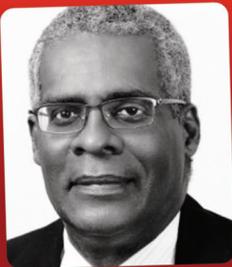


CONSTRUCTION AS A DRIVER FOR ECONOMIC GROWTH



INDUSTRY SECTOR ANALYSIS

DATA SHOWING THE CONTRIBUTION OF THE CONSTRUCTION INDUSTRY TO GDP DECLINING

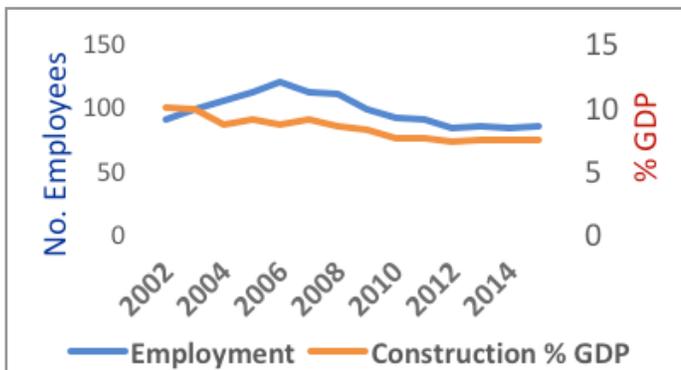
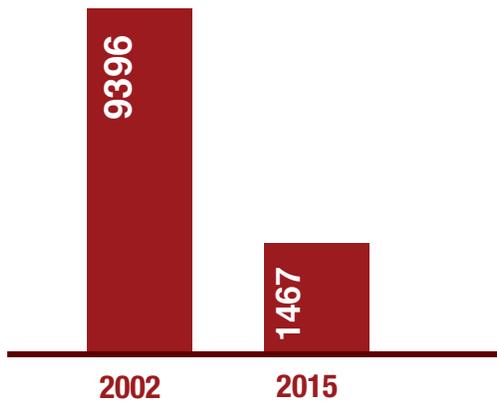


Our study conducted by Mona School of Business and Management, (MSBM) in June 2017, revealed that the leaders of local construction firms perceive that public sector delays, Government procurement policy, cost of financing, and company debt burden are among the main impediments to growth of the sector. Along with policy changes, we suggest several strategies, including adoption of Lean Construction techniques to increase efficiency.

William Lawrence & Cecil White

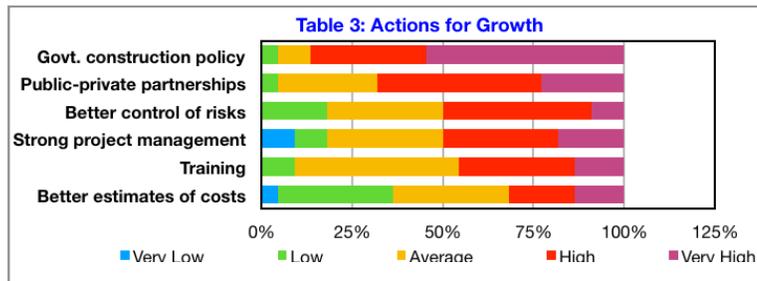
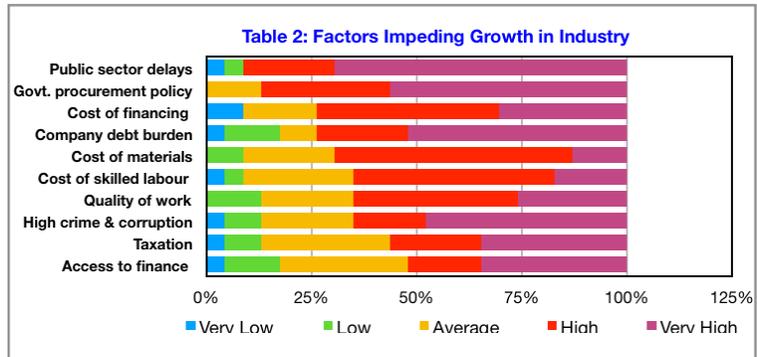
Jamaica is in hot pursuit of economic growth through the activities of the Economic Growth Council (EGC) and various initiatives in the private and public sectors. This thrust is crucial to reduce unemployment and public debt and increase the general standard of living of citizens. The private sector is the engine for economic growth and needs appropriate infrastructure for best results. Construction is at the heart of infrastructure. Studies have shown a strong causal relationship between the aggregate economy and the construction sector. (Relevant studies include, "Role of construction sector in economic growth: Empirical evidence from Pakistan economy" by R.A. Khan, (2008) published in First International Conference on Construction in Developing Countries, August 4-5, Karachi, Pakistan, 2008 ; and "The role of construction in economic growth and development" Habitat International, 9(1), 55-70.) However, data from the Planning Institute of Jamaica (PIOJ) shows substantial decline in housing starts, construction sector employment and percentage contribution to GDP over the period 2002 to 2015 (See Figure 1 and Figure 2) In addition, Jamaica has not yet developed a fulsome strategic plan to align the construction sector with the economic growth ambitions.

HOUSING STARTS



MSBM STUDY REVEALS IMPEDIMENTS TO SECTOR

A survey conducted by Mona School of Business and Management, (MSBM) in June 2017, revealed that the leaders of local construction firms perceive that public sector delays, Government procurement policy, cost of financing, and company debt burden are among the main impediments to growth of the sector. The leaders also believe that an effective construction policy, public-private partnership (PPP) projects, improved project management, and better project cost estimation can remove the impediments. The factors identified as impeding growth are listed in Table 2.



The sector leaders also identified actions that both government and industry can take to promote growth. (See Table 3).

REVENUE OPPORTUNITIES

The Government of Jamaica has identified several large infrastructural projects for long term procurement contracts with private firms having the capacity and demonstrated expertise. These Public-Private Partnerships (PPPs) require construction firms to invest substantial capital with a long-term time horizon, assume significant risks in contract performance, and manage and operate the asset or service within a specified period. The construction of Highway 2000, in partnership initially with Bouygues Construction and later China Harbour Engineering Company, and the privatisation of the Sangster International Airport to the Vancouver Airport Services Consortium are two examples of PPP projects executed by the Government. ▶▶

FIGURE 3: HIGHWAY 2000



Regrettably, only a few Jamaican construction firms have the capital and demonstrated expertise to meet the criteria for bidding successfully on these projects. Consequently, Jamaica has lost some job opportunities, to foreign countries, and failed to retain income from these projects. The Government is well advised to use its procurement policy to build the capacity of local construction firms to undertake PPP projects. This may be done by making full partnership between a foreign construction firm and a local entity, a condition of the PPP contract. In addition, local firms need to collaborate to provide the capital needed for these long-term projects.

Housing development is another area of revenue opportunity for local construction firms. Data from the PIOJ's Economic and Social Survey Jamaica, annual reports 1998-2015, show a positive correlation between GDP growth of the construction sector and the total number of mortgages. Total mortgages have recovered from the slump in 2008 but now mortgages from the National Housing Trust (NHT) have been surpassed by mortgages from other sources. However, each construction firm needs to develop its own evidence-based strategy for exploiting this trend.

REDUCING COSTS AND DEBT

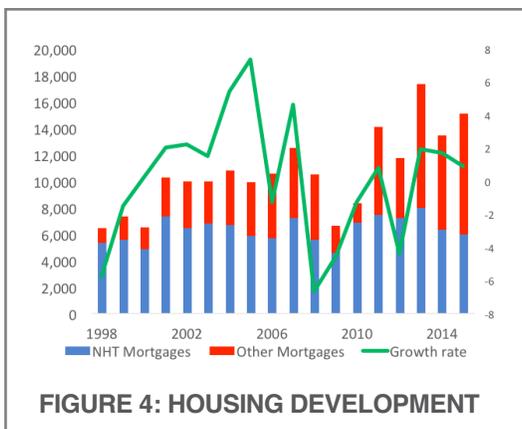
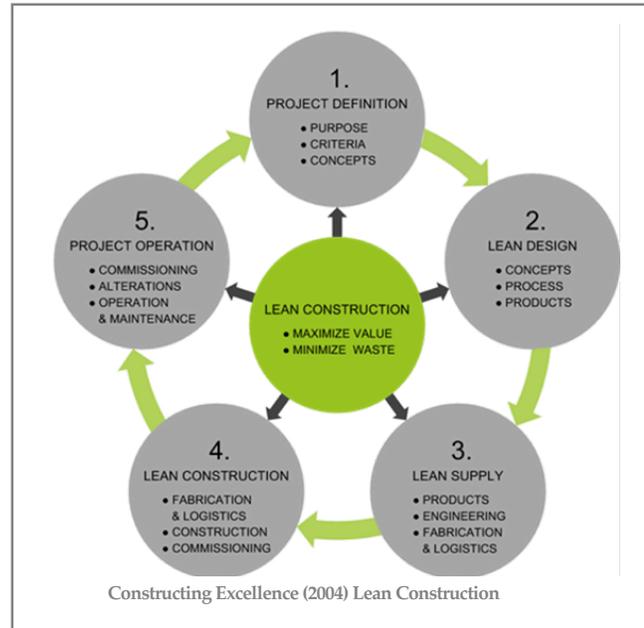


FIGURE 4: HOUSING DEVELOPMENT

The survey also revealed that leaders of construction firms perceive high costs, onerous debt, and high taxation as impediments to company prosperity. Yet, few local firms seem to have adopted LEAN CONSTRUCTION practices as a simple method for cost reduction without compromising product quality or throughput.

Lean construction involves the following five (5) steps:



... only a few Jamaican construction firms have the capital and demonstrated expertise to meet the criteria for bidding successfully on these projects.

High cost of financing and onerous debt may be resolved by issuing public equity on the Jamaica Stock Exchange. Surprising, few construction firms have seized this opportunity especially with the introduction of the Junior Market that grants 100% waiver of corporate income taxes for the first five years after initial public offering (IPO). A simple example of the enormous utility of the Junior Market is illustrated in the financials below.

Table 1. JSE JUNIOR MARKET - ILLUSTRATION

J\$ Billion	BEFORE	ON LISTING	YEAR 1	YEAR 2
Sales	90	90	120	150
Net Profit	9	9	12	16
Total Assets	50	100	110	122
Equity	15	65	74	86
Equity ratio	30%	65%	67%	71%
Dividend pay-out		25%	25%	25%

A small firm, having only \$50 million in total assets, can double its total capital via IPO and realise substantial increases in its equity ratio while building company visibility in the global marketplace.

SUMMARY

Based on our study and industry analysis we have identified a number of measures that both government and the construction industry can take to renew the sector. Government policies must help to build the capacity of local construction firms for large projects (e.g. PPP). This increases jobs and income retention.

For their part, construction firms should exploit recovery in housing development projects for profitable growth; adopt Lean Construction as a simple method for cost reduction; and leverage the stock market for low cost capital, debt reduction, tax relief, and raise their company's profile in order to bid on large projects. ■

William Lawrence is a strategic management consultant and **Cecil White** is a project management professional.




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