Opacity over construction pact is risky

By Mark Allix

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There has been no full public disclosure by the Department of Economic Development and seven JSE-listed construction and engineering groups over their signing of a voluntary transformation agreement.

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The department and executives of some of the companies have cited continuous confidentiality of the terms and conditions of the "Voluntary Rebuilding Programme" at a time that the economy is looking to be in an increasingly perilous state.

The opacity surrounding what is also known as the "settlement agreement" can only be construed as risky and inappropriate behaviour on the part of these parties against the interests of shareholders.

Many of SA's major infrastructure groups have failed to deliver over the seven years since the 2010 Soccer World Cup despite billions of rand having been poured into public development projects.

Granted, all but one of these groups were collectively fined R1.46bn by SA's competition authorities for engaging in collusion in the sector - taking some lustre off their balance sheets. Meanwhile, others among them appeared ill-equipped to deal with a shift in state spending from grand infrastructure projects such as the Gautrain to much lower-value projects in rural areas.

But 11 months have now passed since the seven companies agreed to spend R1.5bn more over 12 years to promote transformation in the sector - taking a little more shine off their balance sheets.

They have subsequently been absolved by state agencies of all outstanding and potential civil and criminal claims, including by the South African National Roads Agency.

A multimillion-rand civil claim being pursued by the City of Cape Town over the building of the Cape Town Stadium is still in process, and other such claims may still be in the pipeline. However, despite the general clearing of the skies, it seems that SA's listed construction companies have now also been struck down by the paralysis that is neutralising relationships between many stakeholders in SA Inc, most pertinently in the country's mining industry.

It seems the Department of Economic Development's avowal on 13 February that "an industry sector summit will be convened within the next four months ... to promote wider transformation and growth" has not been realised.

As not all seven companies party to the settlement agreement have been able to fulfil their commitments to promote black ownership and participation in the sector, such developments have presumably been compromised by the toxic politics of state capture and the resultant dismal economy.

Some proposed mentoring partnerships with smaller, black-owned construction companies remain up in the air. It is also likely targets that such black-owned companies will have a market value of about R5bn in 2024 will not be met in the context of the existing political economy.

It is projected that by the end of seven years, black firms and black equity owners participating in the settlement agreement will have a combined annual turnover of R21bn-R27bn, generating R600m-R770m in profits annually, or R3bn-R3.6bn in the period.

Provision has been made for short extensions of time that are otherwise subject to undisclosed penalties. The Department of Economic Development says that to achieve these targets, the construction industry will need to maintain or improve on its existing growth.

It also says established and emerging companies will work in partnership with the state to improve the roll-out of public infrastructure, while expanding in the rest of Africa.

But it is not obvious, given the woeful state of SA Inc, that any of this will transpire.

Source: Business Day