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Construction Sector Employment in Low-Income Countries: Programming Considerations

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This note summarises key findings on the value of investing in strengthening the construction industry and creating / improving the quality of jobs in the construction industry, and presents related programming considerations. It is based on a [report](#), commissioned through ICED, that seeks to explore opportunities for, and barriers to, the construction industry as a source of productive and decent job creation in LICs.

The report finds that support for the construction sector can provide significant benefits in terms of economic and employment effects, and potentially greater than those available in other sectors. A recent study estimated total economic multipliers in high- and middle-income countries to be greater than 3:1, based on direct, indirect and induced economic outputs (ILO 2015e). In the same study, employment creation was estimated at 158 jobs per million US dollars invested in a sample of middle income countries.

Core economic value derives from the development, renovation, repair or extension of fixed assets (buildings, land improvements, engineering assets). However, the construction sector also has significant backward and forward linkages. Supply chain benefits can include the development of input industries, including cement, steel, paints and chemicals, glass, timber and machinery, alongside construction services, planning and design, finance, enforcement. The construction sector also has forward linkages, underpinning economic development in other sectors, including transport, housing, power, water, waste and telecommunications.

Within the construction sector, there are also potentially significant economic benefits associated with construction employment reform (addressing informality, health and safety standards, female and child participation, issues around capacity and collective bargaining). These can hinder effective sector development and impose high social welfare costs on governments and wider society. Addressing them can also improve the economic efficiency of the delivery model itself.

When designing programmes, care should be taken to ensure that the construction sector and associated employment issues are a) significant within the country context (i.e. well evidenced); and b) significant in relation to other sectors (i.e. there is no opportunity cost associated with intervention). Efforts should be made to understand whether the construction sector supply chain is dominated by import-based (labour or materials), as this may reduce the efficacy of sector interventions or require different types of programming.

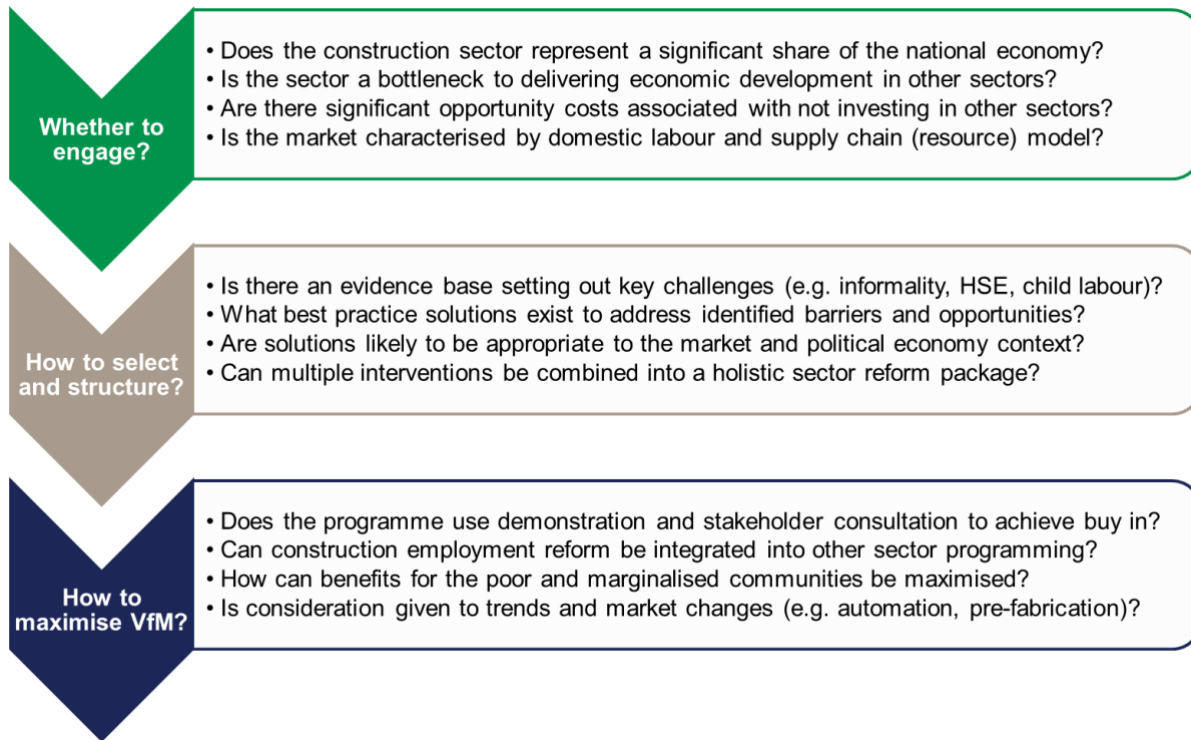
Costs and benefits can be identified through standard cost benefit analysis (CBA) undertaken as part of a business case development process. Key benefit drivers might include avoided loss of life and injury, increased productivity (e.g. from improved training or greater inclusion), and enhanced job creation in the supply chain. However, there is very limited evidence in the literature of formal cost benefit analysis having been undertaken on construction sector employment reform programmes to date.

Maximising value for money in construction and associated employment interventions is highly dependent on the quality of programme design and delivery. Interventions should be evidence-based, clearly aligned with market weaknesses, and where possible integrated into a holistic programme of sector reform. Interventions should also be sensitive to market and political economy realities (e.g. around collective bargaining or female participation).

There may be resistance to change due to concerns around the social and economic costs of migrating from established sector models. Scale up of reform is most successful when it builds upon successful demonstration models and consultation processes that help secure buy-in from public and private authorities. Programmes are also successful when integrated as a sub-component into sector investment and reform programmes (e.g. housing, transport).

Consideration should be given to emerging labour market and technology changes in the construction sector (e.g. moves towards automation, pre-fabrication), which have the potential to improve the efficiency but also potentially change or reduce the nature of labour force participation. Labour intensity during construction may therefore reduce over time, but be displaced into supply chains and manufacturing. This may determine the focus of an intervention (e.g. engaging with upstream supply chains). Figure 1, on the next page, sets out some of the questions that should be considered during the design and delivery of construction employment programmes.

Figure 1: Decision framework for engaging with construction employment reform



Overall, the report concludes that intervening in the construction sector (both to increase the number and quality of construction sector jobs) is likely to provide value for money for UK Aid, but that this value is dependent on addressing challenges in their local context and ensuring effective programme design. Ultimately, the decision to support construction labour reform will depend on a strong understanding of the economic, regulatory, and commercial environment and upon a robust approach to design. Table 1 provides an overview of key lessons and principles.

Table 1: VfM principles for Construction Sector technical assistance programming: Improving chances of successful delivery

Programming consideration	Design implications
Determining the suitability of construction employment interventions	<p>Before deciding whether to engage with the construction sector reform, a number of questions should be addressed to identify whether this is likely to be the best use of DFID resources within a given country context. Firstly, issues relating to the likelihood of a programme delivering robust socio-economic returns should be identified. Questions include:</p> <ul style="list-style-type: none"> • Does the construction sector make up a significant share of the economy and/or is capacity a major bottleneck to economic growth? Is the construction sector key to underpinning economic transformation and/or stability (e.g. in early stage industrialising economies or post conflict environments)? • Does the country suffer from significant challenges in relation to identified construction labour standards such as informality, migrant worker conditions, health and safety standards, protection for women and child labour, training constraints or lack of collective bargaining that prevent efficient sector development? • Does the country rely heavily on imported labour and or goods and services in the construction supply chain, potentially lowering the effectiveness and reach of engagement in local markets? <p>Consideration should be given to the opportunity costs of not spending donor funds on other sectors of the economy which may so act as bottlenecks to economic growth or where similar social protection and equity challenges can be found.</p>

Programming consideration**Design implications**

Ensuring that the construction sector offers a good opportunity to promote economic development and social welfare.

At a macro-level, the evidence suggests that investing in the construction sector is likely to deliver strong economic benefits. The construction sector generally reports higher levels of gross economic output per unit invested than other sectors, as supply chains tend to be domestic and relative labour intensity means economic value is captured in the domestic economy. Spillover effects play a significant role in wider economic growth (e.g. in services). Investment in construction also tends to result in higher levels of jobs (direct, indirect and induced) than other sectors, although the overall levels seem to be lower in LICs than in higher income countries, perhaps due to the lower level of development within the construction industry supply chain. Investment in construction and associated job creation can provide economic stimulus during periods of economic downturn or in relation to poverty alleviation. However, care should be taken to ensure that construction employment interventions are sustainable and supported by growth in aggregate construction demand within the economy, to ensure that value can be maintained over time.

Determining the most appropriate focus for intervention.

Once investing in better construction employment practices has been identified as an attractive opportunity to promote social and economic development, the focus of engagement should be clearly linked to issues prevalent in the local market environment. This report sets out potential weaknesses associated with different markets (informality and lack of collective bargaining, foreign labour, poor OSH, skills deficits, exploitation of women / children / forced labour) together with potential programming solutions to each. Each DFID focus country is affected to a greater or lesser extent by these weaknesses and there will not be a one size fits all approach to programme design. The report presents relative country-level statistics in relation to some of these issues, which in turn might be useful in terms of targeting and justifying programming. However, it should be recognised that most DFID countries will suffer to some extent from these challenges, and that the ranking of countries should only be used as a starting point to assess individual country strengths and weaknesses. Within a single country context, there may be significant regional or sub-sector variations, and further work will be required in exploring challenges at a more granular level. In all cases, a focus should be maintained on ensuring that change processes are inclusive, transformational and deliver equity for excluded and marginalised groups.

Identifying the right solutions to address underlying causes of market failure.

The report presents a number of potential types of engagement for addressing identified challenges. However, where a structural weakness is identified, it is important to ensure that the solutions developed are appropriate to the context of the construction employment market. For example, the structure of the construction industry in DFID focus countries is often not conducive to collective bargaining and union density (due to the high prevalence of informal and casual workers and micro-enterprises). Rather than lobbying for higher union recognition and formal collective bargaining structures, a more realistic solution might be the promotion of more informal social dialogue (e.g. associations of informal workers and the promotion of linkages between formal and informal workers). Understanding the political economy of implementation is key, and in particular the underlying causes of labour market failures, rather than just the symptoms.

Maximising the benefits of integrated programming.

Evidence from existing programming indicates that there are benefits from engaging simultaneously across a range of appropriate intervention areas. This provides benefits both in terms of programming risk diversification, but also allows for cross-learning and can create synergies. The most successful programmes seek to combine demonstration initiatives (e.g. specific job creation or improvement activities) with scale-up approaches (either through regulators, construction industry associations, or other sector bodies). Demonstration effect is key to creating trust, showing proof of concept, and reducing employer concerns around costs, labour issues, and productivity. Demonstration effect is particularly powerful in LICs where perceived barriers to change are strong.

Programming consideration**Design implications****Opportunities for integration with wider thematic / sector programming.**

Construction employment interventions can potentially deliver strong VFM co-benefits where they are integrated with more focused sectoral interventions (e.g. roads, transport, housing), or other cross-cutting priorities (e.g. climate change, poverty alleviation, female empowerment). DFID might therefore explore opportunities to include construction employment interventions as subcomponents within larger programmes. One example is green construction (e.g. Zambia Green Jobs Programme) which simultaneously delivers job growth and reform within a larger low carbon development supply chain. Such projects may have a different primary purpose (e.g. developing supply chains for an emerging sector), but may also include within that some element of job creation, reskilling, or regulatory reform.

Designing programming approaches to maximise chances of success.

A review of existing programmes indicates that there are a number of important key success factors (KSFs) in implementing successful interventions. These include engagement with high-level stakeholders (particularly to support regulatory reform and / or the adoption of voluntary best practice), focusing efforts in a small number of high impact initiatives (to build visibility and trust), engaging with both workers and private sector employers to ensure that incentives are aligned and that proposed solutions are acceptable, anchoring initiatives in larger scale construction capital investment projects (to ensure economic viability, labour demand and skills relevance), and adopting a market supply chain based approach that looks at skill sets beyond pure construction labour (thereby supporting sector viability). Again, strong political economy approaches and robust stakeholder analysis are important.

Dealing with high levels of foreign contractor/foreign worker participation.

The level of foreign contractor participation in the construction industry should not automatically be regarded as a barrier to engagement. Foreign contractors can potentially be an asset in improving construction employment practices, as they can raise standards in the supply chain, and deliver investment in training or apprenticeships. It should also not be assumed that high levels of international contractor involvement (e.g. Chinese EPC) are automatically associated with migrant labour (as this is more likely to be at managerial level), and the economics of imported labour mean the trend towards greater use of domestic labour is set to continue. There are, however, few models of successful engagement between donors and contractors from emerging economies from which to draw lessons about successful engagement. Where migrant labour does form a significant proportion of labour, then the focus should be on conditions (informality, OSH), rather than on skills, the benefits of which are unlikely to be captured by the domestic economy.

Accounting for supply chain and technological trends.

The design of labour intensive programmes in the construction industry (i.e. where job creation is the primary focus) may run counter to prevailing efficiency trends associated with increased pre-fabrication and mechanisation, particularly for larger projects in more developed (lower) middle-income economies. As such, there is the potential for temporary employment gains to be promoted at the expense of improved efficiency and quality of delivery. In developing countries, the trends towards mechanisation and pre-fabrication are more likely to emerge initially in larger-scale construction projects, with greater involvement of foreign contractors and more complex supply chains. Such scenarios favour investment in worker upskilling and retraining (potentially moving up the supply chain into fabrication). The use of the construction sector to create lower skilled jobs is better done in market contexts where there is no immediate prospect of greater efficiency or economies of scale (i.e. in community-scale construction works) or in poorer / low wage markets where there is less immediate opportunity for improvements in efficiency.