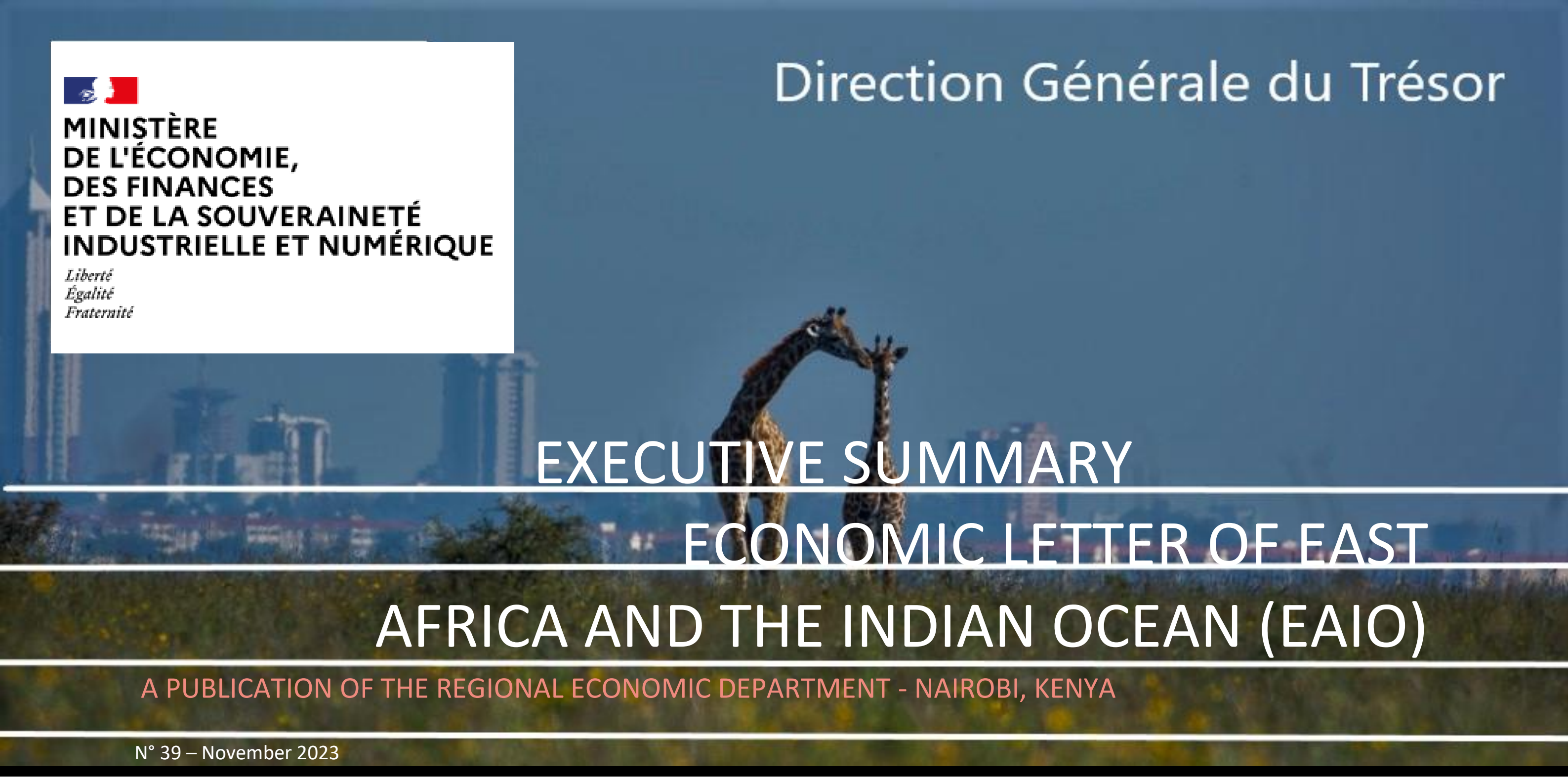

MINISTÈRE DE L'ÉCONOMIE, DES FINANCES ET DE LA SOUVERAINETÉ INDUSTRIELLE ET NUMÉRIQUE
Liberté
Égalité
Fraternité

Direction Générale du Trésor

EXECUTIVE SUMMARY ECONOMIC LETTER OF EAST AFRICA AND THE INDIAN OCEAN (EAIO)

A PUBLICATION OF THE REGIONAL ECONOMIC DEPARTMENT - NAIROBI, KENYA

N° 39 – November 2023

The « Construction and Public works » sector in EAIO

Summary

In many of the region's countries, the construction and public works sector accounts for a significant share of the GDP, and even more in terms of jobs, even if these often remain largely informal and unskilled. The sector's main growth drivers are demographic and urban growth, with housing and commercial buildings (financed largely by the private sector) and major infrastructure projects (financed by the public sector, in particular donors). French companies are present across the entire value chain, from civil engineering to the supply of materials, engineering, and architecture. Local companies are often small and poorly equipped for major projects, yet foreign competition is very strong, particularly from China, but also from India and Turkey. Although not very mature to date, the greening of the sector through regulations and innovations is developing and could be a source of opportunities for markets that would be more favorable to French companies.

Key Findings

A signifiant weight in the economy, with a heavy dependence on imports for certain resources.

As a structuring sector and a driving force powering infrastructure development, the **construction and public works is a pillar of the economy in many countries of the region.** In Ethiopia, it accounted for 20.6% of GDP in 2021/2022, 13.1% in 2021 in Tanzania and 7.6% of GDP in Rwanda. It is a **major employment provider in the region**. In Rwanda, it is the leading sector in terms of job numbers (12.6%), **although they tend to be low-skilled and informal.** Lack of training often undermines the productivity of companies in the sector.

In addition to the infrastructure and public works sector, the supply of resources is also a **major economic challenge**, although the situation varies considerably between the two main basic materials: cement (relative autonomy in the region) and iron/steel (heavy dependence on imports). **The main cement producers in the EAIO region** are Kenya with a production of 9.8 Mt in 2022 (+5.5% on 2021), Ethiopia with a production of 7.7 Mt in FY20/21 (production below demand due to production constraints), and Tanzania with 7.5 Mt of cement produced in 2022, (+9.7% on 2021).

All countries in the region are dependent on steel and iron imports (see graph of the month), worth a total of $3.98 billion in 2022, with China as the main supplier[1]. Kenya imported a volume of 1.7 Mt in 2021, **worth €1.3 bn, from China, Japan and India.** Although there are a few local steel processing companies, gross production is low despite significant iron ore reserves (in Ethiopia, for example). As a result, the sector is strongly affected by world raw material prices, which in turn drives up infrastructure development costs. In the absence of foreign currency, imports into Ethiopia have been severely restricted since 2019 (reduced by 44%).

A sector driven by demand for housing, commercial buildings, and major infrastructure projects.

As a result of rapid urban growth (+4.2% per year in Kenya, +4.5% in Tanzania, +5% in Uganda) and demographic expansion in the EAIO region, infrastructure needs are high in both the residential and tertiary sectors. Most of the new housing and tertiary buildings are financed by the private sector and are therefore partially resilient to public finance constraints.

To address the shortage of affordable housing (a shortfall of two million units in Kenya and 5.5 million in Rwanda), **national programs have also been implemented by several governments in the region**, but funding constraints remain severe and the overall results to date remain poor. In Djibouti, the government has launched the "Zero Slums" program to contain the expansion of precarious and informal housing. In Kenya, the Ruto government's housing program seems to be hampered by high land costs and obstacles in the access to funding for both households and public bodies. In the tertiary sector, in addition to the office building projects common to many of the region's capitals, tourism is also a driver, with the arrival of major foreign groups boosting hotel construction (Tanzania, Seychelles, Mauritius, Madagascar in particular).

Significant infrastructure needs in the region support the development of the construction sector, but their execution often comes up against the lack of capacity of public authorities and financing constraints. Beyond a few projects financed by governments' own funds (such as the GERD dam in Ethiopia) or by commercial financing (SGR in Tanzania), **donors have historically contributed to the construction and public works sector** by supporting the transport sector in particular. For example, AFD recently approved a project to rehabilitate and build roads in the arid regions of northern Kenya.

Despite fierce competition, particularly from China, there are opportunities for French players, varying in scale according to geography and market segments.

Although there are many local companies, their often-small size means that they must compete with foreign firms for large-scale projects. **In Kenya, Tanzania and Ethiopia, the construction market is dominated by Chinese companies, who compete with local manufacturers and French companies, which are still poorly positioned despite real opportunities.** Ethiopia became the biggest beneficiary of Chinese construction activity in Africa[2]. Among the many active Chinese companies, we can cite two of the main ones (majority-owned by the Chinese state): China Communication Construction Company (CCCC, Kenyan SGR and numerous road projects in Kenya) and China Civil Engineering Construction Corporation (Ethiopian-Djiboutian railways). Some European companies remain active, such as Italy's Webuild, which is carrying out civil engineering activities for the GERD, or Portugal's Mota-Engil, which is building the first phase of Bugesera airport in Rwanda. **In Rwanda and Somalia, major projects have mainly benefited Turkish companies** such as EBS (Turkish military base, hospital or Mogadishio offices). Indian companies such as Larsen and Toubro are also well positioned in several markets (water, energy, transport) in the region, including Uganda, Kenya, Ethiopia, and Mauritius.
French companies are present in the region across the construction and public works value chain, mainly in materials supply and engineering/architecture, but also in civil engineering (Vinci, Eiffage and Colas groups). **Opportunities also exist for French companies in the sustainable building infrastructure segment.** This is the case, for example, in Kenya and Tanzania, where Saint-Gobain opened offices and is deploying a range of

[1] Mainly from China, Japan, Turkey, India, South Africa, North Korea, Italy and the United Arab Emirates.
[2] Employment construction and manufacturing sectors.pdf (soas.ac.uk)

solutions from energy-saving insulation materials to innovative sustainable building systems, as well as owning a local factory. Schneider Electric is also positioned in these two countries for the supply of electrical equipment. The development of several luxury residential complexes in these two geographies represents opportunities for the French offer, in the high-end lighting segments for example. However, the low-cost housing segment remains relatively unprofitable for French companies due to low-cost competition, both local and foreign (notably from China).

The greening of the sector, notably through more sustainable materials and energy efficiency, remains at a low level overall, even though regulations (such as those in Kenya, inspired by European ones) are evolving and private initiatives are developing. Adapting infrastructure (roads, dams, etc.) to climate change is also an issue that is increasingly considered, particularly in projects financed by multilateral or bilateral donors.