4 shows that 96% of workers considered employment stability higher in foreign companies. In this context, the daily wage offered by domestic companies was determined by comparison with the rate a mason would ask to carry out a one-off job at a private client's property, that is, GHC 35-40. Nevertheless, we found that in the interviewed local companies, the daily wage was between GHC 30-35.

In addition, it was mentioned by labourers that working for foreign companies represented a guarantee of stability not only during contracts but also in between contracts. In other words, apart from being guaranteed a constant work flow every day of the week, foreign companies were likely to win a new contract soon after the end of a project, too. The HR manager of the ex-MNE affiliate explained that, often, workers' termination procedures and new hiring contracts were prepared at the same time, so that workers transited seamlessly from one project to the next. Workers of the smallest local company explained instead that, as their main client was the government, payment delays were frequent. This, combined with limited production capacity, meant that daily labourers were often only called for work two days a week, and did not know whether they would still have a place to work at after the termination of a project.

A series of additional allowances was also guaranteed to employees of foreign companies. These included special working condition allowances, for example a "height allowance" for those working on masts or roofs; paid sick leave, and medical insurance for workers and their families. Instead, in the small local company these allowances were only provided to permanent skilled workers, who represented by and large the minority of the workforce. Casual workers explained that, in most small Ghanaian contractors, periods of absence from work due to accident on the workplace or illness were not remunerated. In addition, it was admitted by some of the managers that most of the basic health and safety measures were often disregarded in local companies, and that workers in foreign companies were usually much better protected.

At the time of interview, a new regime had been introduced, whereby all labourers who had been on the workplace for longer than three months were entitled to pension and social contribution payments. The MNE we interviewed was still transiting to the new regime. Whereas a manager of the smallest local contractor explained that domestic companies often engage in illegal practices to avoid paying contributions. Such practices would be more difficult for foreign companies to engage in, due to the stricter nature of public controls.

Another important element of difference between remuneration by local and foreign contractors was in the payment of overtime for extra hours, and work at weekends or on public holidays. It emerged that overtime could lead to salary increases of up to 100% in the ex-MNE affiliate. Instead, both managers and workers explained that overtime was rarely paid in local companies.

A more contradictory picture emerged from the answers on learning, training, and job security. A number of workers in the MNE and in the ex-MNE affiliate explained they were constantly able to learn and upgrade their techniques and knowledge. This was confirmed by the HR managers. In particular, the HR manager of the former MNE affiliate explained that many of their labourers had worked for the company for up to 20 years, because the company had an explicit policy of retaining and training workers, so as to allow for their progression in career.

At the same time, an element of job insecurity in foreign companies was often reported, and related to high and strict standards which made firing much easier. Both skilled and unskilled workers explained that, in local companies, it was safer to ask colleagues or supervisors how to use tools properly, but in a foreign company that would have been unacceptable. It was also added that very strict and tight deadlines made work very stressful in the foreign sector.

Thus, on the one hand, skilled permanent workers claimed that, due to these reasons, they were more comfortable in Ghanaian-owned companies and would not have switched to the foreign sector. On the other hand, unskilled casual labourers reinforced that, despite such shortcomings, they still preferred foreign companies, due most importantly to employment stability and security, but also to financial advantages (i.e. benefits and allowances) and the possibility to build networks.

A significant element of difference confirmed by both managers and skilled workers was that foreign wages for supervisors, engineers, and managers could be up to twice as high as the wage paid for these categories by local firms.³ However, benefits and allowances were not dissimilar. For example, a sub-contractor who worked on a project site for the smallest local company explained that he once fell from a roof, and that the company kept paying him a salary allowance throughout his two years of sick leave.

Another important finding relates to the practice of poaching. Workers in all companies confirmed that poaching of labour force was a common practice, on the part of foreign companies who stole workers from domestic firms. For example, they would often wait around project sites and approach workers to offer them employment at better conditions. Workers also explained that, apart from poaching, usually only labourers with contacts or networks managed to get a place in MNEs.

6.3 Degrees of exposure to international business models

A different viewpoint is offered by breaking down the evidence by company, and summarising it according to each company's degree of exposure to international business models and practices.

The smallest domestic company we interviewed had been in existence for 15 years. During this time, it had no exposure to foreign construction business and never employed expatriate managers. The managers themselves acknowledged that a major obstacle was poor managerial capacity. Having the government as its main client meant constant unreliability of contractual payments, with severe repercussions on financial and production capacity. This undermined the company's

³ This excludes, of course, expatriate staff who are paid according to the company's pay scale in the country of origin.

competitiveness in the short and long run and impaired the continuity of workflow, translating in a deterioration of working conditions.

The company was, in fact, unable to hire unskilled workers on long-term contracts and had to offer them a higher daily wage to compensate for that and for unstable work shifts, that is, workers were often called to work no more than once or twice a week. Nonetheless, for the fewer permanent skilled workers the company provided all benefits and allowances offered by foreign contractors, though the nominal pay was lower.

The second domestic contractor was larger in terms of workforce and physical capital, and its main business was luxury private housing development. The company had been operating in the market for over 20 years at the time of interview, and was an up and coming player in the sector. It had gained exposure to international business models mainly through the hiring of skilled personnel. In fact, part of its management was composed by expatriates of Ghanaian origin, or US and UK educated Ghanaians. The managers indicated that, in this company too, the main constraint was financial access. Specifically, high interest rates constrained borrowing ability and competitiveness. The managers identified their company as a fast developing business, and indicated that lack of financial and capital support by the government impaired their ability to compete with foreign actors.

The third company had been under foreign ownership up until two years prior to interview, and it had been operating in the country for several decades. Expatriate personnel were still in key managerial positions and the company kept close contact with the former headquarters for technical consulting and imports of materials. Despite the change of ownership, the contractor retained many former managerial and technical elements, which meant that the company still participated in the tendering against other multinationals, rather than against local contractors.

Its working conditions also reflected the model that was in place before the change of ownership. In particular, the company had a strong focus on retaining employees and training them over a long period of time (i.e. we interviewed workers with a seniority of 20 years). In this firm, workers showed the highest level of satisfaction with employment conditions. They indicated that stability and continuity of the workflow, together with other employment benefits, more than compensated for the lower daily wage rate. And those workers who had been previously employed in local companies explained that the quality of materials, techniques, and management was also superior.

Finally, the fourth company was a Southern European MNE, which had been in the country for four years at the time of interview. The company was rapidly expanding, with a number of ongoing big infrastructural and real estate development projects. They exclusively competed with other foreign contractors, for bigger projects. The majority of the management team was composed by expatriates, with only the HR manager and one site manager being Ghanaian.

The pay system for unskilled labourers offered a basic daily wage rate with incentives based on productivity. The wage was complemented by a series of employment allowances. Although the nominal wage was lower than that offered by most domestic contractors, almost all workers declared they would have not wanted to move to a Ghanaian company. The reasons were again

the stability of workflow within contracts (i.e. during the working week) and the continuity in between contracts, combined with employment benefits.⁴

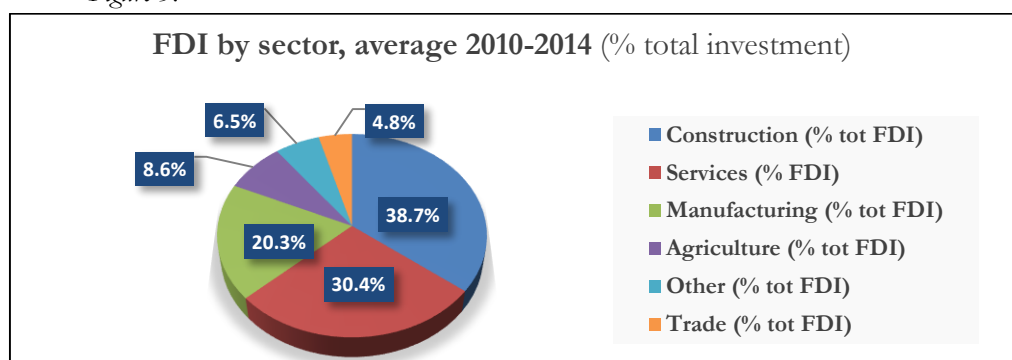
6.4 Institutional Framework and Funding Sources

As anticipated, it emerged from the interviews with the institutional respondents that the current national housing policy (MWRWH, 2015) lacks concrete short-term provisions to implement knowledge exchange and learning programmes between foreign and local contractors. In fact, the Local Content Act lacks legal enforcement beyond the oil and gas sectors. Secondly, plans for the establishment of a Housing Fund to facilitate financial access for local contractors were mentioned; but the timeline for implementation was unclear. Thirdly, the interviewed policy-makers acknowledged the delays in public payments to domestic contractors, and explained that a reform would require a concerted effort of budgetary planning at the central government level.

The most important element emerging from the institutional interviews was that public financial constraints were the main obstacle to the government’s ability to implement administrative and policy reforms to support the domestic contractor base. Specifically, respondents explained that the government could not commit to partial advances on payments. They also explained that the government remained dependent on foreign loan and investment inflows, which often carried conditionalities imposing the acceptance of foreign contractors to carry out projects.

Data availability on funding sources is limited and patchy, but the GIPC statistics we were able to obtain report that indeed, between 2010 and 2014, the construction sector accounted for the highest FDI share in the economy (Figure 5). To the contrary, OECD ODA data show that, between 2002 and 2013, the sector received the lowest inflow of foreign aid (Figure 6).

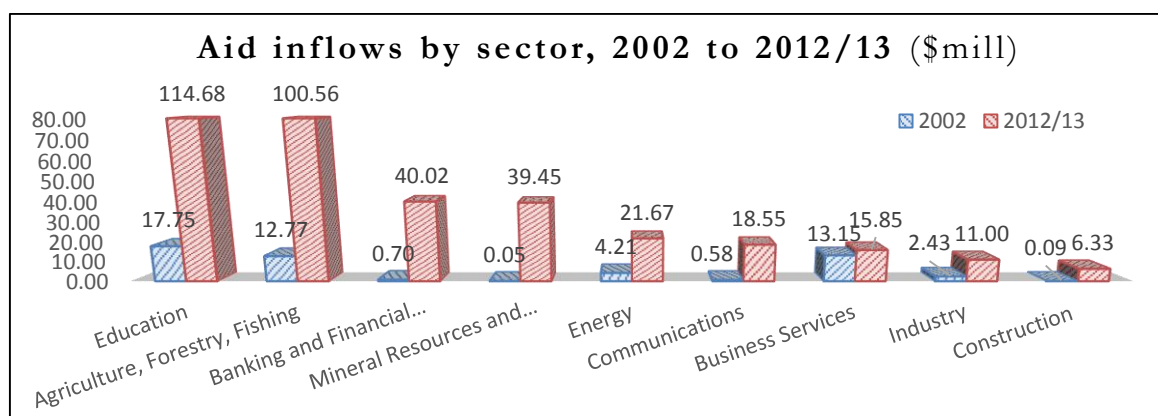
Figure 5.



Source: Ghana Investment Promotion Centre

Figure 6.

⁴ We found that unsatisfactory working conditions in this company were a problem for local managers, rather than for local project site workers. It appeared, in fact, that the expatriate management team excluded the local Ghanaian managers from the major decision-making processes. Further research relying on observation would, however, be needed to establish the extent of the problem.

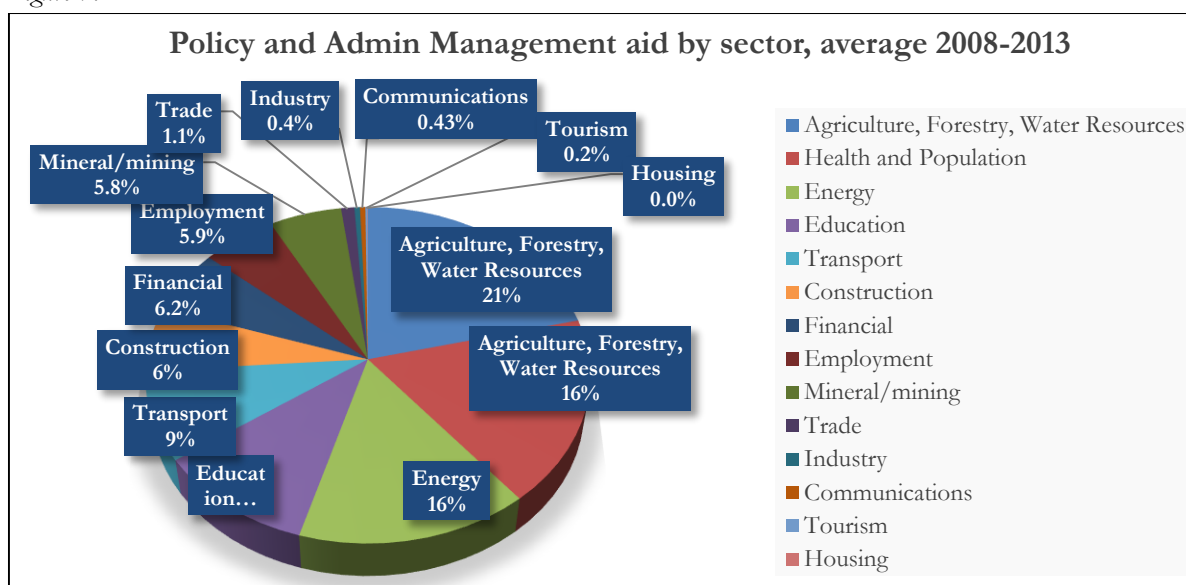


Aid Inflows by Sector (\$mill)	2002	2012/13
Education	17.75	114.68
Agriculture, Forestry, Fishing	12.77	100.56
Banking and Financial Services	0.70	40.02
Mineral Resources and Mining	0.05	39.45
Energy	4.21	21.67
Communications	0.58	18.55
Business Services	13.15	15.85
Industry	2.43	11.00
Construction	0.09	6.33

Source: OECD - Development Assistance Committee.

Aid went instead predominantly to health,⁵ education, and agriculture, followed by the financial and mineral resource sectors. Figure 7 shows that aid specifically targeting policy and administrative capacity development is also low in the construction and housing sectors.

Figure 7.



Policy and Admin Management Aid by sector (average 2008-2013)	Share (%)
Public sector and public finance	28.8
Agriculture, Forestry, Water Resources	15.79

⁵ Foreign aid inflows to the health sector are not reported in Figure 6 to preserve scale proportionality and clarity of the chart. Their nominal value was, in fact, more than double the amount going to education in 2012 and 2013.

Health and Population	13.35
Energy	11.53
Education	8.03
Transport	6.39
Construction	4.59
Financial	4.6
Employment	4.4
Mineral/mining	4.29
Trade	0.78
Industry	0.33
Communications	0.31
Tourism	0.12
Housing	0.02

Source: OECD - Development Assistance Committee.

7. Discussion

Before discussing the findings, the limitations of our methodology deserve some clarification. Firstly, for one of the companies, we only have information from managers. However, because construction workers were highly homogeneous in general, we do not believe this introduced any considerable bias. Secondly, companies were purposively sampled. On the one hand, this means they may not be fully representative of other firms within the same category.

On the other, purposive sampling ensured that a broad variety of important characteristics entered the analysis, thus widening the representativeness of the case study as a whole. In addition, selection was based on a number of specific criteria: companies had to have headquarters and activities in Accra, be engaged in projects at the time of interview, and display progressively higher levels of exposure to international business influence or models. This considerably restricted the available sample, which helps to mitigate bias. Agreeing to participate in the research may also make the selected companies different from others. However, all firms we contacted agreed to the interview from the beginning; thus, we have little reason to suspect systematic differences.

Moving to a discussion of the results, we found that foreign companies tend to avoid having to deal with the government as a client, while local companies have not got enough capacity to undertake large-scale projects. Thus, they are outcompeted even prior to the tendering process. These findings are in line with Pack (1993) and Adams (2009), and are confirmed by Osabutey et al. (2014)'s analysis of the Ghanaian construction sector. Rafferty et al. (1998) also provide similar evidence for Asian countries; and Aibinu and Odeyinka (2006), Debrah and Ofori (2006), and Corkin (2012) report similar findings in other SSA countries.

Consistently with Laryea (2010), we find that domestic contractors in Ghana seem caught in a vicious circle where having the government as main client means they have to deal with persistent payment delays and unreliability of payments,⁶ which disrupt workflow stability. The resulting low creditworthiness and lack of competitiveness against foreign companies worsens the working

⁶ Laryea (2010) reports that government delays range usually between 6 and 19 months, and that there are 37 processes a contractor has to go through before getting payment.

conditions they are able to offer, and makes them a less attractive employment option for the local labour force. Combined to the widespread practice of poaching, this represents a clear drain on the human resource and skill base available to domestic contractors.

More specifically, our findings reveal that, despite lower daily wages, the greatest majority of unskilled construction workers prefers to be employed by foreign companies due to higher stability and continuity of employment. These results help to qualify the conclusions that the greatest majority of the literature puts forward, that is, that wages are higher in the foreign sector (Sethis, 2003; Lipsey, 2004). In particular, we find that skilled labourers' wages are indeed higher in MNEs but work benefits and allowances are not. Instead, unskilled wages in the foreign sector are consistently lower than in the domestic sector, but unskilled labourers value employment stability and continuity, and other employment benefits, much more than nominal wage.

The overall emerging picture is that of a two-speed system characterised by an advanced foreign sector core and a lagging domestic sector base. In this context, the interviewed companies who had a higher degree of exposure to foreign business models and practices performed better both from the production and working conditions points of view. Findings similar to ours are also confirmed by the literature (see de Mello, 1997; Aitken et al., 1999).

We found that, for these reasons, managers of domestic construction companies greatly valued the possibility to enter partnerships, collaborations, or sub-contracting agreements with foreign companies. These would allow them, in fact, to learn and upgrade through exposure effects. However, such interactions materialised rarely and policy efforts in this direction are weak. Specifically, legislation exists in Ghana (Local Content Act, 2013), which mandates the creation of partnerships between newly investing foreign firms and domestic firms operating in the same sector. But legal enforcement is limited to the strategically important oil and gas sectors (see Corkin, 2012, for similar evidence in Angola). In fact, the companies that gained exposure to international business models in our sample did so through non-institutional channels: one used to be an MNE affiliate, and another hired US and UK based Ghanaians.

It emerged from the interviews with institutional respondents that the main obstacle hindering government reforms is lack of public resources. This impedes administrative and policy reform and reinforces dependency on foreign funding sources, with their burden of conditionalities. Lancaster (2008) found similar patterns in low income countries in and beyond Sub-Saharan Africa. Our data shows that, indeed, the biggest proportion of FDI inflows in the country concentrates in the construction sector; while unconditional aid goes mostly to the health and education sectors (basic sectors which normally receive little funding from other sources).

However, Figures 5 and 6 show that considerable amounts of aid flow to the financial and mining sectors, too - respectively, fourth and fifth aid recipients - while, at the same time, the services and manufacturing sectors receive the second and third highest inflows of FDI. We do not have detailed break-down statistics of the aid allocation within the latter two sectors. But the foreign financial and extraction investment boom following the recent discovery of offshore oil resources in 2007 is well documented (Breisinger et al., 2010; Dagher et al., 2010). So is the phenomenal growth in mining investment, which followed the inception of the ERP in 1983 (Aryee, 2001; Akbaza, 2009).

Further research is needed to determine whether any scope exists for partial aid reallocation. Such reallocation could lower the construction sector's reliance on FDI, improve administration and regulation capacity, and enable implementation of policy reforms. In particular, a general equilibrium analysis perspective should investigate whether gearing aid away from finance and mining can negatively impact national tax revenue, inequality levels, and industrial development. This crucially depends on the nature of the aid flowing to the two sectors.

In light of the findings discussed thus far, reform priorities in the sector should include (i) the rationalisation of public contractual payment and budgeting procedures (ii) the implementation of mechanisms to improve local contractors' financial access (e.g. the planned Housing Fund policy) and (iii) the extension of the Local Content Act to the construction sector, in order to facilitate foreign-local collaboration. The findings also highlighted that such reforms are crucial to improving working conditions in the local construction industry. In fact, improving local contractors' financial access and increasing their exposure to international business models were shown to contribute to the diffusion of best practice and raise their competitiveness. By additionally leading to greater employment stability and continuity, these factors can make the domestic sector a more attractive employment option for the local construction workforce.

8. Conclusion

To sum up, this case study has provided evidence that the debates surrounding FDI's impact on local industrial development and on local employment conditions are not unrelated in the Ghanaian construction sector. In fact, our findings confirmed that, on the one hand, crowding-out exists with foreign contractors outcompeting domestic contractors. On the other hand, higher degrees of collaboration, or exposure to international business models and practices, translate in domestic contractors' higher productivity and output quality, and in better employment conditions. Better employment conditions were defined by workers as increased employment stability and security, combined with employment benefits; while less importance was attributed to nominal wage levels.

Low regulatory and policy capacity was shown to contribute to this pattern, by worsening domestic contractors' creditworthiness and competitiveness. Thus, the study proposed a number of administrative and policy reform priorities. These should target the creation of beneficial collaboration patterns between foreign and local firms, and should support the development of a competitive domestic contractor base. It was found, however, that public financial constraints reinforced the construction sector's dependence of foreign funding sources, and limited the government's ability to implement reforms. It was, thus, suggested that further research is needed to investigate whether a reallocation of external funding sources could address such issues.

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