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CONSTRAINTS & COSTS IN THE KENYA BUILDING INDUSTRY

by

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INTRODUCTION

1. The present study originated in October 1967 at the request of the Ministry of Economic Planning and Development. At that time there was considerable concern among various Ministries and Government departments at the low level of building activity in Kenya since the beginning of the Plan period. This found expression in the 1967 Economic Survey - which pointed out the shortfall of actual against planned development expenditures and attributed this "particularly.... to construction delays in planned capital works". The survey in fact went further than this, and cited the "inability of the building industry to gear itself to the much higher level of activity required" as one of the major causes of this shortfall.
2. In addition, there was between 1965 and 1967 a sharp rise in the price of building, causing considerable concern to public bodies operating on a fixed annual budget. A 40 to 60% rise in the costs of the IDA school building programme was registered by the Ministry of Education, and similar complaints received from the M.C.W. , E.A.R.& H. and the E.A.P. & T. These two factors together - the inadequacy of building activity and the sharp rise in prices - would appear at first sight (and did so appear to various Government officials) to be a clear indication of the demand for building outstripping supply, or a 'constraint' on the supply side of the industry. In view of the significance of building in the overall development programme, we were therefore asked to investigate the present, and expected future, 'capacity' of the industry, and to comment on the chief factors leading to rising prices.
3. It soon became apparent that the 'problems' as presented to us involved some gross over-simplifications and over-hasty conclusions. We began immediately to collect evidence on the chief areas of complaint as outlined above.- (i) the inadequacy of the level of building activity; (ii) the extent and possible causes of price rises and (iii) the supposed 'constraint' in the building industry. The chief findings of these preliminary investigations are outlined below:-
(i) The level of activity:
4. Fixed capital formation is a key factor in economic growth. In Kenya between 1956 and 1963 Gross Fixed Capital Formation (GFCF) was steadily declining from £45.7m. to £31.8m.; this was largely on account of the low level of private investment outside agriculture. Building activity, being a key element in GFCG, also declined but at a much more rapid rate; the most spectacular fall was again in the private sector, where residential building fell from £6.8m. to £0.76m. in the seven year period, and non-residential from £4.22m to £1.25. Thus although

both GFCF and its building component fell substantially, the fall was much more dramatic in the latter, and building activity as a percentage of GFCF declined from 39.7% in 1956 to only 17.6% in 1963.

5. The recovery in the level of investment started slowly in 1964, paused in 1965, and accelerated in 1966 to reach an all-time 'high'. Building activity, however, though rising slightly in 1964, fell again in 1965, and in 1966 still only accounted for 15.5% of GFCF - its lowest recorded level.*

6. While it may be unwise to suggest that there is any desirable and fixed ratio between GFCF and its building component, on account of the many different types and possible directions of investment programmes in a developing country, it seems reasonable to assume that there is a normal average figure around which the ratio will tend to gravitate over a number of years, since buildings are an essential component of all economic activity and demand for residential buildings is a function of rising incomes and economic growth. It is also probable that there may be a 'floor' below which the ratio cannot fall permanently; it seems quite possible that in Kenya in 1966 this 'floor' may have been reached, and unless the ratio of building to GFCF expands rapidly it may well become a constraint on further GFCF and thus on economic growth.

7. This hypothesis would appear to be borne out by the preliminary demand estimates of the development plan. These suggest that capital formation in building should expand from its 1966 (calendar) level of £8m. to £15m. in 1968 (fiscal), and reach a level of £33m. in 1972 - a cumulative growth rate of 23%. Thus, building activity is planned to grow at nearly twice the rate of GFCF - its percentage share rising to 32% in 1968 and remaining at this level for the rest of the plan period.

8. Thus it would appear that the level of building activity since the start of the recovery of the economy in 1964 may well have been 'inadequate' - or at least surprisingly low when compared with the levels considered 'normal' in other countries. It is also certain that it will have to rise spectacularly in the next few years if growth and development are to proceed at the required pace. It is, however, by no means apparent from the data presented above that the cause of this inadequacy may be attributed to constraint on the supply side of the industry; it is equally possible that demand constraints (limitations on the client's ability to spend) may have been operative. But whether or not supply constraints are already apparent, there is a strong possibility that they will occur in the future.

* These figures are all taken from the 1966 Economic Survey and are illustrated by the graphs in appendix A.