



17 May 2017

Under Embargo Until Friday, 19 May 2017, Windhoek, 06:00 am

Namibia's Construction Industries Federation Calls for Help

The Construction Industries Federation of Namibia (CIF) remains very concerned about the current state of the industry. Research as well as anecdotal evidence suggests that enterprises in the construction sector are in a crisis. Entrepreneurs are in the process of closing businesses or are forced to scale down operations drastically, often to the extent of dormancy. With close to zero turnover, costs are cut to an absolute minimum. This leads to loss of overall production in the industry with a huge related loss of government tax revenue and employment in the sector. The CIF pleads that everything possible is done to ensure that the construction sector revives.

Proposed measures include:

- An increase of the Namibian government's capital budget focusing on productive infrastructure as well as the swift payment of outstanding debts to contractors;
- the provision of regular and comprehensive information relating to all government projects, which is much needed by the sector to take strategic business decisions;
- a commitment from the Namibian government that the local construction sector will be supported and that the focus will be on maintaining the Namibian construction capacity;
- that a Namibian national construction council will be established without delay so that the industry will be much better regulated;
- and improved monitoring and inspection of public building and construction work to ensure adherence to all legislation and that contractual obligations following the award of public tenders are being met.
- The CIF also urges that the Namibian government policy and legislation takes cognisance of the importance to attract much-needed investment and to facilitate the ease of doing business in Namibia.

The CIF regularly engages the construction industry. In April 2017, the CIF again had asked its members to give feedback on the implications of late payment and reduction of government funds available for building and construction projects. Results of the survey show that 63% of responding businesses either have closed down, are dormant or have “scaled down drastically”. Between 1 September 2016 and 31 March 2017, a minimum of 30% of the workforce was retrenched.

This is likely to get worse, unless Government finds a way to intervene. According to the survey, if by end of June 2017 no new tenders are being awarded – 67.39% of the responding businesses will have closed down, are dormant or have “scaled down drastically”, and close to 40% of all employees in the sector will have lost their jobs.

Retrenchments are being experienced across the entire supply chain. Not only the building and civil contractors and sub-contractors such as electricians, plumbers, flooring specialists, roofers, painters, air-condition technicians are affected. Architects, engineers, quantity surveyors as well as suppliers of building materials also needed to scale down operations and make large scale retrenchments. Similarly, manufacturers and suppliers of building material are also experiencing a serious downturn.

Whilst acknowledging that payments have been forthcoming, the CIF feels frustrated that despite having undertaken several measures to press upon authorities the severity of the situation – i.e. closure of business and retrenchments - that it appears that there is limited scope to find a solution.

Bärbel Kirchner, consulting general manager of the CIF says: “Since September, the CIF has made great efforts to communicate with and engage executives on all levels of government as well as state-owned enterprises. Due to the severity of the situation, and out of desperation we have also reached out to every Member of Parliament in order to emphasise the consequences of capital budgets cuts and delayed payments, and the fact that we need to see more local construction companies to benefit from government construction projects during this difficult time.

“We have also highlighted the need legislation to better regulate our industry through the establishment of a construction council”.

The greater part of the industry is dependent on government contracts. The scale of growth in the construction sector over the recent years was largely due to demand created by the government for much needed infrastructure development and the creation of employment. Many new entrepreneurs had entered the sector and the extent of the demand meant that businesses did not see the need to diversify their client base, markets or their services, or indeed to adjust their operations. Therefore, they are extremely vulnerable to the extreme and sudden changes in government expenditure.

It is generally perceived that mostly the small contractors are being affected. However, it is important to remember that construction is a capitalintensive industry, and that larger contractors have invested heavily in plant and machinery. These investments are made in anticipation of a continued demand for construction services. Therefore, a sudden and drastic cut of government capital expenditure could lead to the demise and closure of even the largest contractors. Some say that due to cyclical nature of economies that at some point a downturn should have been expected by the construction sector. However, the rapid drop is said to be only partially of cyclical nature but more so due the fact that the sector had been overstimulated in the past. The industry therefore feels justified in requesting that the adjustments in public capital expenditure will be less radical.

Ms Bärbel Kirchner, consulting general manager of the CIF says: "It is generally understood that a consolidation of the national budget and prioritisation of public expenditure was necessary for the long-term gains of our economy. However, our appeal is that the budget considered for capital projects would be revisited and that related reductions will be minimised.

"We know that our government needed to take measures in the long-term interest of our country and we are very grateful that our Minister of Finance has taken the bold approach to secure much greater control over public expenditure.

"We also know that the cake has become much smaller and that our government and especially our Minister of Finance is being pulled into all directions as everyone wants a share of the now much smaller cake. Our industry, which we believe can trigger a multiplier effect and stimulate also other sectors of our economy, ideally should receive a slice big enough to make a meaningful contribution to Namibia's economy and to secure employment."

It is important that immediate measures are taken to ensure that the construction sector will survive. However, irrespective of budget allocations, the current uncertainty is the untenable. Without critical information available, business owners are not able to take informed decisions.

To provide for services delivered in previous financial years, which however have not been paid as of yet by the government, an allocation of 1.8 billion Namibian Dollar (N\$) was proposed during the budget speech delivered by Namibia's Minister of Finance, Mr Calle Schlettwein, in March 2017.

However, businesses operating in the construction sector need to know when the additional funds of N\$1.8 billion for services delivered to the public sector, will become available and what the proposed share will be for the construction sector. There is also great uncertainty about which projects, that already had been awarded, will proceed and which projects will be cancelled. The sector needs to be provided with a list of all projects that will be advertised and for which tenders will be requested in 2017/2018. It is vital that this information becomes available so that businesses in the sector can strategise accordingly.

About the award of government contracts, the CIF argues that socio-economic considerations need to be taken into account. Building and constructions projects can stimulate the local economy provided that the money remains in circulation within the country. This can be secured by giving preference to contractors that adhere to Namibian legislation.

An obvious requirement would be that the contractor regularly and judiciously pay taxes to the government. In addition, that the contractor buys predominantly local building materials where available, or duly pays customs duty on any imported material.

Registered Namibian businesses, should also show proof that they have the necessary plant and equipment, that they focus on maintaining and building local capacity in the construction sector and that they employ Namibians and adhere to the minimum wages and minimum employment conditions determined for the Namibian building and construction sector.

Bärbel Kirchner, consulting general manager of the CIF says: "We can only plea that everyone involved in procurement - not only the buyers and public officials, but also the consultants in our industry – has a judicious approach and remembers to also take into consideration the interests of our economy and its people.

“When the awards of government building and construction contracts are done with great circumspection, capital budget expenditure can benefit the Namibian economy at large, it can benefit Namibian businesses and create employment for Namibians and the money remains in circulation in Namibia”.

The new Public Procurement Act (of 31 December 2015), which has been implemented on 1 April 2017, has the potential of effectively steering socio-economic development to the advantage of the Namibian economy and its people. The Public Procurement Act can ensure that procurement will become more uniform across all levels of government and state-owned-enterprises and has the potential of curtailing any desires popping up to benefit personal interests.

The now implemented procurement legislations gives scope to the Minister of Finance to make changes to public procurement practices across all government authorities, not only to achieve greater transparency and efficiencies in public procurement but also to effectively steer socio-economic development through effective procurement. For example, a prudent approach can ensure that Namibia maintains and further develops capacities of her local construction sector.

This can be achieved when procurement thresholds which determine the preference given to small-to-medium-sized Namibian enterprises, larger Namibian companies and which determine when foreign companies in joint venture with Namibian companies can compete in the local market, will be adjusted. Namibian companies have the capacity to handle all sizes of building and infrastructure developments, including projects up to 500 million Namibia Dollar and more.

In addition to the Namibian government’s new procurement legislation, it is equally important that the construction sector is being regulated. The CIF has for many years, since to 2006, pleaded that a national council for the construction sector would be established. However, despite having raised the importance of greater regulation in the construction sector with several authorities, not much progress in re-tabling a bill in Namibia’s National Assembly seems to have been made.

The industry has experienced a tremendous growth over the last ten years. A less regulated environment meant that there is generally much greater scope for many players to operate – including tenderpreneurs; foreign companies, some of which without due consideration of local interests; as well as contractors taking on projects without sufficient experience, qualification or

financial capacity. The effect of such an unregulated environment is that legitimate local contractors with adequate capacity are increasingly pushed aside; and that ongoing local capacity building, continued employment and the provision of decent work, increasingly is undermined.

However, the Right Honourable Prime Minister Saara-Kuugongelwa-Amadhila recently had announced in Namibia's parliament that a bill for a Namibian national construction council will be tabled soon, which is an indication of the Namibian government's commitment to secure a better regulated environment for the construction industry.

Bärbel Kirchner, consulting general manager of the CIF says: "Despite having waited for a long time, we remain hopeful that a Namibian Construction Council will soon become a reality. All our neighbours in the SADC region have such a council to regulate their construction industry. The industry is now also involved in the negotiations in the trade in services in the SADC region. Without any Namibian legislation for the construction sector we would increase our sector's vulnerability if we were to negotiate to increasingly liberalise the trade in construction services.

"One thing is clear, much greater regulation of the industry in the interest of maintenance and further sustainable development of Namibian construction capacity, is vital. We need to have the required legislation to establish a council for the industry as soon as possible.

"As a whole, for the economy at large, we need to ensure that conditions and policies and legislation are right to attract investment. That would probably have the biggest impact.

"We need to introduce some major changes for the lasting positive impact for the construction industry. It is not only important that Namibian contractors are able to survive under current circumstances. Instead, once we have steered through current difficult times, we would like to see our industry thrive in the interest of Namibia, our population at large."

End

*For more information, contact:
Sasha Louw, Tel. 061-417300 or at gm@cifnamibia.com*

Note to the Editor:

The membership of the CIF ranges from companies that range from an annual turnover of over N\$200 million to SMEs with an annual turnover of less than N\$1 million. Together they play a big role in Namibia's economy, both in terms of employment but also in terms of their tax contribution. Over 50 % of the membership are SMEs.