

Concerted effort by government, private sector needed for construction turnaround

While the ailing South African construction industry contributed to the worst decline in economic activity in a decade in the first quarter of 2019, also contributing to unemployment by shedding some 142,000 jobs between the Q4 2018 and the first quarter of this year, a concerted effort by both government and the private sector could turn the industry around.



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This is according to Allen Bodill, executive director of the Master Builders' Association Western Cape (MBAWC), who says, "Obviously we are very concerned about the number of liquidations and business rescues we are seeing in the industry. Our own members are also acutely affected by the prevailing difficult circumstances."

Government spending

A general dearth in government spending and infrastructure projects, coupled with political uncertainty and its resultant effect on investor confidence, has seen many industry players of all sizes being brought to their knees.

In terms of government spend, in his recent State of the Nation Address (SONA), President Cyril Ramaphosa said the government would be taking a new approach to construction.

“It includes a special package of financial and institutional measures to boost construction and prioritise water infrastructure, roads and student accommodation through a more efficient use of budgeted money. As announced at the previous SONA, government has set aside R100bn to seed the Infrastructure Fund,” Ramaphosa said, adding that he was working towards the fund being managed by the Development Bank of Southern Africa.

While this is good news, says Bodill, and should be applauded, it is important that the fund is managed in a way that ensures its purpose is fulfilled. “We welcome the government’s commitment to the Infrastructure Fund. A lot of money is purportedly going to be spent on housing in the Western Cape. This would provide a much-needed boost for the industry and also create much-needed employment in our region,” Bodill said.

Prejudicial contract practices

However, while the MBAWC understands that the drive must come from the top, at an industry level certain practices have developed that must be addressed, says Bodill. “The industry is under pressure. Everyone is facing existential risks, from the large main contractors, all the way down to the smallest subcontractors and suppliers in the construction supply chain.”

“There is no doubt that, as some of the bigger firms have collapsed, it has opened up new opportunities for smaller, more agile contractors, but some unfortunate contract practices have evolved that prejudice the financial security of participants of all sizes in the industry,” says Bodill.

One such practice involves the amendments of standard contract documentation, which serves to unfairly shift the balance of risk amongst participants in the supply chain. This is especially prevalent under the current market conditions, leading to main contractors and subcontractors accepting more onerous contract conditions, simply because they are desperate for work.

“At the MBAWC we also frequently see the effects of delayed and non-payment of contractors, and this is directly affecting the viability of many businesses. While there has been significant job losses, due to some larger firms going into business rescue or being placed in liquidation, the erratic and late payment practices that are becoming a widespread phenomenon in the industry are threatening the continued existence of contractors, subbies and suppliers of all sizes and descriptions. The smaller, labour-only type subcontractors who now carry out a significant portion of the work on projects, due to the ongoing fragmentation of the industry, are particularly at risk. The livelihoods of many families are directly dependent on smaller contractors, who operate in this space, being paid fairly and timeously,” Bodill explains.



Delayed, non-payment of subcontractors contributing to construction industry crash

28 Jun 2019



Skilled labour emigrating

He also points to the worrying trend of capacity in the local construction industry being eroded, with many skilled construction employees emigrating, or choosing to seek work in other markets. It is to be hoped that some recovery in the local economy is not too far off. Should this occur, construction, as one of the labour-intensive industries with the potential for creating large-scale employment, could be set to benefit.

“In any recovery process, there are attractive commercial opportunities for small, dynamic players, who are able to adapt rapidly in order to take advantage of more favourable economic conditions. It is to be hoped that the 25 basis-point reduction in the interest rate announced by the Reserve Bank heralds the beginning of the reversal of the downward trend in the economy and provides some relief to the consumer, in addition to precipitating an anticipated rebound in the GDP and a signal of some broader economic recovery,” he concludes.

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