



INCLUSIVE SOCIETY INSTITUTE

Op-Ed

Construction Sector: A friend in need is a friend indeed. Let the private sector help.

By Daryl Swanepoel

The construction industry can play a vital role in helping to restore growth and rebuild the economy after following nearly two years of Covid-19 and many more of policy uncertainty, financial maladministration, poor leadership and electricity shortages.

The industry, whose fortunes are closely linked with public infrastructure spending and well-functioning municipalities, has made a call on government to give it the opportunity to put its substantial shoulder to the wheel and help drive economic development. To do so, it says, government must be willing to forge greater partnerships and to rely more on the private sector's extensive skills and financial resources to get the cogs of the economy turning once more.

The construction industry recently participated in an Inclusive Society Institute-hosted roundtable, during which strategies for accelerated and sustainable economic growth were canvassed. Arising from this engagement, the clarion call from South Africa's construction industry was that government cannot do it alone and that public-private partnerships (PPPs) are the only way forward.

South Africa must move towards an economic framework in which PPPs predominate. PPPs have the potential to deliver better value for money and can mobilise private sector resources that would not be available from the overburdened fiscus.

As explained recently by RMB Chief Economist Etienne Le Roux, "The good news is that big businesses now have balance sheets that enable them to respond. Most have been on a credit diet over the past year-and-a-half, and many have used the Covid-19 crisis to refocus on streamlining operations. With debt levels mostly under control, costs managed down and revenues improving as the economy rebounds, large firms have the financial wherewithal to ramp up investment. And there's evidence it is happening. In the second quarter of 2021 the private sector invested R145-billion, or R35-billion more than the low of a year earlier."

The private sector is inherently profit-seeking and will invest in projects if the expected cash flows will compensate for the risks involved. However, private sector representatives have indicated that they do not want to be seen only as funders of government-initiated projects. They desire a true partnership – in which the construction industry and contractors are consulted early in the planning and design phase of projects, so that projects can be well designed and specified – a surer recipe for successful execution.

Counterintuitively, PPPs should be intentionally designed to strengthen public sector capacity over time, especially at municipal level where technical and financial skills are sorely lacking. Municipalities are often run by staff and managers who do not have the professional competence or ability to do their jobs. Experience has shown that it's not always a lack of finances that is to blame for the country's well-documented crumbling infrastructure, but a lack of capability to design projects and spend the money that is available.

Although in many instances financial controls continue to be a major problem and PPPs will need to be subject to proper governance and financial management. Currently, billions of rands are lost because of unauthorised, irregular, fruitless and wasteful expenditure, highlighting the lack of accountability, weak project management and skills deficiencies in key positions across different levels of government. According to the Auditor General, irregular expenditure by provincial and national departments rose to more than R166-billion in 2021. This is a crippling increase of R75-billion since last year, at a time when every cent is urgently needed.

Leadership and management failures are arguably the greatest single stumbling block to effective service delivery and development. Apathetic officials often scupper private projects by bogging them down in a slow approval process. The Inclusive Society Institute-led discussions proposed that a council of experts be established to oversee approval process and to deal with appeals regarding approvals. For example, should an application fail to be processed in the specified timeframe, the council of experts should determine the reasons for it – whether it be an unresponsive official or a problem with the supply of bulk services – and propose a resolution.

Similarly, for the awarding of public tenders – the process is complicated and slow, and the ratio of tenders that are awarded is too low. In some instances, government tenders are issued purely for speculative or budgeting reasons with no intention or ability to follow through. If government is serious about speeding up development, it must announce winning tender timeously after following a fair and efficient process. The tender process must be streamlined and simplified – submissions tend to contain a lot of duplicated information, which adds time and costs to the process.

South Africa's construction industry is going through lean times, but it retains core capabilities which if effectively harnessed can play a crucial role in getting employment, growth and infrastructure investment flowing again. PPPs have the potential to activate an increased role for the private sector and bring a professional element to the project design and execution process.

To succeed South Africa needs to begin to do things in new ways. As one of the greatest brains of the modern world, Albert Einstein, is reported to have said: "We can't solve problems by using the same kind of thinking we used when we created them."

Daryl Swanepoel is Chief Executive Officer of the Inclusive Society Institute, an autonomous and independent research institute. This article captures the essence of the retail sector's contribution towards the development of the institutes blueprint for the rejuvenation of the South African economy.

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