



INCLUSIVE SOCIETY INSTITUTE

Op-ed

Turnaround of construction sector is South African economy's bellwether

By Daryl Swanepoel

In the grand theatre of South Africa's economy, where load shedding is a recurring plot twist, the construction industry finds itself cast as the underappreciated sidekick. This once-mighty industry has seen better days and is now desperately attempting to rewrite its storyline.

On the global stage, however, luck has not been on our side. Long periods of low commodity prices and the devastating Covid-19 pandemic have added to the economy's woes. Moreover, the intricate dance of geopolitical complexities and shifts have added new layers of uncertainty.

Closer to home, stark statistics paint a grim picture. In 2022, the construction sector was 23.1% smaller than its pre-pandemic self, witnessing its sixth consecutive year of economic contraction – a sure sign of the economic pains to come.

Moreover, a new villain has entered the stage, namely the dramatic collapse of the country's rail infrastructure, limiting exports, and threatening jobs and investment across the mining, agriculture and manufacturing sectors.

Statistics underscore the severity of the situation, with the volume of freight transported by rail plummeting by 31% since 2017. The resulting inefficiencies are estimated to have imposed a whopping R250-billion cost on the economy last year alone.

Amidst these challenges, chronic power shortages cast an ever-present shadow, impairing South Africa's potential, while elevated crime rates in the form of the construction mafia, rising cash in transit heists, and violent attacks further destroy investor confidence and the wider community's hope for South Africa's future.

Behind these statistics lie countless stories of job losses and shattered dreams. But every great narrative has its turning point. The construction industry stands as both a reflection of South Africa's problems and as a symbol of the country's economic potential.

During the course of 2023, there has been an uptick in construction sector employment, driven mainly by investment in solar power and other renewable energy projects due largely to the pro-investment reforms in the electricity sector driven by President Cyril Ramaphosa over the past few years.

The Inclusive Society Institute believes that now is the time to build on these pro-growth, and pro-investment reforms, particularly in electricity, logistics and security. To create more employment and opportunity, South Africa should aim for a 4% or 5% economic growth rate.

In the Institute's recent dialogue with the construction industry, the need for a multifaceted approach was highlighted. This approach should prioritise the development of State capacity, the professionalisation of the public sector and improved efficiency in supply chain management and procurement practices. These changes will create an environment for efficient project design and execution – the key to growth and success for the construction sector.

Fulfilling commitments to infrastructure projects is not just a governmental obligation; it is the linchpin in stimulating South Africa's construction industry. Simultaneously, we cannot overlook the role that the private sector plays in capital formation. Rebuilding infrastructure and the economy requires concerted and complementary action by the State and private sector to restore confidence in South Africa and rekindle optimism about its economic prospects.

Finance Minister Enoch Godongwana's recent Medium-Term Budget Policy Statement outlines a proactive strategy to mobilise private sector financing and technical expertise at scale. His commitment to amending Treasury regulations and municipal legislation in line with the recommendations of a review of the public-private partnership framework is a step towards addressing challenges that have historically undermined infrastructure projects.

The establishment of an Infrastructure Finance and Implementation Support Agency, coupled with mechanisms for concessional borrowing and approaches such as build-operate-transfer structures, signal a new approach toward fostering private-public collaborations. These interventions, if effectively implemented, have the potential to unlock a range of infrastructure projects crucial for South Africa's economic growth.

Yes, South Africa's script may be challenging, but now is the time to improve our growth story – to convince ourselves that we can grow our economy and succeed as a nation. Despite numerous challenges, the nation has consistently demonstrated the ability to bounce back, adapt and forge ahead.

Even in the midst of record levels of load shedding (South Africa has experienced more power cuts in the nine months to September 2023 than in the whole of 2022), the economy managed to achieve growth in the first half of the year. While an economic growth rate of 0.9% is wholly insufficient to address the country's economic challenges, it is a sign of South Africa's economic resilience and a signal that if we increase public and private sector cooperation and improve the country's policy frameworks, we have the potential to improve our performance on the world stage.

Daryl Swanepoel is the Chief Executive Officer of the Inclusive Society Institute. This article draws on the content of the Institute's Building the Future: Construction Industry Summit report, capturing the proceedings of the recent summit hosted in collaboration with ASLA.