A Review of the South African Construction Industry

Part 1: Economic, Regulatory and Public Sector Capacity Influences on the Construction Industry
Preface

Working towards a better built environment, CSIR Building and Construction Technology, also known as CSIR Boutek, serves the building and construction industry, including government at all levels. CSIR Boutek is active in various fields categorised under construction technologies, sustainable human settlements, facilities planning and management, development management services, Agrément and forensic fire investigations.

The construction technologies field includes initiatives to improve performance in the construction industry. CSIR Boutek produces publications of relevance to professionals in the building and construction industry, decision-makers in central, provincial and local government, as well as students.

In undertaking this review of the South African construction industry, Boutek is assessing the status of the industry against global standards and local demands. This is the first part in the review series and it examines the impacts of the economy and the regulatory environment on construction industry performance. It further assesses the capacity of the public service to translate government’s increasing capital expenditure budget into improved construction industry delivery. These three influences exercise a fundamental role in ensuring enhanced construction industry performance in the medium term.
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Executive Summary

Construction plays an indispensable role directly and indirectly as a contributor to economic growth. It is a significant employer of people; it creates numerous economic opportunities for medium and small enterprises; its products have an extraordinarily long life and they unleash abundant economic opportunities for their consumers; and it contributes directly to improving the quality of life of its users.

The period under review (December 1999 to December 2003) has ended with the best economic performance for the country since the advent of democracy ten years ago. The economy is buoyant – albeit ending on a growth rate below that anticipated – and the Rand has been strengthening progressively. Interest rates are at an all-time low and the official rate of inflation is at its lowest level in 45 years and well within the range set by government. Finance Minister Trevor Manuel confirmed with the release of the Medium Term Expenditure Framework (MTEF) that the fiscal framework is growth-orientated and reflected government’s commitment to long-term sustainability, a commitment reinforced through the continued declining cost of servicing debt as a share of GDP. The release of the MTEF further reaffirmed government’s commitment to the rollout of social and economic infrastructure through the expanded national public works programme as well as through increased government and parastatal investment.

Economists¹ argue that employment levels, which took a hammering in 2002/03, will stabilise in 2004, a view shared by ABSA², which expects the job market to improve in the second half of 2004. This improvement will most probably occur within the manufacturing sector as consumer demand rises on the back of lower interest rates. It is not likely to significantly benefit the construction industry, as the systemic issues impacting on the industry remain, by and large, unchanged. Employment levels within the construction sector have dropped from 255,000 workers in 1990 to just below 160,000 in 2002. However, the shift to informal employment must be factored in as it has been suggested that roughly one million people depend on the industry for an income³. It must be further noted that 520,486 people indicated through Census 2001 that they were employed within the construction sector.

Employment numbers and type remain a key challenge to the country: data obtained from the census indicates that almost 44% of South Africans in the age category 15-65 years are not economically active. The type of employment presents its own challenges: by occupation and within the employed category aged 15-65 years, the highest percentages are for elementary occupations, with altogether more than two in every ten of the employed in elementary occupations. Construction as a sector has its own challenges in this regard: it employs the fourth highest number of persons having no education, behind agriculture, households and mining. Construction also has the fourth smallest percentage of employed persons with a higher education qualification, behind households, agriculture and mining.

¹ Mike Schüssler: Tradek, Johannesburg
² Chris Hart: Economist, Absa, Johannesburg, 2004
³ Building Industry Federation of South Africa: Annual Report, June 2003, Midrand
The challenge of infrastructure development in developing countries remains immense: with the world’s population expected to increase by another two billion between 2003 and 2015 (most of it in urban centres), the challenge will become acute. An estimated 1.2 billion people globally lack access to safe water; 2.4 billion lack access to adequate sanitation; 2.5 billion lack access to energy supplies and 900 million people in rural areas have no reliable roads to give them access to jobs or markets for their products. In Sub-Saharan Africa, less than 8 percent of the population is connected to the power grid. The World Bank has estimated that the present annual investment levels will need to double from about US$15 billion to US$30 billion to reach the Millennium Development Goals aimed at reducing poverty by 2015. This places huge significance on the efficient use of scarce capital in developing countries. The 2001 Census indicates that South Africa’s needs match those included above.

In South Africa during 2002, the construction industry delivered an output in excess of R57 billion per annum, of which approximately 30% came from public sector orders and tenders, 13% from public corporations and 58% from the private sector. This constitutes almost 30% of total investment in South Africa.

National spending priorities include infrastructure to support industry development, i.e. making sure that the public infrastructure is in place to support industrial investment. The 2004 MTEF places increased emphasis on infrastructure provision at provincial and local level. The three-year medium term budget makes provision for an increase in capital expenditure to 6.4 percent of GDP in 2004/5.

However, there is serious concern within the industry at the high rate of enterprise failure and the potential consequences of that on the industry’s ability to deliver. According to StatsSA there were 532 liquidations of construction companies in 2000, 554 in 2001, and 371 in 2002. Whilst the drop in liquidations is to be welcomed, the fact remains that over 1,400 contracting enterprises could not remain viable over the past three years. The reason for at least some of this failure is to be found in the current lack of profitability in contracting: a measurement of profitability established within the industry has indicated a continual decrease in this regard over the long term.

Another significant cause – believed by some to be the core challenge – is poor management and management expertise. South Africa’s productivity remains low. A recent international productivity survey found that South African businesses used only 59% of their time productively, with poor planning and inadequate management still the key reason for time wasted.

Economists point out that South Africa’s skills problem, particularly at middle management level, is costing the country about R154.4 billion annually, which represents 14.4% of GDP. If this problem could be satisfactorily addressed over the next five years, it would produce almost 3% GDP growth per year over that period.

Within the two sub-sectors that dominate the construction sector, data containing the number of building plans approved by local authorities and the number of completed works suggests that the building sector will make a bigger contribution to gross domestic product (GDP) growth in 2004.

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Mike Schüssler: Tradek, Johannesburg

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Whilst there has been a notable increase in the number of plans submitted, the lower level of completions – down 9.2% generally in real terms – remains a cause of deep concern. The residential sector is likely to continue outperforming the non-residential sector in 2004, especially if the lower level of activity in the manufacturing sector persists. Exacerbating this trend is the current high rate of vacancies in office buildings coupled to the low rate of building plans submitted for new office buildings. Much of the blame for this unhappy state of affairs must be aimed at the high interest rate environment of 2003. One hopes that the lower interest rate environment will unlock this opportunity.

According to SAFCEC, activity in the civil industry slowed by an estimated 5.6% in real terms quarter-on-quarter in the second quarter of 2003. SAFCEC believes that two factors are crucial regarding the removal of impediments for growth prospects for the sector: the first has to do with inconsistency in the nature of the projects being delivered, and the second has to do with fragmented work.

A further cause of concern is the high rate of cost increases manifesting within the industry – some of them way in excess of inflation. It will be a great pity if material price increases – whether driven by profit taking or not – stunt the benefits of lower interest rates. One can only trust and hope that the situation that arose with food price increases in the first half of 2003 is not repeated within the building industry in 2004.

There are many external influences impacting upon the performance of the construction sector, one of the most crucial being the role of government. Legislation and public sector capacity, both in terms of financial and human capital, influence the performance of the industry directly. Since 1994 government has passed more than 1000 pieces of legislation, which have in turn spawned numerous regulations. There are at least 30 Acts that impact directly and indirectly on the operating environment of the construction industry, most of which are un-coordinated and rest with various ministries. They impact upon tender procedures and procurement; employment and labour practices; black economic empowerment; planning permissions and controls; skills development and training; business practices; and the role of the built environment professions. Business associations have the impression not only of over-regulation but of poorly drafted regulation or of good law being poorly implemented. All of this acts to constrain business growth and investment and hobble enterprise, and this can cost jobs.

In conjunction with the legislative measures are key government policies and agreements, such as the Growth, Employment and Redistribution policy (GEAR) and the Growth and Development Summit agreement (GDS). These policies and agreements establish government’s key objectives and the strategies it intends following in achieving them. Central to these objectives are the creation of more and better jobs; decent work for all; increasing investment in the country; advancing equity; developing skills; creating economic opportunities for all; extending basic services to all; and improving the service delivery of the public sector.

Public sector capacity – both financial and human – is a significant influencer of construction industry performance. It is clear that without significantly improved economic growth, government will be seriously challenged to increase its investment in infrastructure beyond its current growth level of 6% per annum. Notwithstanding this, public sector capacity
will have to improve significantly if it is to spend the allocations it currently receives. Further major interventions will be required to enable it to rise to the challenge of a growing economy, particularly if the desired growth rate of 6% of GDP is reached. Fortunately, government has recognised the above in its ‘Towards a Ten Year Review’\(^5\) (PCAS: 2003).

From a private sector perspective, the mismatch between available skills and required skills must be removed if the appropriate skills in sufficient numbers are to be provided, and real job growth is to be delivered. Firstly, the high number of industry participants who have no education, let alone a qualification, is a serious impediment to construction industry development. Secondly, the industry needs to identify international construction technology trends in order for it to develop the skills that will enable it to meet global standards.

Government and the private sector have much work to do in creating the enabling environment required by the construction industry if this sector is to make the quantum of contribution that it is capable of making. As an example, South Africa is still not able to turn the strong residential demand into an economic driver in the same manner that the economies of the United States and Great Britain have been able to do. Those economies have been underpinned by the strength of the residential market, and provide a model worthy of emulation. The strengthening of the Rand is another example: the currency is the strongest performer against the US dollar for the second consecutive year, yet the country seems unable to capitalise on this extraordinary performance.

An enabling environment must be structured to promote investment; advance the development of the right skills and the building of knowledge; build the necessary capacity throughout the sector (public and private); promote innovation and productivity; provide world-class management expertise; set the appropriate performance and quality standards; simplify supply and delivery procedures; foster the creation of partnerships; and commit to targeted research and industry development.

\(^5\) Policy Co-ordinating and Advisory Services (PCAS): The Presidency, October 2003

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1 Introduction

The World Bank rates economic growth as one of the most effective ways of reducing poverty: Government, through its microeconomic strategy, has confirmed that infrastructure development is one of the key pillars of economic growth. Investing in good infrastructure therefore, along with other drivers of growth such as the necessary and appropriate skills development, improved health and education services, an investor-friendly economic climate, and good governance, is central to the objective of reducing poverty.

Infrastructure development, such as good roads and efficient port facilities and rail lines, can boost a developing country’s ability to trade nationally and internationally, thereby creating opportunities for improving the standard of living. The infrastructure needs of South Africa remain immense and will continue to be so as the population grows.

“There is now a strong recognition in the development community of the key role that infrastructure plays in achieving the Millennium Development Goals”

World Bank President James Wolfensohn

The 2003 Intergovernmental Fiscal Review acknowledges that capital expenditure promotes service delivery and expands economic opportunities. It confirms the belief that improving the quality of infrastructure will improve the likelihood of efficient service delivery, reduce the cost of doing business and act as a catalyst for higher economic growth and job creation.

In a bid to revitalise investment in infrastructure, government has developed plans to intensify its involvement through increasing its investment in this sector. However, this challenge will not be met by government’s intervention alone: private sector investment will have to improve significantly if the backlog in infrastructure is to be reduced. Significant interventions will be required, however, if private sector investment is to be secured. Essentially, a positive investment climate will have to be created within the construction industry.

This report examines some of the contextual issues influencing the creation of such a positive investment climate.

2 Economic background

The period under review (December 1999 to December 2003) ended with South Africa’s best economic performance since the advent of democracy ten years ago. The economy is buoyant – albeit ending on a growth rate below that anticipated – and the Rand has been strengthening progressively. Interest rates are at an all-time low and the official rate of inflation is at its lowest level in 45 years and well within the range set by government.
2.1 Growth

South Africa’s GDP for 2002 was R1 099 billion, positioning it as a middle-income country. Growth in real gross domestic product slowed down to an annualised 1.5% in the first half of 2003, after peaking in the first half of 2002. The latest figures published for GDP growth suggest that the slowdown in economic activity that started in the second quarter of 2002 probably bottomed out in the second quarter of 2003. The strong Rand, together with weaker global demand, has dampened real output in the primary and manufacturing sectors. The currency is likely to end 2003 as the best-performing currency against the US$ for the second consecutive year.

On the other hand, the recent interest rate cut – prime is now at a 17-year low – and Budget cut will support future growth. Headline inflation is also expected to fall to zero for the first time ever. The Standard Bank economists argue that whilst the growth figures for 2003 do not look that good, once adjusted for the distortions indicated above, the actual growth figures are slightly better. These figures, together with the anticipated economic growth for 2004, are likely to intensify calls for further cuts in the bank rate. Certainly, the anticipated growth in domestic demand, driven in part by the reduced bank rate and the festive season, has materialised with retailers recording a spending boom – 15-20% improvement in sales – that they anticipate will last for the following six months.

The Tradek economist Mike Schüssler believes that domestic spending will help boost the economy and counter the drop-off in exports resulting from the stronger Rand. The one uncertainty is the outcome of the current drought on agricultural production. This volatile sector, which has a significant swing influence on economic performance, could dampen the benefits accruing from other economic sectors. Schüssler also argues that employment levels, which took a hammering in 2002/03, will stabilise in 2004, a view shared by ABSA, which expects the job market to improve in the second half of 2004 (Chris Hart: 2004).

Finance Minister Trevor Manuel confirmed with the release of the medium term expenditure framework (MTEF) that the fiscal framework is growth-orientated and reflects government’s commitment to long-term sustainability, a commitment reinforced by the continually declining cost of servicing debt as a share of GDP.

The key macroeconomic indicators as at 4 December 2003 for the ensuing four years are forecast by Standard Bank as follows:

| Table 1: Macroeconomic forecast (figures for 1998-2002 are actual) |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| GDP forecast (% p.a.) | 0.8    | 2.0    | 3.5    | 2.8    | 3.6    | 1.5    | 3.3    | 3.8    | 3.2    |
| Gross fixed capital formation GFCF (% p.a.) | 4.6    | 8.1    | 0.8    | 3.2    | 6.5    | 5.5    | 8.0    | 8.5    | 7.0    |
| CPIX (metro and other urban areas) annual average | 7.2    | 6.9    | 7.7    | 6.6    | 9.3    | 6.8    | 4.6    | 4.9    | 4.6    |
| PPI (% p.a.) annual average | 3.5    | 5.8    | 9.1    | 8.5    | 14.2   | 1.8    | 2.2    | 4.7    | 4.9    |
| Prime (year end) | 23.0   | 15.5   | 14.5   | 13.0   | 17.0   | 11.0   | 12.0   | 12.0   | 12.25  |

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2.2 Sector performance

Mining and the transport and communication sectors were the major contributors to the increase in quarterly real GDP, whilst the manufacturing and agricultural sectors had a negative effect on growth. The manufacturing sector has been the weakest link in the economy’s effort to improve growth, with September 2003 marking the seventh consecutive month of negative growth. Curiously enough, manufactured goods constitute over three-quarters of total imports, with machinery, electrical equipment, vehicles and transport equipment the largest components. One hopes that the strengthening of the Rand will not impede the development of a robust local manufacturing capacity. The deficit in manufactured goods trade rose from R26.5 billion in 1995 to R50.1 billion in 2002, according to the medium term budget policy statement (MTBPS). Cognisance must be taken of the expiry of the Africa Growth and Opportunity Act (AGOA) in 2008, and the resultant need for South Africa to improve the competitiveness of its domestic production.

The lower interest rate environment should ease pressure on the manufacturing sector. The effects of weak production of manufactured goods are evidenced in the slow growth of GDP, of 1.1%, in the second and third quarters of this year.

Figures released by StatsSA show that the contributions to growth in real GDP (seasonally adjusted and annualised) during the third quarter of 2003 came from the following sectors:

- Agriculture down by a massive 21.8%, mainly due to decreases in the production of field crops (maize) because of the drought;
- Mining up 6.2%, primarily the result of an increase in the production of non-gold minerals;
- Manufacturing down 1.7%, mainly due to decreases in food and beverages, textiles, clothing and leather products, base metals, fabricated metal products, machinery and equipment products;
- Electricity, gas and water up 2.4%;
- Construction up 4.1%;
- Wholesale and retail trade, hotels and restaurants up 4.3%, due to increases in the value added by the retail trade and motor trade industries;
- Finance, real estate and business services up 1.6%, mainly the result of increased activity in the real estate and business services industries;
- Transport and communication up 5.8%, driven by increases in the land transport and the telecommunications industries;
- Community, social and personal services up 4.2%; and
- General government up by 0.6%.

In general, the slowdown in activity in the third quarter was mainly the result of a big decline in the output of the agricultural sector, emphasising once again the impact of this volatile sector as far as growth is concerned. Non-agricultural GDP showed consistently higher growth over the first three quarters of 2003, reaching 2.1% in the third quarter.

Despite the profitability of exports being lower compared to 2002, the growth rate of exports remains positive. Within the natural resource-based
and labour-intensive groups, no sector recorded positive growth in September 2003.

The strength of the Rand has nonetheless begun to filter through to the trade: the Rand is getting stronger and this shows no sign of abating. This is likely to put further pressure on exports and keep imports buoyant. The trade balance is thus likely to continue trading in deficit territory in the coming months, mainly on the back of a weak dollar.

### 2.3 Inflation

StatsSA reported that inflation fell to just under the mid-point of the 3-6% target range, reaching 4.1% year-on-year. The Standard Bank anticipates that CPIX inflation will fluctuate between 4 and 5% over the next two years. Lower fuel costs and subdued vehicle pricing assisted transport costs (0.2 and 0.3pp respectively) in reducing pressure from consumer inflation. Housing costs, as measured within the core and CPIX measures, further assisted in reducing pressure on inflation. Housing costs rose a mere 0.1% in October 2003, compared to 0.8% month-on-month in September 2003.

Producer prices fell again in October 2003, indicating that producer price pressures are likely to prolong the extent and duration of the downward turn in the CPI.

The key contributors to the overall PPI’s monthly movement were agriculture – exerting upward pressure – and paper products and printing, products of petroleum and coal and electricity all exerting downward pressure. The overall electricity, gas steam and water component recorded a monthly decline of 5.4% in October 2003.

### 2.4 Employment

Employment figures indicate that more jobs are being lost than created, and official unemployment, i.e. those who actively seek jobs, stands at 31%. The formal non-agricultural sector shed about 57,000 employees between March and June 2003 (StatsSA: November 2003). The stronger Rand wiped out close to 5,000 jobs in the mining industry alone over October/November 2003. At the same time, gross earnings paid to employees reflected a 2.6% decrease compared with the quarter ended December 2002. According to the June 2003 Survey of Employment Earnings, about 6.4 million people were employed in the formal non-agricultural sector at the end of June 2003.

The survey attributes a substantial part of the loss of employment to the construction industry, accounting for 13,000 (-3.5%) of the total. Employment levels within the construction sector have dropped from 255,000 workers in 1990 to just below 160,000 in 2002. However, the shift to informal employment must be factored in, as it has been suggested that roughly one million people depend on the industry for an income. Note further that 520,486 people indicated through Census 2001 that they were employed in the construction sector.

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Government has promised to create 1 million jobs within the next five years through a new programme announced in September 2003\(^7\). The new jobs are expected to be created in the following categories and numbers:

- Labour-intensive provincial and municipal infrastructure 500 000;
- Other infrastructure programmes 150 000;
- Working for water 125 000;
- Waste management 20 000;
- Land care 20 000;
- Social sector still to be announced; and
- Economic sector still to be announced.

2.5 Census 2001

The South African total population stood at 44.8 million in 2001 (up from 40.5 million in 1996) of whom 21.4 million were male and 23.3 million were female. Black Africans constituted 79%, Whites 9.6%, Asian/Indian 2.5%, and Coloured 8.4% of the total. By province, KwaZulu-Natal (21.0%), Gauteng (19.7%), the Eastern Cape (14.4%), Limpopo (11.8%), and the Western Cape (10.1%) each have a double-digit share of the geographic dispersion.

2.5.1 Language

IsiZulu is the most commonly spoken first home language (23.2%) followed by IsiXhosa (17.6%) and Afrikaans (13.3%). English is fifth at 8.2%.

2.5.2 Age

Within the five-year age group population brackets, the highest percentages are to be found within the 10-14 age group, followed by the 15-19 and 5-9 age groups.

2.5.3 Education

Almost one in every five South Africans aged 20 years or more have received no formal education, whilst 20.4% have Grade 12 qualifications (5.2 million in total) and 8.4% have a higher education qualification (2.1 million in total). In South Africa as a whole, fewer than one in ten people have a tertiary qualification. Twenty-two percent of Black Africans aged 20 years or more have received no education. On the positive side, over 80 percent of those aged 7-17 are attending an educational institution.

2.5.4 Employment

Employment data obtained from the Census indicates that almost 44% of South Africans in the age category 15-65 years are not economically active. They are students, homemakers, too ill or disabled, etc. and are not available for work. Table 2 provides the employment breakdown per population group.

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\(^7\) Minister Stella Sigcau: Parliamentary Media Briefing, Cape Town 12\(^{th}\) September 2003.

http://www.csir.co.za/akani
Table 2: Employment per population group

<table>
<thead>
<tr>
<th></th>
<th>Black African</th>
<th>Coloured</th>
<th>Asian / Indian</th>
<th>White</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployed</td>
<td>19.0</td>
<td>13.9</td>
<td>11.7</td>
<td>4.1</td>
<td>16.5</td>
</tr>
<tr>
<td>Employed</td>
<td>33.9</td>
<td>49.8</td>
<td>52.1</td>
<td>64.9</td>
<td>39.8</td>
</tr>
<tr>
<td>Not economically active</td>
<td>47.1</td>
<td>36.2</td>
<td>36.2</td>
<td>31.0</td>
<td>43.9</td>
</tr>
</tbody>
</table>

By occupation and within the employed category aged 15-65 years, the highest percentages are for elementary (28.4%); skilled agricultural (13.1%); sales/service (10.9%); clerical (11.6%); technical (10.3%); operator (9.4%); professional (7.5%); and managerial (5.8%). Altogether more than two in every ten of the employed were in elementary occupations.

The professional category represents 668 463 persons of whom Whites constituted 331 094; black Africans 241 578; Asian/Indian 48 192; and Coloured 47 599. Between the 919 774-strong technician and associate professional category, black Africans constituted 486 731; Whites 282 481; Coloured 101 800 and Asian/Indian 48 762 persons.

Among employed persons holding a Grade 12 certificate or higher level of education, professionals constituted 87.3%, technicians and associate professionals 77.7% and legislators, senior officials and managers 74.7%.

Of the employed, 32% are in the community sector; 13.8% in manufacture; 16.7% in trade; 11.0% in agriculture; 10.3% in finance; 5.9% in construction (520 486 in total); 5.1% in transport; 4.4% in mining; and 0.8% in electricity. The community, social and personal service industry (including the public sector and private households), employs more than one in three people in the workforce.

The construction sector employs the fourth-highest number of persons who have no education. The first sector is agriculture, followed by households and mining. Construction also has the fourth-smallest percentage of employed persons with a higher education qualification, behind households, agriculture and mining.

2.5.5 Dwelling type

Formal households constitute the highest percentage of dwelling type (63.8%), followed by Informal (16.4%), traditional (14.8%) and backyard (4.8%). Six in every ten households live in a formal dwelling.

Four-roomed dwellings represent the highest percentage of rooms per dwelling unit (20.9%), followed by one-roomed (17.6%) and two-roomed (15.8%). More than half the households in the country live in three or fewer rooms (excluding bathrooms, sheds, garages, stables, etc., but including kitchens).
The following table indicates the predominant dwelling type.

**Table 3: Type of dwelling**

<table>
<thead>
<tr>
<th>Dwelling Type</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>House or brick structure on a separate stand or yard</td>
<td>6 238 462</td>
</tr>
<tr>
<td>Traditional dwelling/hut/structure made of traditional materials</td>
<td>1 654 787</td>
</tr>
<tr>
<td>Informal dwelling/shack not in backyard</td>
<td>1 376 706</td>
</tr>
<tr>
<td>Flat in block of flats</td>
<td>589 108</td>
</tr>
<tr>
<td>Informal dwelling/shack in back yard</td>
<td>459 526</td>
</tr>
<tr>
<td>House/flat/room in back yard</td>
<td>412 374</td>
</tr>
<tr>
<td>Town/cluster/semi-detached house (simplex/duplex)</td>
<td>319 868</td>
</tr>
<tr>
<td>Room/flatlet not in back yard but on shared property</td>
<td>120 609</td>
</tr>
</tbody>
</table>

**2.5.6 Energy**

Electricity is the predominant energy source used for cooking, heating and lighting (51.5%, 49.1%, and 70.5% respectively). Paraffin is the second source for cooking, wood for heating and candles for lighting. Seven in every ten households in the country use electricity for lighting.

**2.5.7 Water**

Piped water is the main source of water supply for households (84.5%) followed by river/stream (6.5%). Eighty five percent of households have access to piped water, either in the dwelling, or on site from a communal source.

**2.5.8 Sanitation**

Flush/chemical toilets constitute the majority of toilet facilities used by households (50.5%) followed by un-ventilated pit (22.8%). Approximately one in every eight households in South Africa does not have access to a toilet.

**2.6 The Medium-Term Expenditure Framework**

Government reaffirmed its commitment to a counter-cyclical, growth-orientated fiscal framework for the medium term through the announcement by the Minister of Finance, Mr Trevor Manuel, that the main budget deficit would rise to 3.2% of gross domestic product (GDP) in 2004. The release of the medium-term expenditure framework (MTEF) further reaffirmed government’s commitment to the rollout of social and economic infrastructure through the expanded national public works programme as well as through increased government and parastatal investment. The increase in the deficit ratio is significant as it represents a departure from government’s previous attempts at keeping it below the 3% level as part of its sound fiscal management policy, a threshold set for members of the European Union in which fiscal prudence is viewed as critical for sustainability.

The 2003/04 medium term budget policy statement (MTBPS) makes provision for total revenue of R299.4 billion. Both revenue and expenditure numbers are lower. The revised estimate for total expenditure is R331.5 billion. This indicates a Budget deficit of R31.6 billion for the fiscal year, representing 2.6% of projected GDP.
Real GDP growth of 3.0% was recorded for 2002, but StatsSA has revised this to 3.6%, although this new figure has not yet been incorporated into fiscal calculations. This adjustment is likely to lower the anticipated increase for 2003. GDP is expected to rise to 4.0% in 2006 from the anticipated 2.2% for 2003, whilst the Budget deficit is likely to increase to 2.8% of expected GDP by 2006/07.

The Reserve Bank has disclosed that the country’s net open foreign currency position has been reduced to zero from the $23.2 billion position of September 1998, resulting in South Africa’s gross reserves being greater than its forward contract commitments. At the end of October 2003 there was a positive net open foreign currency position of $2.7 billion. The value of South Africa’s gross reserves has also grown to $7.8 billion.

The MTEF makes provision for the additional allocation of R19.9 billion to the provinces, mainly for social grants, support material for school pupils, the provision of antiretroviral treatment, and for infrastructure spending. Over the same period, national transfers to local government will rise from R12 billion in 2003/04 to R17.1 billion in 2006/07, representing a real growth of 6.9% a year over the three years. Altogether, transfers from nationally based revenue will grow by 4.3% in real terms over the MTEF, from a revised R161.5 billion in the current financial year to R213.3 billion in 2006/07.

Government is reviewing the fiscal framework for local government with a view to introducing reforms in the 2005 Budget, taking into account the fiscal powers and functions of municipalities in light of the pending Local Government Property Rates Bill, the review of the regional services council levies, and the shifting of electricity distribution functions away from municipalities to regional electricity distributors.

### 2.7 Construction sector

Research confirms that growth is one of the most effective ways of reducing poverty, and that infrastructure development is one of the key pillars of economic growth. Providing a developing country with good infrastructure along with the other drivers of growth – better health and education services, a positive investment climate, and good governance that respects property rights and is corruption free – is central to the mission of reducing poverty (World Bank: 2003).

#### 2.7.1 Global

The challenge of infrastructure development in developing countries remains immense: with the world’s population expected to increase by another two billion between now and 2015, the challenge will become acute. An estimated 1.2 billion people globally lack access to safe water; 2.4 billion lack access to adequate sanitation; 2.5 billion lack access to energy supplies and 900 million people in rural areas have no reliable roads to give them access to jobs or markets for their products. In Sub-Saharan Africa, less than 8 percent of the population is connected to the power grid.

The World Bank has estimated that the present annual investment levels will need to double from about US$15 billion to US$30 billion to reach the
Millennium Development Goals aimed at reducing poverty by 2015. This places huge significance on the efficient use of capital.

The built environment is a major component of contemporary life. Almost half the world’s population (47.2%)\(^8\) is now urbanised and by 2050 that proportion will have reached two-thirds. The urban population of the United Kingdom is already 89.5 percent.\(^9\)

Construction constitutes more than half of total national capital investment in most countries, and construction can amount to as much as 10 percent of GDP. It is estimated that the industry employs about 111 million people globally, and accounting for almost 28 percent of all industrial employment, is the biggest industrial employer worldwide. Construction accounts for 7 percent of total employment with 75 percent of all construction workers found in developing countries. Typically over 90 percent of construction workers are employed in micro firms with fewer than 10 persons\(^10\). In fact, internationally, small and medium-sized enterprises (SME’s) constitute 97 percent of all construction firms globally, with 95 percent of firms being micro firms having 10 or fewer employees. This is equally true of the developed countries: even in France and Germany there are fewer than ten large national contracting firms having thousands of employees.

The industry has a significant multiplier effect on the economy as a whole: it is considered that one job in construction gives rise to two further jobs\(^11\) elsewhere in the construction sector and other sectors of the economy. On this basis, as much as 20 percent of all employment can be ascribed to construction activities in some way.

Building activity varies significantly between developed and developing countries: whereas more of the building work in developed countries is orientated around renovation and maintenance (33 percent and rising in Europe), activity in developing countries has more to do with new construction. Both activities must recognise that buildings are a resource that must be adapted rather than demolished.

### 2.7.2 South Africa

South Africa, which the United Nations has indicated has the second-biggest income gap between rich and poor in the world (after Brazil), needs to grow at more than 6 percent a year to cut unemployment, requiring construction input to possibly double its capacity over a 10-year period. Having said that, it must be remembered that poor education standards among the black majority often means that growth does not always translate into jobs, partly also because there is a mismatch between the skills offered by the black majority and the skills required by the formal economy'.

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8 The World Bank: The Little Green Data Book, Washington, April 2003  
9 Ibid  
10 Industry as a partner for sustainable development: Confederation of International Contractors’ Association, United Kingdom, 2002  
11 European Commission (COM (97) 593
2.7.3 Gross fixed capital formation

In South Africa during 2002, the construction industry delivered an output in excess of R57 billion, of which approximately 30% came from public sector orders and tenders, 13% from public corporations and 58% from the private sector. This constitutes almost 30% of total investment in South Africa. Growth in real gross fixed capital formation fell back from 11.6% in the final quarter of 2002, to 8.3% in the first quarter of 2003. The strong operating surpluses achieved by the private sector over the past three years, strongly created by the then weakening Rand, had much to do with the strengthening trend in gross fixed capital formation. However, the strengthening Rand will absorb these surpluses and 2003 has seen the beginning of a slowing growth trend in this demand component. The South African Reserve Bank believes the slower growth can be attributed to slower growth in real capital outlays by the private sector and by public corporations. Government, by contrast, increased its real gross fixed capital formation from an annualised rate of 2% in the fourth quarter of 2002 to 3.5% in the first quarter of 2003.

Overall fixed capital formation increased from a low of approximately 14.5% of GDP to approximately 16% of GDP by the first quarter of 2003. It remains to be seen if this growth trend will be maintained or not. SAFCEC believes that fixed capital formation growth will slow down in line with the economic slowdown, coupled to government’s incapacity to spend.

Table 4: Gross fixed capital formation

<table>
<thead>
<tr>
<th>Type of asset</th>
<th>YoY % Change 6 months to 2003:q1</th>
<th>YoY % Change 6 months to 2002:q1</th>
<th>YoY % Change 12 months to 2003:q1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>1.64</td>
<td>7.73</td>
<td>2.2</td>
</tr>
<tr>
<td>Non-residential</td>
<td>3.27</td>
<td>4.02</td>
<td>-0.44</td>
</tr>
<tr>
<td>Construction works*</td>
<td>6.88</td>
<td>4.23</td>
<td>4.29</td>
</tr>
<tr>
<td>Total construction</td>
<td>4.34</td>
<td>5.16</td>
<td>2.31</td>
</tr>
</tbody>
</table>

Source: South African Reserve Bank (SARB) Quarterly Bulletin, June 2003  
*Including structural, electrical and mechanical engineering

National spending priorities include infrastructure to support industry development, i.e. making sure that the public infrastructure is in place to support industrial investment. This objective requires the highest level of thinking and co-ordination between government and industry. Infrastructure spending is growing at 6% per annum, according to National Treasury. Finance Minister Trevor Manuel believes that South Africa’s macroeconomic stability (some economists are calling it ‘maturity’) is creating the necessary platform for greater capital expenditure by government, but that public-private partnerships (PPP) will also be important in the delivery of economic infrastructure. He has stated that resources are now becoming available to the State that could be spent on raising the quality and quantity of services provided. Government is therefore prioritising expenditure on capital formation in the public sector, and emphasis will be placed, over the next few years, on well-structured major public works programmes which create skills, reduce poverty and contribute to the infrastructure capability of the country.

The 2004 MTEF places increased emphasis on infrastructure provision at provincial and local level. The three-year medium term budget makes provision for an increase in capital expenditure to 6.4 percent of GDP in 2004/5. R105 billion is to be spent as part of the public works programme.
Included in this amount are new hospitals and a dam in the north of the country (Business Report: November 2003).

Table 5 below reflects public sector capital expenditure increasing from 5.4% of GDP in 2001/02 to 6.4% of GDP in 2004/05, with large investments by the public enterprises, growth in public-private partnerships (PPP) capital expenditure, and the strengthening of national, provincial and municipal investment in infrastructure.

Table 5: Infrastructure expenditure: trends and projections

<table>
<thead>
<tr>
<th></th>
<th>2002/03 Outcome</th>
<th>2003/04 Estimate</th>
<th>2004/05 Medium-term estimate</th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>National department¹</td>
<td>8 618</td>
<td>11 407</td>
<td>13 713</td>
<td>15 651</td>
<td>16 590</td>
</tr>
<tr>
<td>Provincial department</td>
<td>12 965</td>
<td>18 606</td>
<td>19 949</td>
<td>22 621</td>
<td>23 978</td>
</tr>
<tr>
<td>Municipal</td>
<td>13 000</td>
<td>14 040</td>
<td>15 022</td>
<td>15 924</td>
<td>16 879</td>
</tr>
<tr>
<td>Public private partnership</td>
<td>849</td>
<td>2 907</td>
<td>2 585</td>
<td>3 769</td>
<td>3 638</td>
</tr>
<tr>
<td>Extra-Budgetary institutions</td>
<td>2 588</td>
<td>2 683</td>
<td>2 803</td>
<td>2 938</td>
<td>3 114</td>
</tr>
<tr>
<td>Non-financial public enterprises</td>
<td>27 184</td>
<td>24 973</td>
<td>29 401</td>
<td>30 457</td>
<td>27 867</td>
</tr>
<tr>
<td>TOTAL</td>
<td>65 204</td>
<td>74 610</td>
<td>83 473</td>
<td>91 360</td>
<td>92 062</td>
</tr>
<tr>
<td>% of GDP</td>
<td>5.4</td>
<td>6.2</td>
<td>6.4</td>
<td>6.3</td>
<td>5.9</td>
</tr>
<tr>
<td>GDP</td>
<td>1 007 810</td>
<td>1 207 303</td>
<td>1 313 282</td>
<td>1 440 391</td>
<td>1 573 453</td>
</tr>
</tbody>
</table>

¹ Capital transfers to the provincial and municipal level netted out.
² Capital expenditure on PPP’s overseen by the Treasury, South African National Roads Agency, Department of Public Works, and at municipal level, including those with MIIU assistance.

2.7.4 Expanded public works programme

The Expanded Public Works Programme (EPWP) will spend at least R15 billion of the total of R45 billion that government plans to spend on infrastructure, on work that lends itself to labour intensive jobs over the next five years, including the upgrading of rural and municipal roads (37,416 km), pipelines (31,000 km), stormwater drains (1,500 km) and urban sidewalks (150 km). The programme is intended to create employment, enhance service and infrastructure delivery, and provide skills and training. The programme is to be effected by the private sector, which will be invited to tender for infrastructure projects earmarked as labour intensive. The role of the public sector will be to manage procurement, select projects and provide project management. The EPWP has received widespread support because public works projects are seen as more beneficial than a basic income grant, in that they target the poor more effectively and create infrastructure that is more socially useful as well as provide for on-the-job training and skills development.

Economists and policy analysts, however, fear that the programme may be severely impeded by the lack of capacity within government to roll out the necessary projects. The private sector is to be asked to second skilled project managers to work in some municipalities to assist with the management of the projects. Concern has also been expressed that

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12 Minister of Finance Trevor Manuel: 2003 Medium Term Budget Policy Statement

http://www.csir.co.za/akani
placing the EPWP in the Department of Public Works may undermine the programme, as the department is severely overloaded\textsuperscript{13}.

It is likely that the EPWP projects will be more attractive to smaller contractors than the larger contractors which tend to make greater use of capital-intensive construction methods. Utilising smaller contractors will, by contrast, result in more job creation.

2.7.5 Emerging contractor development

The Department of Public Works has, since 1996, increased the share of value of its capital projects to 43\% in favour of emerging contractors, compared to the 4\% in 1994. It has also registered more than 3,300 emerging contractor firms, of which 290 are women-owned, on its database. Emerging contractors have been the recipients of about 50,000 contracts of varying sizes, with a value in excess of R400 million, whilst women contractors executed 79 construction-related projects with a value of R188 million between 2001 and 2003 alone.

2.7.6 Proposed major projects

Major projects, some of them announced by the President in his State of the Nation Address on 14 February 2003, and others included in the MTEF, include:

- The construction of the John Ross Highway to Richards Bay;
- A dam on the Olifants River in Limpopo Province to provide water for platinum mining and agriculture;
- The Berg River dam;
- The construction of Ngqura (Coega) port;
- The concession of the Durban Container Terminal;
- Relocation of Durban International Airport to La Mercy;
- The establishment of the Dube Trade Port;
- Airport upgrades (see below);
- Four major 3,000-bed prisons;
- New government buildings for the Departments of Education, Foreign Affairs and Environmental Affairs and Tourism;
- Urban renewal projects such as the Durban Point Precinct development and Gauteng’s Blue IQ projects;
- Transfrontier conservation park infrastructure; and
- The re-commissioning of mothballed power stations.

Further significant investment in the construction industry is to come from the Airports Company of SA: the company announced in August 2003 that it is to proceed with various upgrade initiatives worth R3.8 billion, mainly at Johannesburg International Airport (JIA) and Cape Town International Airport (CIA). There are also new structures to be built at some of the other domestic airports.

Of this investment, R952 million is to be spent on runways, taxiways and aprons. Other pending projects include a new domestic terminal for CIA, and the construction of an international pier and extensions to the international terminal at JIA.


http://www.csir.co.za/akani
2.7.7 Liquidations

According to StatsSA there were 532 liquidations of construction companies in 2000, 554 in 2001, and 371 in 2002. Whilst the drop in liquidations is to be welcomed, the fact remains that over 1,400 contracting enterprises could not remain viable over the past three years. The reason for at least some of these failures is to be found in the current lack of profitability in contracting: using the tender price index (inclusive of profits) and the Haylett Index (exclusive of profits), the profitability of builders may to some extent be determined, and this measurement has indicated a continual decrease over the long term.

Another significant cause of enterprise failure – believed by some to be the core challenge – is poor management. Compared to seven other countries in a recent survey, South Africa’s productivity remains the lowest. A survey undertaken by Proudfoot Consulting found that South African businesses used only 59% of their time productively. Poor planning and inadequate management was still the key reason for time wasted, rated at 46% of the time lost. Other reasons identified were: inadequate supervision (26%); low morale (11%); inappropriately qualified people (9%); information technology problems (7%); and poor communication (6%).

2.7.8 Skills

Economists\(^{14}\) point out that South Africa’s skills problem, particularly at middle management level, is costing the country about R154.4 billion annually, which represents 14.4% of GDP. If this problem could be satisfactorily addressed over the next five years, it would produce almost 3% GDP growth per year over that period.

2.7.9 Building work

The less closely observed data containing the number of building plans approved by local authorities and the number of completed works suggests that the building sector will make a bigger contribution to gross domestic product (GDP) growth in 2004.

Demand for building grew by 2.2% in real terms during 2002, representing R33 billion of investment. Much of this economic activity was generated by smaller contracts: 88% of all contracts let during 2002 within the construction industry were for a value of R5 million and less\(^{15}\). This must be viewed against the background of StatsSA releases that indicate the majority of economic activity occurring within the building industry as being within the residential sector, which rose by 4% in 2002 compared to the growth in non-residential building of just less than 1%. This includes new work, but also includes a significant portion of alterations and additions, or repairs and renovations (R&R).

The real value of building plans rose by 17.8%, with residential and non-residential plans passed rising by 24.1% and 22.2% respectively. Plans approved for alterations and additions rose by a more conservative 3.4%, although it must be noted that many of building undertakings do not require

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\(^{14}\) Mike Schüssler: Tradek

formal plans to be approved. There is therefore far more economic activity in this sector than is officially recorded.

More worrying is the lower level of completions: down 9.2% generally in real terms. Residential completions were the best performer, increasing by about 43% over the second quarter, whereas non-residential completions fell by a disturbing 53.9%. The impact of the high interest rate environment was most likely the cause of non-completion as investors and developers took a wait-and-see attitude.

Table 6: Key figures regarding building plans passed for the month ended August 2003 (StatsSA September 2003)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential buildings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dwelling-houses</td>
<td>819.6</td>
<td>5 914.5</td>
<td>+3.9</td>
</tr>
<tr>
<td>Flats and townhouses</td>
<td>432.6</td>
<td>2 388.8</td>
<td>+171.6</td>
</tr>
<tr>
<td>Other residential</td>
<td>8.0</td>
<td>121.8</td>
<td>+18.9</td>
</tr>
<tr>
<td>Total</td>
<td>1 260.2</td>
<td>8 425.1</td>
<td>+32.0</td>
</tr>
<tr>
<td>Non-residential</td>
<td>307.0</td>
<td>2 359.9</td>
<td>-4.2</td>
</tr>
<tr>
<td>Additions/alterations</td>
<td>531.0</td>
<td>4 110.4</td>
<td>-7.3</td>
</tr>
<tr>
<td>Total</td>
<td>2 098.2</td>
<td>14 895.4</td>
<td>+13.5</td>
</tr>
</tbody>
</table>

The seasonally adjusted real value of building plans passed (at constant 2000 prices) for the three months ended August 2003 increased by 16.7%, compared with the previous three months. This was due to increases reported for non-residential buildings (+23.4%), residential buildings (+21.2%) and additions and alterations (+4.9%).

The total real value of building plans passed (at constant 2000 prices) during the first eight months of 2003 increased by 5.4% (+R756.5 million) to R14 895.4 million, compared with the first eight months of 2002. Large real increases in the value of building plans passed were reported for flats and townhouses (+R904.9 million), dwelling houses (+R250.8 million) and additions and alterations (+R104.2 million). The residential sector is likely to continue outperforming the non-residential sector in 2004, especially if the lower level of activity in the manufacturing sector persists. Exacerbating this trend is the current high rate of vacancies in office buildings coupled to the low rate of building plans submitted for new office buildings.

High interest rates have certainly played a role here, as has the surplus of office accommodation. Given the surplus, it is debatable whether one will see a significant improvement in the non-residential sector during 2004. Even within the residential sector, significant growth is dependent upon price stability in material costs, which have witnessed rises exceeding the inflation rate – 9.3% versus 6.7%. Certain building material prices have risen way in excess of even the average building material increases, such as cement building blocks (up 20.5%), ordinary and extended cement (up 14.9%), aggregated crushed stone (up 22.1%), SA pine kiln-dried (up 19.5%), stock bricks (up 15.9%) and galvanised sheet metal (up 31.9%). The result of these high increases was an average 15.7% increase in the BER Building Cost Index for the 2002 year.

It will be a great pity if material price increases – whether driven by profit taking or not – stunt the benefits of lower interest rates. One can only trust...
and hope that the situation that arose with food price increases in the first half of 2003 is not repeated within the building industry in 2004.

Consumers are taking advantage of the lower interest rates as is evidenced in the growth of consumer-related credit extension that rose 15% year-on-year in October. Whether this credit has been used to finance the burgeoning home improvement sector or to finance the festive season spending boom is not certain at this time.

The figures for residential development suggest that retail investors are migrating from investing in the JSE Securities Exchange as an opportunity for investment performance, toward renting out residential property. This would explain the increased activity in both residential development – particularly flats and townhouses – and residential sales. Given the lower interest rates and the strong Rand, it is probable that there still is value in listed construction and property loan and unit trust stocks. According to Andisa Securities, the difficulty with investing in construction and property unit and loan stocks is “that they are so far and few between that investors may be willing to hold on to them for longer from a liquidity point of view.”

They believe that these investments should outperform cash and bonds as the rate cycle starts to turn.

2.7.10 Civil work

The construction asset value for civil work for 2002 amounted to R17 billion, of which government's share was 70%, public corporations 10%, and the private sector's share 20%.

The increased transfers to provinces and local government by government will allow the delivery of free basic services, capacity building and increased investment in infrastructure to be speeded up, as well as increasing employment opportunities at local level. Government is continuing with its commitment to prioritising labour-intensive infrastructure building and maintenance projects, with the share of capital expected to grow over the MTEF, rising from a budgeted amount of about R18 billion in 2003/04 to over R24 billion by 2006/07. Government has allocated an additional R3.9 billion over three years to local government, aimed predominantly at accelerating the delivery of water, electricity, refuse removal and sanitation services to poor households.

According to SAFCEC activity in the civil industry slowed by an estimated 5.6% in real terms quarter-on-quarter in the second quarter of 2003. Whilst the number of tenders increased by 12.85% in the six months ending 30 June 2003 compared to the same period in 2002, the value of contract awards declined in real terms in both the six and twelve month periods leading up to the first quarter of 2003, compared to 2002.

Employment levels within the sector increased by a marginal 1.1% in the first half of 2003, although it is expected to decline in the third quarter of 2003. Turnover continued its growth trajectory over the period, with the six and twelve month periods up to the second quarter of 2003 showing real growth of 9.89% and 18% respectively.

SAFCEC recorded a sharp drop in confidence, especially among the larger contracting companies during the second quarter of 2003, due mainly to rising frustration at the incapacity of the industry to release tenders. The larger companies are more negative than they were in the first quarter of 2003, arising from the sluggishness of private clients to roll out their capital projects and government's strategic decision to fragment contracts into smaller components so as to support the emerging sector. This fragmentation has however led to increased levels of confidence among smaller contractors.

Roads and bridges constituted the largest share of contracts awarded to the national civil engineering industry both domestically and across South Africa's borders. Miscellaneous work, including industrial work, was second locally. Sewerage and water related work rated second and third in cross-border work. Notwithstanding the difficulties in dealing with late payment, legal uncertainties, tax implications and currency volatility, contractors remain fairly buoyant about work within the SADC region.

SAFCEC believes that two factors are crucial regarding the removal of impediments for growth prospects for the sector: the first has to do with inconsistency in the nature of the projects being delivered, and the second has to do with fragmented work.

Currency volatility and a rigid regulatory environment are the most likely factors responsible for slower capital expenditure in the private sector. In the public sector the incapacity to spend is the responsible factor as further expanded upon in Section 5.2 of this document. As already noted above, national grants to the provinces and municipalities are increasing: yet, not one of the nine provinces had spent 25% of its capital budget by the end of the first quarter of 2003. The lack of suitably skilled personnel within these tiers of government is a significant retarding factor and requires urgent attention if the industry is to enhance its performance in accordance with government's objectives.

The second impediment has to do with the fragmentation of contracts by government into smaller components: the number of contracts that were larger than R20 million declined as a percentage of the total value of contracts awarded. This is a similar situation to that in the building sector. The size and consistent nature of work is crucial if enterprises are expected to increase and develop their human and financial capital investment in the industry. In the absence of a sound investment climate, the likelihood is that short-term employment contracts will continue. An absence of suitably skilled and qualified staff will also result in continuation of the importation of foreign staff.

The forecast\textsuperscript{19} for 2004 is that pre-budget spending and the award of the Skuifraam Dam are likely to impact positively on industry turnover, with the

\begin{table}[h]
\centering
\caption{Real Percentage Changes in Main Indicators\textsuperscript{18}}
\label{tab:real_changes}
\begin{tabular}{|l|c|c|c|}
\hline
Indicator & 6 months to & 12 months to & \\
 & 2003:q2 (%) & 2002:q2 (%) & 2003:q2 (%) & 2002:q2 (%) \\
\hline
Tenders & -13.5 & 38.0 & 6.25 & 39.07 \\
Contract awards\textsuperscript{*} & -18.4 & 21.3 & -12.9 & 24.4 \\
Employment & 1.1 & 27.0 & 8.1 & 29.5 \\
Turnover & 9.8 & 22.2 & 18.0 & 19.8 \\
\hline
\end{tabular}
\textsuperscript{*Contract awards based on contracts let within the RSA only}
\end{table}

\textsuperscript{18} Ibid

\textsuperscript{19} http://www.csir.co.za/akani
Gautrain influence becoming manifest only by 2005. With regard to price escalation, the escalation index is expected to increase by just over 4% year-on-year from 2002 to 2003, softening to 3.6% from 2003 to 2004.

3 Legislative background

There are a number of legislative measures that impact directly and indirectly on the operating environment of the construction industry. There are, in addition, certain South African Bureau of Standards (SABS) Codes of Practice and Standard Specifications that are regulated as compulsory specifications, compliance with which is therefore a statutory requirement in the design and construction of buildings.

3.1 Applicable legislation

The following is a list of applicable legislation, together with a short summary of each item's intent.

Municipal Finance Management Act, 2003

The object of the Act is to secure sound and sustainable management of the fiscal and financial affairs of municipalities and municipal entities by establishing norms and standards and other requirements for:

- Ensuring transparency, accountability and appropriate lines of responsibility in the fiscal affairs of municipalities and municipal entities;
- The management of their revenues, expenditure, assets and liabilities and the handling of their financial dealings;
- Budgetary and financial planning processes and the co-ordination of those processes with the processes of organs of state in other spheres of government;
- Borrowing;
- The handling of financial problems in municipalities;
- Supply chain management; and
- Other financial matters.

The Act applies to all municipalities, all municipal entities and national and provincial organs of state to the extent of their financial dealings with municipalities.

Regulations in terms of the Public Finance Management Act were gazetted on 5 December 2003.

The regulations require an accounting officer to develop and implement an effective and efficient supply chain management system for the acquisition of goods and services and the disposal and letting of state assets, including the disposal of goods no longer required.

The supply chain management system must provide for at least the following:

- Demand management;

19 South African Federation of Civil Engineering Contractors: 2003
• Acquisition management;
• Logistics management;
• Disposal management;
• Risk management; and
• Regular assessment of supply chain performance.

A supply chain management system, must in the case of procurement through a bidding process, provide for:

• The adjudication of bids through a bid committee;
• The establishment, composition and functioning of bid committees;
• The selection of bid committee members;
• Bidding procedures; and
• The approval of bid committee recommendations.

A separate supply chain management unit is required to be established to implement the system.

Procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury from time to time.

Amendment to Regulations of the State Tender Board Act, 1968, as gazetted on 3 December 2003.

The regulations allow that supplies and services for and on behalf of the State, the hiring or letting of anything or the acquisition or granting of any right for and on behalf of the State and the disposal of movable State property shall be procured, arranged or disposed of through the Board, or in terms of the Public Finance Management Act.

The regulations empower the Board to issue directives to government departments in regard to the procurement of supplies and services, the hiring or letting of anything, or the acquisition or granting of any right, and the disposal of movable government property.

The Board is empowered to impose a restriction on a person for a period to be set by the Board, where such a person has:

• Amended or withdrawn an offer after the closing time for receipt of offers but before he has been notified of its acceptance; and/or
• Failed to sign a contract or to provide security within the period stipulated in the conditions of tender; and/or
• Failed to comply with any of the conditions of an agreement or performs unsatisfactorily under an agreement; and/or
• Concluded an agreement and has promised, offered or given a bribe, or has acted in a fraudulent manner or in bad faith or in any other improper manner.

Where an agreement has been concluded with any contractor on the strength of information furnished by him in respect of whom it is after the conclusion proved that such information was incorrect, the Board is granted the right to:

• Recover from the contractor any costs, and any damages incurred or sustained by the State as a result of the conclusion of the agreement;
• Terminate the agreement and recover from the contractor any damages which the State may suffer; and
• Impose a penalty not exceeding 5 per cent of the monetary value of the agreement.

2003 Regulations in terms of the Occupational Health and Safety Act 1993

The construction industry has a poor track record generally regarding the awareness of workers’ health and safety. Department of Labour inspectors issued 1193 contravention notices and 178 subpoenas or recommendations to prosecute during a blitz held in November 2003. Contraventions included Personal Protection Equipment (PPE), safety plans, first aid, site supervisors, health and safety representatives, and unsafe and broken equipment.

The new regulations require that both the client and the contractor take responsibility for the implementation of the safety requirements. Previously, the client could contract all the responsibility to the contractor. The regulations now set out responsibilities for the client to ensure that the principal contractor meets all the construction requirements. The client, when appointing the contractor, must ensure that the appointment is in writing for each and every phase of the project. The client must ensure that the contractor has the necessary competence and resources to execute the work safely.

The regulations require the contractor to submit to the client a suitable and sufficiently documented health and safety plan that is to be applied from the commencement date for the duration of the appointment. The contractor is to ensure that all contractors involved in the project comply with the regulations, and that regular audits are held.

Construction work includes the erection, maintenance, alteration, renovation, repair, demolition or dismantling of or addition to a building or similar engineering structure; and the installation, erection, dismantling or maintenance of fixed plant where such work includes the risk of a person falling. It also covers the construction, maintenance, demolition or dismantling of any bridge, dam, canal, road, railway, runway, sewer or water reticulation system or any similar civil engineering structure; or the moving of earth, clearing of land, making of an excavation, piling or similar work.

Broad-Based Black Economic Empowerment Act 2003

Although the Bill has been approved by Parliament, the President must still sign it into law, after which it shall be called the Broad-Based Black Economic Empowerment Act, 2003. It establishes a legislative framework for the promotion of black economic empowerment; to empower the Minister to issue codes of good practice and to publish transformation charters; to establish the Black Economic Empowerment Advisory Council; and to provide for matters connected therewith.

It defines “black people” as a generic term that means Africans, Coloureds and Indians. It also clarifies the intention of the Bill regarding economic empowerment of persons other than black: “broad-based black economic empowerment” is defined as the empowerment of all black people including...
women, workers, youth, people with disabilities and people living in rural areas.

The objectives of the Act, broadly, are to:

- Promote meaningful participation of black people in the economy;
- Alter the racial composition of management;
- Increase ownership and management by communities and workers;
- Increase ownership and management by black women;
- Promote investment programmes that facilitate black ownership and management;
- Empower rural and local communities; and
- Promote access to finance.

The Bill makes provision for the establishment of a Black Economic Empowerment Advisory Council to, amongst others, advise government on black economic empowerment including draft codes of good practice and draft charters; review progress; and facilitate partnerships between the State and the private sector.

The Bill empowers the Minister to issue codes of good practice that may include:

- Further definitions and interpretations on BBBEE;
- Qualification criteria for procurement purposes;
- Indicators;
- Weightings; and
- Guidelines for charters.

A code of practice may specify targets and timeframes for those targets. It may also distinguish between black men and black women. Every organ of state and public entity must take into account and, as far as is reasonably possible, apply any relevant code of good practice issued in terms of this Act in:

- Determining qualification criteria for the issuing of licences, concessions or other authorisations;
- Developing and implementing a preferential procurement policy;
- Determining qualification criteria for the sale of State-owned enterprises; and
- Developing criteria for entering into partnerships with the private sector.

Regarding transformation charters, the Minister must publish a transformation charter for a particular sector of the economy if the charter:

- Has been developed by major stakeholders in that sector; and
- Advances the objectives of the Act.

Division of Revenue Act 2003 (Act. 7 of 2003)

This Act provides for the equitable division of revenue anticipated to be raised nationally among the national, provincial and local spheres of government for the 2003/2004 financial year and the reporting requirements for allocations pursuant to such division; to permit the withholding and delaying of payment in certain circumstances; to provide for liability for costs incurred in litigation in violation of the principles of co-
operative governance and intergovernmental relations; to regulate the adoption of local government budgets; and to provide for matters connected therewith.

The objects of this Act are to:

- Provide for the equitable division of revenue raised nationally among the three spheres of government;
- Promote co-operative governance and principles of intergovernmental relations on budgetary matters;
- Promote better co-ordination between policy, planning, budget preparation and execution processes;
- Promote predictability and certainty in respect of all allocations to provincial and local governments in order that such governments may plan their budgets over a multi-year period;
- Promote transparency and equity in all allocations, including in respect of the criteria for their division;
- Promote accountability in the use of public resources by ensuring that all transfers are reflected on the budgets of benefiting provincial and local governments; and
- Ensure that legal proceedings between organs of state of the three spheres of government are avoided.

Planning Professions Act 2002 (No. 36, 2002)

The Act provides for the establishment of the South African Council for Planners as a juristic person; to provide for different categories of planners and the registration of planners; to authorise the identification of areas of work for planners; to recognise certain voluntary associations; to protect the public from unethical planning practices; to maintain a high standard of professional conduct and integrity; to establish disciplinary mechanisms and an Appeal Board; and to provide for incidental matters.


This Act seeks to give effect to section 9 of the Constitution of the Republic of South Africa Act 1996 through the prevention and prohibition of unfair discrimination and harassment, to promote equality and to prevent hate speech. Its objects are to enact legislation required by section 9 of the Constitution and to give effect to:

- The equal enjoyment of all rights and freedoms by every person;
- The promotion of equality;
- The values of non-racialism and non-sexism;
- The prevention of unfair discrimination; and
- The prohibition of advocacy of hatred, based on race, ethnicity, gender or religion.


This Act provides for the creation of categories of preference in the allocation of contracts, and to provide for the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination. It essentially provides for leveraging of government purchasing power in support of its economic policy objectives of broad-based black economic
empowerment and small enterprise development. The Act requires an organ of state to determine its preferential procurement policy and to implement it within a framework that includes a points system and specific goals. The specific goals may include contracting with persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender or disability, and implementing the programmes of the RDP.


The Act provides for the establishment of the Board to implement an integrated strategy for the reconstruction, growth and development of the construction industry. The powers and functions of the Board include promoting the participation of the emerging sector, improved labour relations and human resource development.


This Act provides for the establishment of a Council for the Built Environment under which six independent statutory professional councils function. The six professional councils are:

- South African Council for the Architectural Profession (SACAP);
- Engineering Council of South Africa (ECSA);
- South African Council for the Quantity Surveying Profession;
- South African Council for Project and Construction Management (SACPCM);
- South African Council for the Property Valuers Profession; and
- South African Council for the Landscape Architectural Profession.

Each of the above professional councils is regulated by a separate act.

Objects include the provision of strategic leadership to advance national, social and economic goals and to ensure the inclusion by the professions of previously disadvantaged individuals and groups in the short, medium and long term.

The **Public Finance Management Act of 1999 (Act No. 29 of 1999)**

The aim of this Act is to modernise the system of financial management in the public sector. It requires the establishment of a national treasury, to introduce generally recognised accounting practices, to introduce uniform treasury norms and standards, to prescribe measures to ensure transparency and expenditure control in all spheres of government, and to set the operational procedures for borrowing, guarantees, procurement and oversight over the various national and provincial revenue funds.


These Acts are designed to increase investment in skills development. They support the development of the skills of the workforce to facilitate economic and employment growth in terms of South Africa's global competitiveness, whilst also addressing the challenges of social development and the eradication of poverty. Whilst the focus is on skills development generally, the Acts prioritise the development of black people,
women and people with disabilities. The National Skills Authority was established in terms of the Acts and is constituted by people drawn from organized business, labour, government and organizations that reflect community and provider interests. A National Skills Development Strategy (NSDS) has been developed and is to be implemented in terms of the Acts. The vision of the strategy is about skills and skills development, productive citizenship and inclusiveness. Five objectives have been set, namely:

- To develop a culture of high quality lifelong learning;
- To foster skills development in the formal economy for productivity and employability;
- To stimulate and support skills development in small business;
- To promote skills development for employability and sustainable livelihoods through social development initiatives; and
- To assist new entrants into employment.

Targets have been set for each objective: central to this is the pursuit of equity. Hence the following national targets have been adopted across the five objectives:

- 85 percent of the beneficiaries are to be black;
- 54 percent to be female; and
- 4% percent to be people with disabilities.

A key component of the strategy is linking skills to quality provision and qualifications that hold currency throughout the country. This recognizes that people need to upgrade and improve their skills continuously, and that skills and competencies must support productivity, international competitiveness, the mobility of workers, self-employment and meeting the needs of the country.

**The National Heritage Resources Act 1999 (No. 25 of 1999)**

The Act aims to promote good management of the national estate, and to enable and encourage communities to nurture and conserve their legacy so that it may be bequeathed to future generations. It aims to this through:

- Introducing an integrated and interactive system for the management of the national heritage resources;
- Promoting good government at all levels, and empowering civil society to nurture and conserve their heritage resources so that they may be bequeathed to future generations;
- Laying down of general principles for governing heritage resources management throughout the country;
- Introducing of an integrated system for the identification, assessment and management of the heritage resources of South Africa;
- Establishment of the South African Heritage Resources Agency together with its Council to co-ordinate and promote the management of heritage resources at national level;
- Setting norms and maintaining essential national standards for the management of heritage resources in the country and to protect heritage resources of national significance ;
- Controlling the export of nationally significant heritage objects and the import into the country of cultural property illegally exported from foreign countries;
Enabling the provinces to establish heritage authorities which must adopt powers to protect and manage certain categories of heritage resources;

Providing for the protection and management of conservation-worthy places and areas by local authorities; and

Providing for matters connected therewith.

The Act requires any person who intends to undertake a development categorised as:

- the construction of a road, wall, powerline, pipeline, canal or other similar form of linear development or barrier exceeding 300m in length;
- the construction of a bridge or similar structure exceeding 50m in length;
- any development or other activity that will change the character of a site – exceeding 5000 sq. m. in extent, or involving three or more existing erven or divisions thereof which have been consolidated within the past five years, or the costs of which will exceed a sum set by SAHRA or a provincial heritage resources authority; and/or
- the rezoning of a site exceeding 10000 sq. m. in extent;

to notify the responsible heritage resources authority and furnish it with details regarding the location, nature and extent of the proposed development.

Further, the Act prohibits any person from damaging, disfiguring, altering, subdividing or in any way developing any part of a protected area unless, at least 60 days prior to the initiation of such changes, he or she has consulted the heritage resources authority which designated such area, in accordance with a procedure prescribed by that authority.

The Act prohibits any person from altering or demolishing any structure or part of any structure which is older than 60 years without a permit issued by the relevant provincial heritage resources authority.

For the purposes of the consolidation and co-ordination of information on heritage resources, SAHRA is instructed to compile and maintain an inventory of the national estate, which must be in the form of a database of information on heritage resources, which it considers to be worthy of conservation.

The Act empowers the Minister, on advice from SAHRA and in concurrence with the Minister of Finance, to publish regulations on financial incentives for the conservation of heritage resources which form part of the national estate, or otherwise promote the purpose of this Act.

The Act enables the heritage resources agency to serve the owner of a heritage resource an order to repair or maintain such resource to its satisfaction.


This Act is predicated on the acknowledgement that discriminatory laws and practices of the past have concentrated ownership and control of the economy in the hands of a few, inhibiting full and free participation in the economy by all South Africans. The purpose of the Act, therefore, is to
promote efficiency; adaptability and development of the economy through competition, whilst recognising the difficulties faced by small and medium-sized enterprises and historically disadvantaged persons. The Act therefore allows for exemptions from the provisions on anti-competitive practices where such practices promote the ability of black-owned and black-controlled enterprises to become competitive.


The purpose of this Act is twofold: to achieve equity in the workplace by promoting equal opportunity and fair treatment in employment through the elimination of unfair discrimination, and implementing affirmative action measures to redress the disadvantages in employment experienced by designated groups, in order to ensure their equitable representation in all occupational categories and levels in the workforce.

The provision on the elimination of unfair discrimination prohibits any person from discriminating against an employee on grounds including race, gender, sex, pregnancy, marital status, family responsibility, ethnic or social origin, colour, sexual orientation, age, disability, religion, HIV status, conscience, belief, political opinion, culture, language and birth. The undertaking of medical and psychological testing is also prescribed.

The affirmative action provision requires every designated employer to implement affirmative action measures for people from designated groups, including the elimination of employment barriers, furthering diversity in the workplace, making reasonable accommodation for people from designated groups, ensuring equitable representation of suitably qualified people from designated groups in all occupational categories, and developing and training people from designated groups.

The Act contains the following definitions:

- **Black people** is a generic term that means Africans, Coloureds and Indians.
- **Designated groups** means black people, women and people with disabilities.


This Act allows for the establishment of a trust for the promotion and facilitation of ownership of income-generating assets by historically disadvantaged persons. It provides for the sale of shares in State-owned commercial enterprises at a discount to the trust or by the trust to the beneficiaries (historically disadvantaged persons). The Act gives effect to section 9 of the **Constitution of the Republic of South Africa Act 1996** and to an agreement between government and labour in terms of the **National Framework Agreement on the Restructuring of Assets** that requires such restructuring to distribute wealth, boost the small and medium enterprise sector, have sustainable affirmative action implications and facilitate genuine black economic empowerment.

The Act uses the following definition:

- **Historically disadvantaged persons** means those persons or categories of persons, who prior to the new democratic dispensation marked by the
adoption and coming into force of the Constitution of the Republic of South Africa Act, 1996 (Act No. 108 of 1996), were disadvantaged by unfair discrimination on the basis of their race and includes juristic persons or associations owned and controlled by such persons.

**Housing Consumers Protection Measure Act (Act 95 of 1998)**

This Act regulates the home building industry to ensure the construction of structurally sound houses. The Act gives statutory body status to the National Home Builders Registration Council (NHBRC).

All home construction, including houses constructed using Department of Housing subsidies, falls under the ambit of the Act and must be registered with the NHBRC and comply with the requirements of the NHBRC Home Building Manual. This manual sets out acceptable house construction practices. Prescriptive solutions are specified for each aspect of design and construction, but provision is also made for the acceptance of non-conventional methods and materials, subject to proof of acceptable performance being rendered. The prescriptive design and construction rules are intended to validate the warranty requirements of the NHBRC.


This Act provides for co-operative environmental governance that will address social, economic and environmental factors to ensure that development serves present and future generations.


This Act was introduced to provide for the establishment of a National Small Business Council, the functions of which are to represent and promote the interests of small business with an emphasis on those entities contemplated in the National Business Support Strategy, and to advise the national, provincial and local spheres of government on social and economic policy that promotes the development of small business. The Act also establishes the Ntsika Enterprise Promotion Agency, the functions of which include the expansion, co-ordination and monitoring of the provision of training, counselling and other non-financial services to small business; to provide financial support to service providers that provide the services described above; and to facilitate the development of small business.


This Act seeks to accelerate the redress of past unfair discrimination in education, training and employment opportunities.


This Act has four features: it establishes a single industrial relations system for all employees, promotes collective bargaining by providing certain organisational rights for trade unions, establishes new procedures and institutions for the resolution of disputes, and provides for workplace forums to facilitate a shift from conflictual employer-employee relations towards joint problem-solving with employee participation.

This Act makes provision for the establishment of a Development and Planning Commission to advise government at national and provincial level on policy and laws concerning land development. The Act also makes provision for the establishment of provincial development tribunals that have the power to make decisions, *inter alia*, regarding the application or otherwise of the National Building Regulations, presumably allowing for the suspension of the application of the regulations.


This Act provides for the establishment of informal townships and stipulates that, *inter alia*, the following shall not apply to land designated in terms of the Act:

- Any law on physical planning;
- The National Building Regulations and Building Standards Act (and by extension the National Building Regulations);
- Laws relating to the establishment of townships and town planning;
- Laws relating to the standards and requirements with which building shall comply;
- Laws requiring the approval of an authority for the subdivision of land.


The Act sets out to promote orderly physical development and makes provision for the preparation of national and regional development plans and regional and urban structure plans by authorities responsible for physical planning.

**The National Building Regulations and Building Standards Act (Act No 103 of 1977)**

This Act is the overarching legislation on building control in South Africa. The Act governs all buildings erected within the area of jurisdiction of a local authority. National building regulations are promulgated in terms of the Act and impose certain obligations on the State (including provincial and local authorities), building owners (and prospective owners), architects, engineers and other competent persons, and those involved in the construction and demolition of buildings.

The National Building Regulations are functional in nature in that they do not prescribe how a building should be constructed but rather stipulate conditions that the building design or construction of the building must satisfy. The statutory regulations are supported by a set of deemed-to-satisfy rules that are prescriptive, i.e. the rules describe design and construction methods, materials and solutions that, if applied, will ensure that the building will satisfy the requirements. The regulations and the associated deemed-to-satisfy rules are contained within SABS 0400, Code of Practice for the Application of the National Building Regulations.

The regulations are intended to be flexible in that they permit the application of conventional design and construction solutions in accordance with the deemed-to-satisfy rules as well as innovative, non-conventional methods and materials provided that these can be proved to perform acceptably. The rules accept an Agrément certificate as being deemed to satisfy.

http://www.csir.co.za/akani
The Act makes provision for the exemption of part or all of the area of jurisdiction of a local authority from the application of any or all of the National Building Regulations. These exemptions therefore allow for the erection of buildings (e.g. shacks, incremental housing, spaza shops, etc.) in informal settlements.

Areas dealt with by the Regulations include structural design, public safety, demolition work, excavations, foundations, floors, walls, roofs, stairways, lighting and ventilation, drainage, facilities for the disabled, refuse disposal, space heating and fire installation.

**Housing Act (Act 107 of 1977)**

The Act establishes general principles applicable to housing development in all spheres of government. It requires the Minister of Housing to establish a Housing Code to deal with financial and administrative issues, and norms and standards for house construction. An appendix sets out certain design and construction requirements for houses built with subsidy funding. Whilst these are intended to be compatible with the National Building Regulations, in many instances they are constructed to lower standards than stipulated.

**Deeds Registries Act, 1937 (Act No 47 of 1937)**

Servitudes and other restrictions or requirements are recorded as part of the title to property, and building projects are required to abide by the particular title conditions of the land on which the project is to be built.

### 3.2 Impact on the construction industry

The impacts of legislation on the construction industry can be evaluated against five criteria, i.e. labour, procurement, transformation, environmental protection (natural and built), and the professions.

Although there are many influences in the construction industry that impact upon the labour component of construction, the regulatory environment is the one that is most often cited as being the main driver of the trend toward employing casual and/or contract workers. Labour legislation, by definition, seeks to protect workers from unfair and discriminatory practices, including unfair dismissal. A significant recent addition in this regard has to do with health and safety regulations, particularly for the construction industry. These (welcome) regulations require contracting parties to commit to health and safety plans and to be accountable for their implementation.

The compensative actions contained in labour legislation regarding retrenchment and dismissal, acting in concert with the volatility of the industry, has resulted in employers within the industry reducing their dependency on permanent workers in favour of casual and contract workers. The result of this ‘unintended consequence’ has been an uncertain income stream for construction workers (particularly at the lower skill levels) and a severe drop-off of skills development and training of the working corps.

Procurement practices have undergone significant change in response to government’s desire to promote black economic empowerment. The Department of Public Works was the first to introduce a targeted
procurement system aimed at fast-tracking public infrastructure contracts to black-owned and black-empowered companies, including professionals. Other State departments and State-owned enterprises followed suit, often instituting their own systems, some of which have subsequently been declared illegal. This has created enormous confusion among private contracting parties as they struggled to ascertain the exact nature of the tendering requirements and devise an adequate response. Often this response was of a short duration, aimed at circumventing the purpose of empowerment (fronting) or of securing specific government contracts (project-driven joint ventures).

Recent interventions by National Treasury are aimed at standardising procurement practices across all organs of state and requiring accounting officers within those organs to be accountable for their procurement practices and actions. These interventions also extend into the budgetary processes of organs of state to promote consistency within budgetary approaches. These interventions will certainly assist the construction industry in its operational planning and implementation.

The Government came into power on the promise of transformation and has set about systematically transforming the regulatory and societal environment in accordance with its mandate. The most significant legislation in this regard is the Broad-based Black Economic Empowerment Act of 2003. This is a comprehensive transformation framework, under the title of a charter that encompasses ownership, control, employment equity, skills development, procurement, enterprise development and a discretionary residual within the context of a ‘balanced scorecard’ as prerequisites for engagement in government contracts.

The construction industry is currently engaged in the process of preparing its ‘balanced scorecard’ and ‘code of conduct’ for adoption by government. It will result in the construction industry undertaking its activities in a fundamentally different manner from its current practices.

Environmental protection has long been a compliance requirement of the delivery processes of the construction industry. However, recent developments within the sustainable development debate have placed additional requirements on industry performance that extend into the social arena as well. This is uncharted territory for most construction industry participants, especially as their formal training is inadequate in this regard. One can expect significant construction industry impacts to surface as the scientific understanding of global warming and resource depletion improves.

Lastly, new legislation has been introduced that fundamentally redefines the built environment professions in terms of qualifications, registration, continuing professional development and transformation. The impacts of this legislation are not yet clear, but early indications suggest that the casting of professions into vertical ‘silos of knowledge’ will undermine the construction industry’s ability to integrate its delivery processes in accordance with international best practice.

4 Policy background

A number of significant policy documents and agreements exist that will have an impact on the future performance of the construction industry. Summarised below are the salient points from crucial documents that are
likely to guide government’s economic policies for the foreseeable future. The intention is not to summarise these documents in their entirety, but to provide an overview of those components that influence construction industry performance.

4.1 The Growth and Development Summit

The Growth and Development Summit (GDS) was held in June 2003 and culminated in an Agreement signed on 7 June 2003. The summit agreed that the key challenges facing South Africa were job creation, economic growth and overcoming the massive inequalities left by apartheid.

The constituencies committed themselves to a **Vision** aimed at making South Africa:

- The leading emerging market and destination of first choice for investors whilst retaining and expanding social equity and fair labour standards;
- A productive economy with high levels of service, a highly skilled workforce and modern systems of work organisation and management;
- A society in which there are economic opportunities for all, poverty is eradicated, income inequalities are reduced and basic services are available to all;
- A society in which our people, our most precious resource, are given the opportunity and support to develop to their fullest potential; and
- A society that promotes the values of social equity, fairness and human dignity in the global economy.

The constituencies accordingly identified the following national priorities for collaborative action:

- Promoting and mobilising investment and creating decent work for all;
- Ensuring economic empowerment for all, especially for black people, workers, people with disabilities, women and youth;
- Eradicating poverty and addressing the legacy of under-development; and
- Strategically engaging globalisation to the best advantage of the country.

The Summit adopted the following themes that should be focussed on in order to achieve the national priorities identified above:

- More jobs, better jobs, decent work for all;
- Addressing the investment challenge;
- Advancing equity, developing skills, creating economic opportunities for all and extending services; and
- Local action and implementation.

4.1.1 More jobs, better jobs, decent work for all

The constituencies noted that South Africa has experienced a persistent structural unemployment problem; however they agreed that a range of
interventions are required with a view to reducing unemployment by 50% by 2014. These interventions include:

- Public investment initiatives;
- Expanded public works programmes;
- Sector partnerships and strategies;
- Local procurement;
- Small enterprise promotion;
- Support for co-operatives; and
- Jobs impact and monitoring.

Having regard for the role of **Public Investment Initiatives**, the following examples were identified as having the greatest potential for job creation:

- Road construction;
- Dam construction;
- Rail construction;
- Construction of multi-purpose centres (MPCCs);
- Construction of schools, clinics, prisons;
- Major renovations and maintenance programmes of public buildings (including prisons, schools, clinics, offices, railways and sanitation);
- Construction of harbours such as Coega; and
- Electrification.

The Agreement notes that there are a number of systemic problems impeding the successful implementation of this strategy, including bottlenecks in infrastructure planning and project management; poor understanding of PPIs, PCPs and construction contracts; poor understanding of infrastructure planning at national, provincial and local level; a lack of effective and accountable management and maintenance of assets, infrastructure and goods; the need to promote labour-based construction methods and the types of projects that lend themselves to this methodology; and the lack of identified projects and programmes that can be proposed for implementation.

With regard to the implementation of the **Expanded Public Works Programme** (EPWP), the constituencies noted that EPWPs can provide poverty and income relief through temporary work (short-term jobs) for the unemployed to carry out socially useful activities while learning new skills that should enhance their ability to earn a living in future. The following examples illustrate projects that satisfy this objective:

- School cleaning and renovation;
- Community gardens;
- Erosion control and land rehabilitation;
- Removal of alien vegetation;
- Community irrigation schemes;
- Fencing of national roads;
- Dipping schemes;
- Access roads to rural areas;
- Tree planting; and
- Maintenance of schools, clinics, drainage, roads and public buildings.

Insofar as **Sector Partnerships and Strategies** are concerned, the constituencies agreed that certain sectors could have a strong impact on
overall employment creation, sustainable livelihoods and communities, equity and economic expansion. In order to promote the participation of these sectors, sector summits will be held: the Construction Sector Summit is one of the prioritised summits. To further assist sectors, funding may be sought from the dti’s Sector Partnership Fund and the Fund for Research into Industrial Development Growth and Equity to support sector capacity and ensure that policy proposals and strategies are informed by credible evidence.

Construction sector engagement may therefore include the following issues:

- Decent work;
- Marketing and branding;
- Market access (domestic penetration and exports) and related matters;
- Infrastructure;
- Production for basic needs;
- Skills development;
- Support for innovation, research and development;
- Regulation;
- Broad-based black economic empowerment; and
- Small enterprise development, including co-operatives.

The following sectors made investment commitments at the GDS that are also likely to impact upon construction industry performance:

### Table 8: Sector Investment Commitments

<table>
<thead>
<tr>
<th>Sector</th>
<th>Investment (billion)</th>
<th>R</th>
<th>Term (years)</th>
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<tbody>
<tr>
<td>Automotive</td>
<td>15</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Chemical</td>
<td>10</td>
<td></td>
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<td>Mining</td>
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<td>5</td>
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<tr>
<td>Oil</td>
<td>10</td>
<td></td>
<td>3</td>
</tr>
</tbody>
</table>

In addition, the oil industry’s ongoing investment plans are expected to be of the order of R2 billion per annum.

The Agreement records that Local Procurement has the potential to create and save jobs, promote BEE, promote co-operative and small enterprise development and grow the local economy. The constituencies agreed to support the Proudly South African campaign and, in particular, to examine ways in which members’ performance can be verified, including improving performance in areas such as quality, labour standards and environmental performance.

It was agreed that Small Enterprise Promotion is a crucial component of job creation in the economy. The Nedlac constituencies are currently conducting a review of procurement in the public and private sectors in an effort to determine how greater access can be achieved for small suppliers.

### 4.1.2 Addressing the investment challenge

The constituencies recognised that the aggregate levels of fixed direct investment are a crucial driver of growth and that the current levels are insufficient to achieve the desired growth and employment rates. Investment in both productive assets and services and social and economic
infrastructure are at levels well below what is required. Fundamentally the current level of approximately 16% of the GDP is far too low: there is therefore agreement that significantly increasing the levels of investment remains a key objective in the future.

A number of related issues were identified that underpin industry investment, including:

- Pricing and quality of raw materials;
- Transport;
- Energy;
- Communications and other services;
- Research and technology development and support; and
- Other aspects of the business environment, including good corporate governance, fiduciary responsibility, investment sustainability and social responsibility.

4.1.3 Advancing equity, developing skills, creating economic opportunities for all and extending services

Constituencies agreed that patterns of development in South Africa resulted in black communities, particularly women, workers, youth, people with disabilities and rural people, being largely excluded from the benefits of the mainstream economy through a general lack of opportunity, limited ownership opportunities, discriminatory practices in the workplace, and the consequences of apartheid geography and spatial planning development.

In this context, the agreement focuses on:

- Broad-based black economic empowerment;
- Employment equity;
- Literacy, skills development and general education; and
- Access to basic services.

Government’s Broad-based Black Economic Empowerment Strategy and Bill are the essential keystone for promoting black economic empowerment. Business has committed itself to pursuing this objective using mechanisms such as charters, codes of practice and corporate social investment programmes. Achieving employment equity and promoting skills development is integral to the BEE strategy. However, other legislation also deals with these issues, particularly the Employment Equity Act and the Skills Development Levy. With regard to learnerships, cognisance must be taken of the objective of the National Skills Development Strategy (NSDS) that sets equity targets for learnerships of 85% black, 54% women, and 4% people with disabilities.

Education remains a critical input for growth in employment and in the economy and for the enhancement of democracy. In this regard, government has made significant commitments to promoting access to education for all. Constituencies also agreed on a programme to extend basic services to all poor households. This includes a review of the housing programme to ensure that it does more to support employment creation and efficient urban development, including through densification of urban areas.
4.1.4 Local action and implementation for development

Key challenges that need to be addressed at local level include the need to redress the legacy of apartheid planning that undermines social and economic integration and employment. The provision of affordable housing has a role to play in achieving this social and economic integration. The provision of Multi-Purpose Community Centres (MPCC’s) is another key element in the strategy to strengthen the role of local government, and an agreement was reached that ultimately MPCCs should be operational in all 284 municipalities. To this end, government has committed itself to extend the number of MPCCs from 37 to 60 over the next 18 months.

The GDS Agreement also recognises the need to enhance the capacity of emerging contractors, to increase the meaningful participation of constituencies in development initiatives, to address the capacity problem at local government level with regard to human resources, and to try to solve the backlog in planning approvals.

4.2 Growth, Employment and Redistribution (GEAR)

GEAR is a strategy prepared by government in 1996 for rebuilding and restructuring the economy along the principles of its Reconstruction and Development Programme (RDP). Although the release of the document falls outside of the period of review, the strategy is a keystone of government’s socio-economic policies and sets a macroeconomic strategy for the country. This review will focus predominantly on the fiscal and monetary strategies contained in GEAR, as well as those strategies that will influence the construction industry. The GEAR document consists of 10 chapters and has 16 appendices: this summary can therefore provide but the briefest of overviews. Readers are encouraged to study the full text that is available as a free download.  

4.2.1 Introduction

Central to GEAR is government’s desire to seek:

- A competitive fast-growing economy that creates sufficient jobs for all work seekers;
- The redistribution of income and opportunities in favour of the poor;
- A society in which sound health, education and other services are available to all; and
- An environment in which homes are secure and places of work are productive.

The strategy recognises that the present growth trajectory of about 3% per annum is insufficient to reverse the unemployment crises in the labour market, provide adequate resources for the necessary expansion in social service delivery, and provide progress toward an equitable distribution of income and wealth. The strategy therefore seeks to develop a competitive, outward-orientated economy that will attain an annual growth rate of 6% and create an annual growth in employment of 400 000 new jobs. Several inter-related developments are postured, based on accelerated growth of non-gold exports, a brisk expansion in private sector capital formation,


http://www.csir.co.za/akani
accelerated public sector investment, an improvement in the employment intensity of investment and output growth, and an increase in infrastructure development and service delivery, making intensive use of labour-based techniques.

The above will require a major transformation in the environment and behaviour of both the private and public sectors and will have to include a competitive platform for expansion by the tradeable goods sector, a stable environment for confidence and private sector investment, a restructured public sector to increase efficiency of both capital expenditure and service delivery, a new sectoral and regional emphasis on industrial and infrastructure development, greater labour market flexibility and enhanced human capital development.

The core elements of the integrated strategy are:

- A renewed focus on budget reform to strengthen the redistribution thrust of expenditure;
- A faster fiscal deficit reduction programme to contain debt service obligations, counter inflation and free resources for investment;
- An exchange rate policy to keep the real effective rate stable at a competitive level;
- A consistent monetary policy to prevent the resurgence of inflation;
- A further step in the gradual relaxation of exchange controls; and
- A reduction in tariffs to contain input prices and facilitate industrial restructuring, compensating partially for the exchange rate.

4.2.2 Framework for growth

The strategy is based on detailed simulations derived from diverse econometric models that suggested an annual growth rate of 3% at best, bearing in mind that the simulations were done for the period 1996-2000. GEAR recognises that this is insufficient to meet the goals of South Africa as it will not result in real employment growth, will limit the availability of funds aimed at providing social services, and will continue to retain the balance of payments as a structural barrier to growth as the economy remains dependent on imported capital and intermediate goods. The lack of sustained long-term capital inflows aggravated the balance of payments in the past and has made the economy too reliant on short-term reversible flows and consequently high interest rates.

An integrated medium term strategy is presented which aims to bridge the divide between the constrained economic environment and improved growth and employment performance. The core elements of this integrated package are:

- An acceleration of the fiscal reform process, including a short term position to counter inflation and a medium term deficit target to eliminate government dissaving, further revision of the tax structure, and a range of budgetary restructuring initiatives to sharpen the redistributive thrust of expenditure;
- A gradual relaxation of exchange controls, the maintenance of monetary policies consistent with continued inflation reduction and exchange rate management to stabilise the real effective exchange rate at a competitive level;
- A consolidation of trade and industrial policy reforms, incorporating a further lowering of tariffs to compensate for the real depreciation,
the introduction of tax incentives for a fixed period to stimulate investment, a campaign to boost small and medium enterprise development, a strengthening of competition policy and the development of industrial cluster support programmes, amongst other initiatives;

- The implementation of the public sector asset restructuring programme;
- An expansionary public infrastructure investment programme to provide for more adequate and efficient economic infrastructure services in support of industrial and regional development and to address major backlogs in the provision of municipal and rural services;
- A structured flexibility within the collective bargaining system to support a competitive and more labour-intensive growth path, including greater sensitivity in wage determination to varying capital intensity, skills, regional circumstances and firm size; reduced minimum wage schedules for young trainees, reducing indirect wage costs; and increasing the incentives for more shifts, job sharing and greater employment flexibility; and
- A social agreement to facilitate wage and price moderation, underpin accelerated investment and employment and enhance public service delivery.

### 4.2.3 Fiscal policy

Fiscal initiatives envisaged by the strategy include cutting the overall budget deficit and the level of government dissaving, avoiding permanent increases in the overall tax burden, reducing consumption expenditure by government relative to GDP, and strengthening government’s contribution to gross domestic fixed investment. The strategy seeks to restrict the fiscal deficit to a long-term target of 3.0% of GDP (down from 4.5% of 1996/97).

The strategy aims to restructure the public service, involving integration at national and provincial levels. Restricting the total public service wage bill is central to the fiscal strategy. This is intended to lead to an increase in discretionary RDP-related spending on projects of a capital nature of about 8% per annum.

Government recognises that the budget is the primary vehicle through which access to social services is assured: nearly half of all government expenditure is devoted to education, health, welfare, housing and related services. The strategy supports the notion of longer-term fiscal planning and brought about the introduction of the MTEF. Tax reform is envisaged in the strategy, with the ultimate aim of maintaining a ratio of tax to GDP of about 25%.

### 4.2.4 Monetary policy

The main thrust regarding monetary policy contained in the strategy is the maintenance of financial stability and the reduction of the inflation rate. It seeks to retain positive real interest rates whilst reducing the Bank rate: the strategy therefore seeks to establish the conditions for lower (but positive) real interest rates. These conditions include sustained lower rates of inflation; a reduction in government dissaving; attracting long-term capital inflows; and a stable real exchange rate.
Exchange control liberalisation is designed as a package that will enhance economic activity. The measures envisaged include the following:

- Policies directed specifically at foreign investors include the relaxation of access to domestic credit. In terms of the regulations, a wholly non-resident-owned entity is able to borrow 100% of shareholders’ equity;
- Institutional investors may obtain foreign assets by way of asset swaps up to 10% of their total assets;
- Corporate entities which operate in the export field and also import goods from abroad will be allowed to offset the cost of imports against the proceeds of exports, provided the set-off takes place within a period of 30 days; and
- Adjustments to existing exchange control limits and measures designed to effect administrative exchange reform are included in the package.

4.2.5 Trade, industrial and small enterprise policies

The strategy envisages a shift away from demand-side interventions, such as tariffs and subsidies, to supply-side measures designed to lower unit costs and expedite progress up the value chain. Another critical policy thrust has been the expansion of market access through preferential trade arrangements with industrial countries and the pursuit of regional economic integration. The Industrial Development Corporation (IDC) has introduced several schemes and the Regional Industrial Development Programme (RIDP) has been expanded. Trade and industrial policies will seek to enhance the competitive capacity and employment absorption of manufacturing, alongside the continued promotion of tourism as an export sector.

Industrial innovation support programmes are also to be enhanced. A major investigation is now being undertaken under the auspices of NEDLAC to develop a programme to encourage the adoption of best practice work organisation. An accelerated depreciation scheme will be introduced for all new investments in manufacturing to stimulate competitive and labour absorbing industrial development.

New legislation will be introduced following a review of the competition policy to encourage competition between firms, and protect consumers upstream and downstream from restrictive practices.

The promotion of small, medium and micro enterprises (SMMEs) is a key element in government’s strategy for employment creation and income generation.

4.2.6 Social and sectoral policies

Education is recognised as a prerequisite of long-run economic performance and income redistribution. Government will therefore continue with its sustained improvements in the quality of public schooling.

The systematic restructuring of health services is reinforced with a shift from tertiary services in metropolitan areas towards overcoming the inadequacies of hospitals and clinics in rural areas and townships.
The strategy sees continued implementation of the housing and infrastructure programmes, with continuous refinements to the policy framework. Construction is seen as largely labour intensive and providing jobs and training, while improvement in housing and infrastructure is aimed at enhancing the productivity of labour and the quality of urban life. Improved water and sanitation is made the first priority for rural communities. The role of land reform in combining asset redistribution with enhancement of tenure is emphasised.

4.2.7 Public investment and asset restructuring

The strategy recognises that investment in social and economic infrastructure will play an important role in increasing the productivity of labour and business and achieve higher growth rates. The National Infrastructure Investment Report indicated that South Africa faces a backlog of at least R170 billion and that innovative financing strategies and careful prioritisation will be needed if progress is to be made. The strategy envisages a substantial acceleration in government investment spending, together with improved maintenance and operation of public assets. Public infrastructure needs include:

- Domestic and industrial grid electricity and other energy projects;
- Domestic, industrial and agricultural water supplies;
- Sanitation, wastewater and stormwater;
- Roads, railways, airports, harbours and pipelines;
- Telecommunications and postal services;
- Urban housing-related infrastructure;
- Rural development; and
- Hospitals, clinics and educational facilities.

The strategy commits government to the application of public-private sector partnerships based on cost recovery pricing where this can be practically and fairly effected. Other sources of financing include fiscal transfers, concessional finance from multilateral institutions and other international sources, development finance channelled through development finance institutions, and loans raised on commercial terms.

The process of restructuring State assets is underway: the nature of the restructuring may involve the total sale of the asset, a partial sale to strategic equity partners or the sale of the asset with government retaining a strategic interest.

4.2.8 Employment, wages and training

The strategy acknowledges that there has been a shift from regulated formal employment to unregulated low wage employment, with a large component of informal self-employment. It notes that irregular, subcontracted, out-sourced or part-time employment on semi-formal contractual terms is becoming the preferred source of labour for many employers, with the concomitant result of a growing gap between the wages and benefits in the regulated and unregulated parts of the labour market.

In this strategy there are two broad thrusts relating to labour market policy: the first is the pursuit of regulated flexibility aimed in part at extending the protection and stability afforded by this regulatory framework to an increased number of workers, and the second is the promotion of continued
productivity improvements aimed at bolstering the development of skills across the full spectrum of the workforce in both the formal and non-formal sectors.

In addition, the appropriate determination of wages is a critical component of the medium term macroeconomic strategy. GEAR sees this as a precondition for sustaining the competitive advantage of the currency depreciation, and to ensure the maintenance of industrial competitiveness in the long term. GEAR anticipates job creation occurring in three ways: firstly through general economic growth (about one-third of the envisaged additional jobs), secondly through government programmes, specifically the expanded public works programme (about a quarter), and thirdly through institutional reforms in the labour market, employment-enhancing policy shifts and private sector wage moderation.

The maintenance of minimum wages remains, although it will be determined by sector and area.

GEAR acknowledges that investment in human resource training is inadequate in South Africa, and it aims at establishing a new funding mechanism to raise the level of investment in human capital development. This gave rise to the Skills Development Act and it is in operation.

4.2.9 Towards a national social agreement

GEAR envisages a broad national agreement to address a wider range of issues related to economic restructuring, income distribution and social policies. Government, in turn, commits itself to ensure the following:

- The delivery of housing and related services;
- Steady improvement in the quality of education;
- Universal access to primary health care;
- Access to land and agricultural support for emergent farmers;
- Electrification of all urban areas and an increasing number of rural communities;
- Reliable water supplies and an appropriate sanitation infrastructure;
- Improved postal and telecommunications services; and
- A broad social security net, comprising social grants and targeted welfare services.

Government has, through GEAR, set a clear macroeconomic course for the country. The ‘maturity’ of the economy confirms the validity of this course and offers every prospect of its translation into improving growth in the medium term.

4.3 White Paper

Without doubt the single most influential document expressing government’s policy toward the construction industry is to be found in its White Paper\textsuperscript{21}. The White Paper sets out government’s vision for an enabling strategy aimed at enhanced delivery, greater stability, improved industry performance, value for money and the growth of the emerging sector. It is premised on increased public sector demand and identifies the need for improved public sector capacity to manage the delivery process.

\textsuperscript{21} White Paper: Creating an Enabling Environment for Reconstruction, Growth and Development in the Construction Industry, Department of Public Works, Pretoria (undated)
It identifies the following fundamental structural problems to industry growth and development:

- Interconnected structural problems within the industry associated with declining demand and the volatility of construction demand;
- Flexible labour practices in response to demand fluctuations, resulting in the use of unregulated labour-only subcontracting. This has, in turn, impacted negatively on a range of performance factors such as labour relations, human resource development, output and quality;
- Diminished artisan, supervisory and management capacity as a consequence of the above;
- Financial impediments, such as access to finance, undermining the development of the emerging contractor sector;
- Delivery bottlenecks within one of the industry’s biggest clients, namely the public sector; and
- Financial constraints impacting upon the public sector’s ability to increase investment in infrastructure.

The policy that government formulated has as its strategic aim the establishment of an enabling environment in which the objectives of reconstruction, development and growth are realised in the industry. The vision espoused in the White Paper for a construction industry policy is:

Our vision is of a construction industry policy and strategy that promotes stability, fosters economic growth and international competitiveness, creates sustainable employment, and addresses historic imbalances as it generates new industry capacity for industry development.

The White Paper establishes the following programmes to address the identified impediments:

- Developing a stable delivery environment;
- Enhancing industry performance;
- Enabling human resource development;
- Promoting new industry capacity and the emerging sector; and
- Developing the capacity and role of the public sector.

4.3.1 Developing a stable delivery environment

This programme responds to the variable and complex nature of the delivery process and the volatility of gross fixed capital formation (GFCF). It recognises that construction should and could be making a greater contribution to GDP and that fixed capital investment should, at least, be equivalent to the 50 percent evidenced in most developing countries.

It notes the profound impact of an unstable delivery environment on production relations, quality, productivity and capacity. It therefore seeks to use government’s investment in infrastructure to counteract the effects of demand volatility and stabilise employment conditions as the basis for consolidating industry skills and management capacity.
4.3.2 Enhancing industry performance

The White Paper notes that a prolonged period of demand volatility and decline has left the construction industry with capacity and performance constraints that will impede government’s ability to deliver on its mandate of improving the quality of life; particularly in those previously disadvantaged areas that have a shortage of social infrastructure. This programme is therefore aimed at enhancing the performance and capacity of the South Africa construction industry.

The White Paper identifies a number of constraints that will have to be overcome to enhance industry performance. They include:

- A lack of best practice standards within the construction industry;
- The absence of integration between the design and contracting divisions;
- An adversarial environment between contractor and subcontractor, employer and workforce that impacts negatively on the quality of relationships and manifests itself ultimately in the overall cost of construction;
- The absence of a recognised national agency to co-ordinate the development and implementation of measures to promote best practice; and
- The absence of compliance measures.

Key programmatic approaches will be aimed at encouraging a partnering approach, creating participative management and workplace forums, implementing alternative dispute resolution mechanisms, encouraging the adoption of quality and productivity programmes, fostering improved health and safety measures, enhancing environmental protection, creating new human resource capacity, integrating design and construction processes, and establishing best practice performance standards.

4.3.3 Enhancing human resource development

The White Paper notes that declining investment has both depleted the skills base of the construction industry and discouraged new entrants from pursuing a career in the construction industry. Constraints that require resolution include restricted funding capacity within the industry, access to and availability of training opportunities, the structure of industry training, and affirmative action.

The White Paper suggests that any restructuring of training will have to achieve the following:

- Address the need for rapid skills formation;
- Create synergy with the changing structure of the industry;
- Promote access to training;
- Introduce the principles of the National Qualification Framework (NQF) into training within the construction industry;
- Create an equitable and sustainable financing system for training;
- Facilitate the participation of previously disadvantaged groups in the built environment professions;
- Align professional training more closely with the country’s development priorities; and
Develop a focus on the specific requirements of public sector delivery management.

A number of key interventions are proposed in the White Paper to deal with the appropriate governance of training institutions, establishing a new educational framework in construction, identifying appropriate qualifications, establishing learnerships, creating viable and attractive career paths, ensuring sustainable funding of training, and ensuring that the appropriate skills exist among built environment professionals.

4.3.4 Promoting new industry capacity and the emerging sector

The White Paper notes that years of declining demand have significantly reduced the capacity of the traditional construction industry, the consequence of which has been the emergence of a large number of new small and micro-enterprises (SMEs). Government believes that, because these enterprises offer a key opportunity to achieve economic and redistributive objectives, actively promoting their participation in the industry is in the interests of industry development.

For this happen, however, a number of constraints must be removed, including:

- Lack of access to work opportunities;
- Lack of management expertise;
- Inability to access training;
- Overcoming patterns of business failure and fostering growth patterns in support of new contractor development;
- Overcoming the contradictory demands between SME development and a community-based demand for local labour; and
- Resolving the difficulty in regulating and organising the informal sector.

The key programmatic approaches suggested in the White Paper are aimed at reviewing, simplifying and standardising documentation; establishing performance compliance requirements as a contractor qualification mechanism; enabling a continuous flow of work; disseminating information effectively to the SME sector; facilitating access to finance; improving payment and surety arrangements; developing alternative and appropriate dispute resolution procedures; facilitating access to skills development and training; monitoring performance; and providing co-operation and purposeful support interventions.

4.3.5 Developing the capacity and role of the public service

The White Paper makes a number of references to government’s role in enhancing construction industry performance and growth: in this section it focuses on delivery to the marginalized, overcoming regulatory impediments, improving public sector capacity to manage, and government’s role in promoting the construction industry at regional and international level.

The constraints identified in the White Paper include:
• Recognition of the project-based nature of employment within the construction industry;
• The limitations of labour-based construction;
• The potential for community participation to delay projects; and
• A lack of understanding by public and private sector professionals of the drivers of labour-based construction and community participation.

The key programmatic approaches suggested in the White Paper with regard to delivering to the marginalized communities include promoting the wider use of labour-intensive construction and job creation; promoting the principles, ethos and methodology of community participation and empowerment; and monitoring and evaluating job creation and community empowerment programmes for effectiveness.

To overcome regulatory impediments to industry performance, the White Paper’s key programmatic approaches are aimed at reviewing regulation; integrating SME assistance in terms of training regulations; and establishing an overarching body for the built environment professions.

To improve public sector capacity to manage delivery, the White Paper’s key programmatic approaches include human resource development within the public sector; and calling upon the private sector to arrange secondments to the public sector.

To promote regional co-operation, the programmatic approach is to establish a common development and operating environment.

4.3.6 Impact

Many of the key programmatic approaches contained within the White Paper are currently being implemented: both the Construction Industry Development Board (CIDB) and the Council for the Built Environment (CBE) have been established and are operational. Best practice guidelines and standards are being prepared by the CIDB, and the preparation of a register of contractors is underway.

The Construction Education and Training Authority (CETA) has been established, and the rollout of learnerships and training programmes is underway.

The Department of Public Works, together with a number of stakeholders, has prepared a number of programmes aimed at SME contractor development.

However, a number of impediments remain, including public sector capacity (more fully described in the following section), fiscal constraints and inadequate investment in gross fixed capital formation. The interrelationship between economic growth and construction industry performance remains an intractable factor in ultimately unlocking the potential of the construction industry as a significant contributor to economic growth.
5 Public sector capacity

Service delivery along the entire spectrum of public and private sector involvement is a crucial component in the creation of a positive investment climate. The importance, for example, of the efficient use of capital, has already been acknowledged. This requires, in turn, a number of other influencing factors to be responded to in an appropriate and targeted manner. One of those influencing factors has to do with public and private sector capacity to analyse and assess the infrastructure needs of South Africa.

The required rate of growth within the construction industry to meet the country’s infrastructure needs will not be sustained without resolving the financial and administrative capacity constraints within the industry. This applies particularly to government since it is the largest investor in public infrastructure. Within South Africa, roads and bridges constitute the largest portion of investment in the civil engineering sector, with public authorities – including central, provincial and local authorities – as the largest client body.

Fortunately government has identified this key objective in its ‘Towards a Ten Year Review’ (PCAS: 2003). The key strategies listed below are extracted from this document:
| 6.1.1(1) | Improve service delivery by building the necessary institutions and initiatives. |
| 6.1.1(2) | Make use of the National Spatial Development Plan (NSDP) to focus government’s attention on localities that have greatest potential for development and poverty alleviation whilst rebuilding other areas. |
| 6.1.1(3) | Improve the capacity of provincial and local government at key technical levels especially where it impinges on service delivery and financial management. |
| 6.2.1(2) | Expanding the Public Works Programme to include both labour intensive construction and social services to address the causes and consequences of poverty. |
| 6.2.1(4) | Matching the skills to the requirements of the economy, restructuring higher education, improving the uptake and graduation from ABET programmes, and reducing disparities in access to education by the poor. |
| 6.2.1(5) | Meeting the increasing demand for housing and services generated by the decrease in household size between 1996 and 2001. Other challenges include obtaining land for urban housing projects in the context of spatial planning. |
| 6.2.1(7) | Promote national identity and pride, ensuring that households develop civic responsibility, including a culture of paying for services (beyond the free basic provision) and taking responsibility for protecting the infrastructure in their communities. |
| 6.3.1(1) | Continue with prudent macro-economic policies leading to a more stable currency and lower real interest rates, and improve the public sector’s investment performance. |
| 6.3.1(2) | Support focused sector strategies in key growth and employment industries, following the examples of the motor industry and the tourism sector. |
| 6.3.1(3) | Speed up the restructuring of all industries to ensure global competitiveness, low commodity prices and better access to key markets. |
| 6.3.1(8) | Ensure implementation of the Research and Development Strategy both in high-level niche areas such as fuel cell technology and issues related to immediate poverty eradication and protection of the environment. |
| 6.4.1(1) | Accelerate the implementation of social programmes that will help prevent crime from taking place, including Integrated Rural Development, Urban Renewal and Moral Regeneration combined with a better physical living environment. |
| 6.4.1(5) | Address all matters pertaining to HRD across the [criminal justice system] cluster, including the judiciary. |
| 6.5.1(5) | Play an active and leading role in the implementation of NEPAD and the African Peer Review Mechanism. |
| 6.5.1(8) | As the custodian of the Johannesburg Outcomes, continue to play an important role in leading the international sustainable development agenda. |

### 5.1 Financial Capacity

The total consolidated national government budget for 2003/04 is R333 965 million representing a 14.4% increase over 2002/03. The medium-term estimates for 2004/05 and 2005/06 are R363 345 million (8.8% increase) and R395 606 million (8.9% increase) respectively.

### 5.1.1 National capacity

Of the total national budget for 2003/04, Treasury set aside R50 billion for debt service costs, and R3 billion for a contingency reserve for unforeseen expenditure and for expenditure items not yet included in departmental allocations. Of the remainder, provincial government receives R159 billion (56.9%), national government retains R109 billion (38.9%) and local government receives R12 billion (4.3%).

Looking at the medium-term estimates, however, the percentage share of the allocation to these two levels of government (provincial and local) for 2004/05 and 2005/06 are 57.3% and 4.3%, and 57.6% and 4.4% respectively. Since the total budget is expected to increase by 8.8% and 8.9% for the same period, the net increase to provincial and local governments is expected to increase by 2.8% and 2.9% for the same period after adjusting for inflation. Given that national government’s spending is not aimed at social or basic services as this takes place at
provincial and local government levels, one cannot expect significant growth in infrastructure investment at either provincial or local government level for the ensuing three years. On the contrary, as general government continues to increase its social welfare grants, one can anticipate infrastructure investment to come under severe pressure.

National government’s main spending is targeted at the criminal justice system and defence, which comprise over half of its expenditure once all intergovernmental grants have been excluded. The remaining balance is allocated to higher education, transport, water and energy (electricity) affairs, foreign affairs and administrative functions such as home affairs and the revenue service.

There are however some functions that are shared with the provincial and local levels, including education, health, water, electricity, agriculture, provincial roads and traffic management and personnel. National government is responsible for providing leadership, determining the regulatory environment, policy formulation, establishing norms and standards and monitoring performance. Provinces therefore have the implementation responsibility and consequently receive the large budgets.

Government has indicated that it is to spend R105 billion in the ensuing three years on infrastructure: however, this amount includes investment on rail, ports and aviation infrastructure. The research done by CSIR (Boutek), based upon an analysis of the Estimates of National Expenditure 2003 and the Intergovernmental Fiscal Review 2003, indicates that government departments will invest approximately R20 billion on infrastructure in the 2003/04 financial year.

5.1.2 Provincial capacity

The Intergovernmental Fiscal Review acknowledges that spending on infrastructure items such as housing and provincial roads declined due to tight budget constraints, and that this has resulted in infrastructure backlogs in roads. It also acknowledges that this impacted negatively on the levels of economic activity in the provinces and constrained the economic growth potential of the country as a whole.

Retained capital at provincial government level will increase from R10.8 billion in 2003/04 to R12.8 billion in 2005.06. Unfortunately, as provinces don’t differentiate between capital, retained capital and infrastructure, it is not possible to determine from the 2003 budget figures in the 2003 Intergovernmental Fiscal Review what the total infrastructure investment at provincial level will be. The Review does indicate that the provinces plan to spend R40.5 billion on infrastructure, excluding housing and social services capital. It must be noted however, when considering this number, that no time span is specified.

The Review indicates that provinces are committed to invest R6.9 billion of their own funds on capital projects within the health sector. This is earmarked toward upgrading, replacing and constructing health facilities and is in addition to the R2.7 billion conditional grant allocation for refurbishing additional hospitals. Again, the budgets are allocated under capital and therefore do not necessarily imply infrastructure investment. Within the health sector, the capital budget would include medical equipment and beds, for example. Spending on medicines and drugs is expected to grow rapidly due, in part, to face the challenge of HIV/Aids.
Social security transfers are also expected to rise rapidly over the MTEF period.

The Review states that infrastructure development in the form of housing delivery, road construction and upgrading at provincial government level is expected to rise over the three-year period. Research undertaken by the CSIR (Boutek)\(^{22}\) confirms that whilst government’s overall capital expenditure budget is increasing, the retained infrastructure allocation of national departments has started to reduce from R3.6 billion in 2003/04 to R3.2 billion for 2005/06 (Coetzee: 2003). At the same time, the rate of budgeted increase for retained capital (out of which infrastructure investment is allocated) at provincial government is reducing from 10.4% to 7.0% in nominal terms over the same time period (Coetzee: 2003).

A review of the budgets for housing subsidies (Coetzee: 2003) indicated that whilst there was an annual growth rate of more than 10% until 2003/04, this is expected to drop to 5.3% and 6.1% for the 2004/05 and 2005/06 financial years respectively. Roads infrastructure and maintenance budgets at provincial level indicate an increase in the growth rate of 6.6% (2003/04 to 2004/05), to 11.2% for the 2004/05 to 2005/06 period.

Taking into account government’s policy to devolve certain functions, such as service delivery, down to provincial and local government, it is not clear why there is this reduction in infrastructure investment at these levels.

5.1.3 Local capacity

Local government has responsibilities that are both concurrent and exclusive, such as the provision of water, electricity, waste disposal, municipal infrastructure and emergency services. There is unfortunately insufficient evidence in the Intergovernmental Fiscal Review 2003 to establish whether infrastructure investment is increasing or decreasing at local government level. The differing financial year from national and provincial government, together with the single-year budgetary planning currently occurring and the use of different definitions of capital, makes it difficult to establish actual trends in infrastructure investment at this level.

It is this concurrency that is generating some unique challenges. A key challenge is the poor quality of information for municipalities, many of which are still consolidating after their establishment in December 2000.

The Review indicates that local government intends spending R13.1 billion in this financial year, up from R11.7 billion in the previous financial year, on capital expenditure. The definition of capital in this instance differs from the economic definition as it includes maintenance budgets. Of the R13.1 billion budget, 82% is for general infrastructure, 11% for other assets, 6% for community infrastructure and 1% for specialised vehicles. The largest proportion of the general infrastructure amount is for housing, water reservoirs and reticulation, roads, bridges and pavements and electricity distribution. As is to be expected, electricity makes up the largest portion of local budgets, followed by water and sanitation.

The Review makes a forceful argument for local government to finance the infrastructure backlog through long-term borrowing in order to expedite service delivery as these services have the ability to generate revenue. In

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\(^{22}\) Coetzee, Johan Dr.: Impact Analysis of Government Spending on Infrastructure, CSIR (Boutek), Pretoria, 2003.
this way, it argues, the investment costs can be included into the whole life costs of the amenity and concomitantly recovered over a number of generations of consumers.

5.1.4 Sector capacity

The following section analyses those functional areas of government that are most likely to impact on the construction industry. These are

- Education;
- Health;
- Roads and transport;
- Housing;
- Water and sanitation; and
- Electricity.

5.1.4.1 Education

The facilities required to create a stable learning environment have been identified as one of the strategic priorities of education. Education capital expenditure has more than doubled from 2000/01 to 2002/03, from R672 million to an estimated R1.9 billion. Regrettably, again, information on actual progress is not readily available, though it is expected that an increase of this magnitude should make a significant impact.

It should however be noted that according to the MTEF non-personnel non-capital component – such as textbooks, stationery and other teaching aids – would account for more growth in expenditure in the future.

An extensive School Register of Needs (SRN) which was completed in 2000 established a comprehensive record of the location and extent of all public ordinary school infrastructures. According to the data submitted, all schools reported an improvement in the provisioning of classrooms, electricity connections and toilets between 1996 and 2000. Notwithstanding this, the Review notes that “the sector needs to enhance its capacity to spend its capital budgets…”.

5.1.4.2 Health

Public and private health care systems contribute about 8% of South Africa’s GDP. Each of the three levels of government plays a role in the delivery of health services. Health capital expenditure allocations have tripled between 1999/00 and 2003/04 with a doubling of expenditure occurring in 2001/02. A major contributing factor to this circumstance was the creation of the Hospital Capitalisation Grant, launched in 1998/99, with an amount of R85 million. Since then expenditure has grown to a projected R694 million in 2002/03, from which date the fund has contributed to the funding of large strategic revitalisation projects, such as major upgrading, replacement and transformation of hospitals.

The 2005/06 value of the fund is projected at over R1 billion. The fund will be used to revitalise nine large projects and 492 smaller rehabilitation projects.

The Review makes special reference to the skills scarcity in certain categories of public healthcare providers, particularly in the fields of professional nurses, medical specialists, dental practitioners and
psychologists. It notes that over 90% of pharmacists, dentists and psychologists practise in the private sector. It also acknowledges the loss of scarce skills due to high emigration. However, no indication is given as to the relationship between post vacancies and the allocation of infrastructure investment. In other words, it is not clear whether hospitals that have high vacancies are not being upgraded.

5.1.4.3 Roads and transport

The transport system contributes 10% of South Africa’s GDP and constitutes one of the key sectors in enhancing growth and development. South Africa has an extensive road network of approximately 752 000 km. However, only 16.2% of provincial roads are paved, providing some indication of the order of maintenance that these unsurfaced roads demand. National and provincial roads budgets increased from R5.9 billion to R7.5 billion at the end of the MTEF period, reflecting an annual average growth of about 8.2% in nominal terms, or 2.2% when adjusted for inflation. On average, the share of provincial roads budgets remains constant at 3.1% over the MTEF period, but with great variations between provinces.

Rollovers from previous years explain the increased amounts in the current financial year, and reflect a lack of capacity to plan and spend the budgets. Provinces plan to spend R2.2 billion, after adjusting for maintenance, of their allocations on constructing, reconstructing and upgrading roads in 2002/03. Expenditure is expected to decline to R1.9 billion in 2003/04 after which it is projected to rise to R2.5 billion in 2005/06. Provincial spending on maintenance is projected to increase by 24.2% from R2.5 billion in 2002/03 to R3.2 billion in 2003/04. Over the MTEF budgeted spending is expected to increase by 13.9%, reaching R3.8 billion in 2005/06. Road maintenance is expected to increase from 52% to 60% in 2003/04 as a percentage of the provincial roads budget.

The transfer to the South African National Roads Agency (SANRA) for national roads amounts to R1.2 billion in 2002/03, rising to R1.3 billion in 2005/06. SANRA also received R435 million between 1999/00 and 2002/03 for labour-intensive road projects in rural areas, upgrading gravel roads and constructing drainage structures and roadside facilities to accommodate pedestrians.

Local government is expected to spend almost R1.8 billion on roads, pavements and stormwater for 2002/03.

Transport infrastructure is a key driver of economic growth through improved access to markets and enhancement of productivity: it is therefore alarming that “future trends reflect a declining share of allocations for roads in most provinces” (2003 Intergovernmental Fiscal Review). The Review notes that despite the need for transport budgets to be prioritised over the next few years, additional budgets will only be spent effectively if the transport sector modernises its working systems and co-ordinates and plans more effectively. It also stresses that both transport and public works departments will have to reduce excess personnel, attract better skills and reform conditions of service.

5.1.4.4 Housing

Since 1994, government has contributed R19 billion on just under 1.5 million housing opportunities for over 6 million people. This contribution is
expected to rise by a further R13.5 billion over the next three years. Housing delivery, however, remains a challenge with affordability, planning, design and management of the built environment requiring strategic interventions.

The total budget for provincial expenditure on the Housing Subsidy Grant for 2002/03 was adjusted by R946 million (of which R885 million was rolled over) to R4.7 billion. Spending on housing subsidies for 2002/03, however, is estimated to be R3.7 billion, or R1 billion less than provided for, due to the inability of provinces to spend their budgets. Furthermore, spending is expected to slow down over the next three years in response to the slowing subsidy approval rate.

Lack of capacity is further evident in the slow spending of the Human Resettlement and Redevelopment Grant, where R87.3 million for 2002/03 was rolled over from the previous year.

The housing backlog is estimated to be just over 2 million, excluding traditional dwellings. The rate of subsidy approval and the rate of housing delivery matched each other from the beginning of the scheme; however, recent evidence indicates that the rate of subsidy approval is decreasing, and the pace of delivery likewise. The variation between subsidy approvals and projected spending suggests that transfers are being made to municipalities but that implementation at this level is slow. The pace of delivery is also below the required rate of low-income household formation.

The Review attributes this to the unavailability of land, the lack of an integrated approach, poor project planning and limited project management and administrative capacity in provincial and municipal departments.

5.1.4.5 Water and sanitation

The provision of water of an acceptable standard and in sufficient quantity remains one of South Africa’s most serious challenges, given the low overall rainfall for the country and the erratic rainfall patterns. The national budget provided R1.0 billion for capital programmes on basic water and sanitation infrastructure in 2002/03 and R1.1 billion in 2003/04. The Water Board’s capital budget grew from R587 million in 2001/02 to R669 million in 2002/03, a growth of 13.9%. Municipalities’ capital expenditure is expected to increase from R1.6 billion in 2001/02 to R1.9 billion in 2002/03.

5.1.4.6 Electricity

The electricity sector plays a fundamental role in economic and social development. Government has prioritised the provision of electricity, water and housing to all households in order to improve the standard of living, and to alleviate poverty in South Africa. Despite the progress made in providing electricity to homes in urban centres, a significant backlog, estimated at approximately 34% of homes, still remains.

Municipalities are key to the successful rollout of basic services and whilst indications are that they are providing free basic services, the degree varies. Government currently funds electrification through grants to municipalities and Eskom, and provides funding for electricity infrastructure through the electrification capital grant as well as other infrastructure grants. This amounts to R1.1 billion for 2002/03 and 2003/04, and R1.2 billion for 2004/05.
The Review concludes that the required reform in the sector will include addressing the fragmentation of the sector and improving the industry’s efficiency.

5.1.5 Summary

Research done by CSIR (Boutek) confirms that there is a decline for 2003/04 and 2004/05 in the growth of national government spending on capital expenditure and a decline in retained infrastructure spending. This reflects, in part, government’s commitment to reduce its control of infrastructure spending over the medium term in accordance with government’s policy of devolution of authority.

Departmentally, the decline in growth is most marked in Transport, Minerals and Energy, Water Affairs and Forestry, Public Works (showing a dramatic drop in estimated total infrastructure spending – including transfers – from R0.9 billion in 2003/04 to R0.19 billion in 2005/06), Environmental Affairs and Tourism, Trade and Industry, Sport and Recreation, and Education.

National government’s estimated expenditure on retained infrastructure is to decline from R6.6 billion to R3.2 billion from 2003/04 to 2005/06. Capital spending by national government is therefore expected to slow down over the period 2003/04 to 2005/06.

A similar picture emerges at provincial government: the growth rate in capital expenditure has come off a high of approximately 32% from 1999/00 to 2003/04 and has slowed down to 10.4% for the period 2003/04 to 2004/05 and further reducing to 7.0% for the period 2004/05 to 2005/06. The estimated retained capital increases from R10.8 billion in 2003/04 to R12.8 billion in 2005/06. Of this, roads maintenance and infrastructure absorbs 45%, housing 20%, education 15%, health 15% and agriculture 5%. Other than for roads, it is not clear what percentage of the capital budget is to be spent on infrastructure.

At local government level, estimated infrastructure expenditure is R8.7 billion for 2002/03, of which metros contribute R5.0 billion, local municipalities R3.0 billion and district municipalities R0.7 billion. Spending by type indicates that 27% goes on housing, 22% on water, 20% on roads, 18% on electricity and 13% on other infrastructure. In the absence of medium term planning at local government level, it is not possible to determine what the longer term spending trends are projected to be.

Clearly, in the absence of higher economic growth, government’s ability to allocate more financial resources to infrastructure investment is severely restricted.

5.2 Administrative capacity

Notwithstanding the concluding remark above, administrative capacity constraints, together with a lack of appropriate project planning and management skills, are severely impeding the public sector from investing its available funds in infrastructure development.

Whilst government has instituted legislative reforms to improve the fiscal management of these budgets at all levels of government, it recognises that further qualitative improvements in budgeting and financial management are still imperative. The reforms under consideration are the
development and publication of service delivery measures and indicators to complement financial information. This will be joined by strategic plans, revised budget formats and annual reports. Reforms are also expected in the supply chain to modernise procurement practices within government.

The submission of strategic plans is aimed at ensuring, through consistent measurement, that departments can reflect what they delivered with the resources allocated to them.

5.2.1 Provincial capacity

Despite the increasing budgets for roads and housing, the Review notes that they still exceed the capacity of those provincial departments to spend them. Treasury, in responding to this challenge, acknowledges the need to attract and retain the appropriate skills, but also expresses its concern at the high and increasing proportion of budgets being spent on personnel expenditure. In this regard, it highlights the “excess” personnel in roads, public works and agriculture departments in the provinces. It also describes as a ‘challenge’ the rapid rise in personnel expenditure at local government level. These statements are cause for real concern since these people are located in the client bodies of the civil engineering sector of the construction industry, and any loss of personnel poses a real threat to increasing infrastructure investment and improving service delivery at these levels.

The Review acknowledges that provincial surpluses (R3.5, R3.3 and R3.7 billion for 1999/00, 2000/01, and 2001/02 respectively) resulted as a consequence of the slow implementation of capital budgets arising from the “lack of capacity to spend” (The Review: pg. 18 and 22).

5.2.2 Local capacity

The Review notes that whilst budgeted capital allocations have grown for local government, past performance indicates that actual expenditure lags behind. The Review attributes this to “poor planning” (pg.33). The implications of poor capital planning and, in particular, whole life planning, are enormous if government is intent on pursuing the financing of municipal infrastructure through market borrowing. In order to avoid future generations inheriting an overdrawn municipal account, the importance of building the necessary expertise in the efficient use of capital together with the ability to correctly determine whole life costs cannot be over-emphasised.

Inaccurate and inefficient capital planning together with incorrectly determined whole life costs will impact negatively on the cost of the service, which will ultimately result in those which are unable to meet those costs, defaulting on their service payments. Already municipalities have accumulated R24.3 billion in outstanding debtor balances, a figure that is almost double the capital budget for 2003/04.

The ability to deliver improved service through borrowing is directly related to the ability of current, and future, consumers to pay. This is a vicious cycle as improved and enhanced infrastructure is a prerequisite for economic growth, and economic growth is a prerequisite for enhancing the consumer’s ability to pay for services. Since local government is at the coalface of this particular problem, and ultimately has to manage the risk, considerable consideration and investigation is required to resolve this
conundrum, and much will depend on the level of infrastructure and financial planning skills of those in local government.

The Review notes that the necessary expertise and planning is not available in many instances. It notes that “local government systems are antiquated, with poor information systems, and municipalities need to modernise their systems of delivery and management in order to perform better and promote their accountability to residents, ratepayers and customers” (pg. 49). It notes that short-term improvements are also required to revenue collection systems, reduction in water and electricity losses, and containing the share of personnel expenditure.

Above all, it notes that poor information systems mean that the Review cannot comprehensively cover municipal activities.

In conclusion it notes: “In many cases the expansion of service delivery to previously under-serviced areas is ready to take effect, given the additional resources allocated by national government. Improvements in planning and budgeting through government’s prioritised capacity-building programmes will help local government deliver on its mandate. The challenge is to translate these best-practice policy reforms into practical and executable programmes, impacting positively on communities, addressing poverty and moving the pace of economic growth at the local level” (pg 49).

5.2.3 Summary

The 2003 Intergovernmental Fiscal Review consistently highlights the lack of spending capacity within government, and cites weaknesses in project planning, project integration, project management, outdated systems, poor financial management and reporting, and the lack of appropriately skilled personnel as the contributing factors.

Research done by the CSIR (Boutek) on the information contained in the Estimates of National Expenditure 2003 and the Intergovernmental Fiscal Review 2003 indicates that the total expected expenditure by government on infrastructure for 2003/04 is expected to be R19.5 billion (Coetzee: 2003). Examining the information issued by the Reserve Bank for the first three quarters of 2003/04 indicates that Gross Fixed Capital Formation by asset for the three quarters is R47.5 billion. Assuming continuation of the trend thus far manifested, the total for 2003/04 should be R63.3 billion. The Reserve Bank’s September 2003 Quarterly Bulletin also indicates that government’s contribution to overall Gross Fixed Capital Formation (Infrastructure) is 29.3%. Applying this to the 2003/04 projected total indicates that government’s contribution should be R18.5 billion. This represents an estimated underspend of R1 billion excluding rollovers from 2002/03. It is known that in housing alone, R0.88 billion was rolled over to the provincial Housing Subsidy Grants in 2002/03, and a further R87.3 million rolled over from the Human Resettlement and Redevelopment Grant for the same period. According to the Adjusted Estimates 2003/04, R1.1 billion was approved as rollovers from funds appropriated in 2002/03 but not spent, which are included for re-appropriation in the 2003/04 financial year. The infrastructure appropriation content of the rollovers is not known.
6 Conclusion

The South African construction industry has the advantage that the government views the industry as a national asset. That this is a correct evaluation is beyond doubt when one analyses the role and contribution that the industry makes in other economies. Its potential contribution to GDP and its ability to provide jobs is well documented. The delivery of infrastructure is the driver of national economies and, in addition, it provides the facilities and amenities required for an improved quality of life.

However, the above review highlights the challenges facing the industry, principally from too low an economic growth rate, and a lack of appropriately skilled participants. The former, whilst being addressed by government in various of its initiatives, is still inadequate and is likely to remain so until GDP can grow by 4.5-6.0% and Gross Fixed Capital Formation (GFCF) reaches 25% of GDP. A significant step-change in the economy, particularly in regard to the manufacturing sector, is required if economic growth of this order is to be realised.

The latter impediment can be and is being addressed through the Skills Development Act, principally through the Construction Education and Training Authority (CETA). Whilst performance to date has been unacceptably slow, structural faults appear to have been addressed and the expectation is that a substantial improvement in registered learnerships and other skills development programmes will be witnessed. The mismatch between available skills and required skills must be removed if the appropriate skills are to be provided in sufficient number and real job growth is to be delivered. The high number of industry participants who have no education, let alone a qualification, is a serious impediment to construction industry development.

Impediments manifest in both challenges (economic growth and skills development) are the low level of productivity and the absence of substantial middle management skills. The magnitude of improvement to GDP growth if these two deficiencies can be met is significant. Yet little attention seems to be allocated to these vital issues.

Whilst spending on infrastructure of a civil works type would appear to be receiving government attention, and accelerated spending is confirmed in the MTEF, the rate of acceleration will be undermined if public sector capacity is not substantially improved. Seldom do governments have the luxury of providing additional financial resources to spend on infrastructure: all the more reason that every effort be made to ensure that departments are able to spend that which they receive, and develop additional capacity to spend more. There is serious concern that, given the extent of the backlog, South Africa could lose the battle against infrastructure development and maintenance to the detriment of its people and the economy.

The building sector is unfortunately in a worse situation: in the absence of real growth, spending on non-residential projects is likely to remain low, and when it does occur, it will do so in predominantly well-off areas although there are encouraging signs of entry into previously disadvantaged areas. Residential spending is likely to remain strong and strengthen in the light of the lower interest rates. Unfortunately, again, it will be focused on the middle to top end of the market. South Africa is still not
able to turn the strong residential demand into an economic driver in the same manner that the economies of the United States and Great Britain have been able to do. Those economies have been underpinned by the strength of the residential market, and provide a model worthy of emulation.

Home ownership, while being the ultimate objective, will be impeded in South Africa while high levels of formal unemployment and poverty remain. Rental accommodation has much to offer as both a bridging mechanism and an economic stimulus, and should receive greater attention.

Government’s commitment to restructuring the economy to benefit all, and its endeavours to realign it along sound fiscal lines, is bearing fruit. It has also reset the legislative and regulatory environment and continues to examine its applicability relative to ongoing developments. It is now up to the construction industry to attend to the systemic issues impeding its growth and map out a strategic programme to advance it along the lines of the automotive industry.