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Construction, institutions and economic growth in sub-Saharan Africa

By Paul Alagidede and Jones Odei Mensah

Introduction

The construction industry is one of the major drivers of economic development globally; it is a key barometer of the health of an economy because of its strong linkage to output fluctuations. A well-functioning construction sector results in good infrastructure, upon which many business activities in an economy hinges. It is obvious that the sector has been at the epicenter of growth in most modern nation states over the last few decades. Evidence from most advanced economies suggest that the industry's contribution to growth becomes trivial, particularly at the point where the infrastructure space becomes saturated. Evidence also suggests that the industry's success and its eventual contribution to economic growth could be occluded by several critical factors, such as the presence of good institutions. While this may hold for both advanced and emerging market economies, the industry's role, particularly in Sub-Saharan Africa, has been more anecdotal rather than based on empirical evidence; the extant literature is almost entirely bereft of evidence from the sub-region. Among the known factors that stymy the effectiveness of the industry's contribution to the growth spurt of developing nations is poor cost and sub-standard work quality, lack of access to credit facilities, availability of required skills, and bureaucratic as well as institutional deficit. This background naturally leads to the following questions: to what extent does the industry contribute to economic growth in the sub-region? what fundamental roles do the existing institutional frameworks play in enhancing the industry's impact on economic growth? is the industry's impact on growth homogenous across the sub region and has it become trivial? This study sets out to find answers to these fundamental questions. It provides a comparative analysis of the relationship between the construction sector and aggregate output for a panel of 26 sub-Saharan African countries[1].

Key results and implications

After accounting for the effects of institutional set up, cross sectional heterogeneity and non-linearity, the results of the study revealed that the construction sector affects growth positively and most importantly, institutional capabilities play a key role in the development process by aiding in the effective realization of the benefits from infrastructural growth. The intrinsically non-linear relationship between construction and output growth is very mute in our sample, suggesting that, sub-Saharan African countries have not yet reached the stage of development where construction industry's contribution to economic growth becomes trivial. The results further show that East Africa experienced a robust impact of construction on economic growth compared to West and Southern Africa.

The implication is that reducing the burden of bureaucracy, enforcing laws that protect property

[1] Benin, Botswana, Burkina Faso, Burundi, Cote d'Ivoire, Ethiopia, Ghana, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, Tanzania, Togo, Uganda, Zambia, and Zimbabwe.

rights, economic freedom and a corruption-free environment could further enhance the impact of the construction industry on economic growth; developing such institutions to set the rules and norms could help reduce the transaction cost associated with construction activities. The lack of evidence to support the intrinsically non-linear relation between the construction and output growth is an indication of the unsaturated nature of the industry in SSA countries. Thus, the need for governments in SSA countries to work towards removing the bottlenecks that stifle the industry's growth. Replacing outmoded statues and codes with forward-looking ones, providing access to credit facilities as well as enforcing rules that forfend sub-standard work quality will ultimately engender a quality and growth-enhancing industry across the region.

Concluding Remarks

The conclusion drawn from this paper is that despite the growth-enhancing evidence of the construction industry across sub-Saharan African countries, strengthening current policies as well as institutional frameworks as it relates to construction, including enforcement of property rights, reducing the burden of bureaucracy, fostering economic freedom and ensuring a corruption-free environment could help make the sector much more effective.