

# 2010

## Is it a kick-off?



The construction sector globally is experiencing a boom, with governments realising that good infrastructure is an important factor for economic growth. The South African government has committed R372 billion for infrastructure development and a further R30 billion for the 2010 World Cup. Who is going to benefit from this massive investment of public funds? **Eddie Cottle** argues that if workers and broader society is to benefit at all some intervention is required and a coordinated campaign required to highlight what is happening across the 2010 projects.

**N**ation states often compete fiercely for mega-event tournaments. They invest billions on luxury goods such as sports and entertainment facilities in the belief that it will enhance the image of the country and stimulate the economy. Impact assessments generally focus on economic growth and job creation without looking at the social implications and the social value of these projects in a context of pressing social needs.

The implications for developing countries hosting mega-events differ largely from that of developed nations as the costs of investing in infrastructure are much higher. In 1994 the US spent less than \$30 million and in 1998 France spent less than \$500 million for hosting the soccer world cup. In contrast South Korea spent some \$2 billion on the 2002 World Cup while SA's tab is currently \$4,1 billion.

From an economic point of view the cost of the stadiums is not about

the amount of investment but the value to society in relation to other pressing needs. It should be noted that the amount of public money being spent in preparation for the 2010 World Cup is equivalent to the amount that the state spent on housing delivery over a ten year period. The multiplier effect of expenditure would have been greater if the public funds had been invested in socially viable construction whereby the funds invested and skills development could have been measured.

Concerns exist that the manner in which the outcomes of the 2010 World Cup have been measured are based on 'guestimates'. Increases in spending attributed to the World Cup may be 'gross' as opposed to 'net' measures. Gross spending is simply the summing of all receipts associated with the event. This approach fails to take into account displaced spending that might have occurred as residents spend on

buying tickets and spend their money on activities that otherwise would have been spent on the local economy.

Evidence from the 2000 Sydney Summer Olympics indicates a 'substitution effect'. While Sydney had a 49% increase in hotel occupancy, other cities recorded a 19% decline for the same period. Event tourists may have a 'crowd out' effect as they may simply supplant other travellers who would normally be visiting the host venues. During the 2002 World Cup in South Korea, while the number of visitors was far higher than normal it was offset by a similar decrease in the usual visitors from Japan. According to Grant Thornton a consulting firm, South Africa should expect around 362 000 foreign visitors for the World Cup. This is well below the figure of 506 790 foreign visitors to South Africa for the period of June 2005, for example.

The final reason why the impact

might be exaggerated relates to what economists refer to as the multiplier effect. Grant Thornton guestimates that between 2006 and 2010, the gross contribution to GDP will amount to R51.1 billion which is the R30.4 billion in public funds plus the multiplier effect thereof. A further R15.6 billion will be generated from foreign tourism. The information excluded from the multiplier effect is the amount of funds made by foreign companies which does not remain in the country. In other words, what percentage of profits remains in the country? The repatriation of funds can also be extended to the importation of some 35 000 high wage, scarce and critical skills. The multiplier effect must therefore reflect this leakage of income and subsequent spending.

What about jobs created? The guestimate of combined 'sustained jobs' for both construction and tourism is in the region of 564 650 annual jobs. Grant Thornton does not consider the specialised and short-term nature of the 2010 World Cup nor the quality of these jobs and whether labour will share the fruits of increased skills development and revenue. By all accounts, it appears that the private sector has been awarded a mega public subsidy and the winners will be the construction and tourism shareholders.

#### WHO'S BENEFITTING FROM GROWTH?

Indications are that the massive investment of public funds is going to be of direct benefit to the construction companies that are being contracted to develop water, electricity, housing, health, roads, buildings, stadiums and rail and ports infrastructure. Construction workers are fully aware of the billions in public funds that are being spent, but do not see the benefits as their wages and working conditions have worsened. Added to

this is the racial dimension to poverty and skills development.

While the construction sector experiences a boom, workers experience poor working conditions through poverty wages, vulnerable employment through sub-contracting and labour brokers, and a lack of health and safety considerations at the workplace. The construction workers' working conditions reflect a larger problem – that of increasing inequality and poverty in the context of massive profits and wealth accumulation not only in the construction sector but the broader economy.

An analysis of construction on sector company performance indicates an average increase of 36% in pre-tax profits. Executive directors' remuneration increased, on average, by 39% – the highest increase across all the economic sectors. Together, 25 executive directors surveyed earned R81 million. In addition, chief executive officers (CEOs) in the sector received an average remuneration increase of 38%. For example, the remuneration of Murray & Roberts CEO increased by 40%, totalling R7.4 million. The CEO of Aveng, Carl Grims, remuneration increased by 47%, totalling R4.7 million for the financial year. (See Table 1).

The same cannot be said for construction workers who, despite receiving an above-inflation increase of 8%, are not able to move out of the poverty wage category because of their low income. This is because food inflation is in the region of 13.5%, meaning that workers can afford less food despite an increase in income. The current minimum wage of R11 per hour for a general worker for a 44 hour week amounts to R484 per week or R1 936 per month. The current minimum wage for a skilled artisan is R26 per hour or R1 144 per week or R4 576 per

month. Taking a conservative estimate of a living wage of R3 000 per month by implication means that the vast majority of construction workers receive an income well below a living wage and are thus earning poverty wages.

#### DECENT WORK CAMPAIGN FOR 2010 AND BEYOND

This is why the Campaign for Decent Work in the construction sector becomes an important vehicle to challenge the construction 'bosses' for a fair share of profits and improved working conditions. Globally over 100 000 construction workers die through preventable accidents each year. Besides death due to accidents, there are direct work related health problems such as deafness, vibration syndromes, back injuries, muscular skeletal disorders, respiratory illnesses and an alarmingly high HIV/AIDS rate in the construction sector.

Workers are also, transported on unsafe open vehicles regardless of the harsh weather conditions. The right to decent work is therefore of paramount importance to ensure safe working conditions for construction workers.

The Building and Wood Workers International (BWI) and its affiliates realised that the 2010 World Cup presented an opportunity for the sector to gain its respect but also to mobilise and recruit more union members. There was no more appropriate time than when the world's focus is on the World Cup to push the decent work agenda in the construction sector and all other sectors working for 2010, so that the World Cup will not be at the expense of worker rights.

Following recommendations from the BWI, the global campaign in support of decent work was launched in January 2007.

# CAMPAIGN FOR DECENT WORK TOWARDS AND BEYOND 2010



The campaign is being driven by national and international unions and their federations. The South African based unions involved include the National Union of Mineworkers, Building, Construction and Allied Workers Union (Bcawu) and the SA Building and Allied Workers Organisation (SABAWO). The international federations that have been driving the campaign include BWI, the Global Unions (GU) and International Confederation of Trade Unions.

## COMPANIES INVOLVED IN 2010 CONTRACTS

The following include the main companies involved in the various 2010 projects:

### ***Wilson Bayly Holmes Construction (PTY) Ltd***

WBHO Construction is involved with the Peter Mokaba Stadium in Polokwane, African Renaissance Stadium in Cape Town and Moses Mabhida Stadium in eThekweni. WBHO's BEE partner is Akhani Investment Holdings which has a 15% stake in the company.

### ***Basil Read***

The company is involved in the Mbombela Stadium, Mpumalanga Province while its BEE partner is

Amabubesi Investments, which has a 35.8% stake in the company.

### ***Grinaker-LTA***

The company is involved in African Renaissance Stadium in Cape Town, the Nelson Mandela Stadium in Port Elizabeth and Soccer City in Johannesburg. Its BEE partner is Qakazana Investment Holdings (Pty) Ltd which owns 25% while Aveng owns 75%.

### ***Group Five***

The company is involved in the Moses Mabhida Stadium in eThekweni while its BEE partners are the iLima Group and Mvelaphanda Group Ltd which together hold 21.6% of Group Five.

### ***Interbeton (Dutch-based company)***

Interbeton is involved in Soccer City in Johannesburg and the Nelson Mandela Stadium in Port Elizabeth.

### ***Murray & Roberts***

The company is involved with the African Renaissance Stadium in Cape Town and the Gautrain. The company has an employee broad-based economic empowerment trust Letsema, which holds 10% of company shares.

### ***Bouygues (French based company)***

Bouygues is involved with Mbombela Stadium in Mpumalanga and the Gautrain.

### ***Bombela Member Consortium (for the Gautrain)***

This consortium includes Bombardier (Canadian) 25%, Bouygues (French) 25%, Murray & Roberts (SA) 25% and two BEE companies which together have a 25% stake (Loliwe Rail Contractors and Loliwe Rail Express). Loliwe Rail Contractors includes as its shareholders, the Black Management Forum investment company, Prop5 Corporation and BEE contractors, Blackstone, ZMK and Let Properties. Loliwe Rail Contractors have a collective turnover of more than R360 million. Loliwe Rail Express with a turnover of over R1 billion has shareholders including African Legend, BMFI, Prop5 Corporation and Powerhouse.

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Table 1: Construction Sector Performance in 2006

## CEO

Company	CEO (Name)	2005 Remuneration	2006 Remuneration	% Increase (Included in Pay)	Bonus 2006		
Aveng	Carl Grim	3,212,000	4,717,000	47	1,467,000		
Cashbuild	Pat Goldrick	3,025,000	1,775,000	-41	0		
Group Five	MH Lomas	5,585,000	5,969,000	7	3,625,000		
Murray & Roberts	BC Bruce	5,273,000	7,385,000	40	4,000,000		
PPC	JE Gomersall	1,503,000	1,851,000	23	1,000,000		
Wilson Bayly Holmes	JW Abbott	2,425,000	1,336,000	-45	750,000		
Basil Read	ML Heyns	1,587,966	2,681,929	69	1,200,000		
Average % Increase		18,598,000	25,714,929	38			
Average Annual Increase (Rands)		3,719,600	5,142,986	1,423,386			
Average Monthly Increase (Rands)		309,967	428,582	118,615			

## EXECUTIVE

Company	Exec Dir. 2005	Exec Dir. 2006	Total 2005	Total 2006	Ave.2005	Ave.2006	% Incr.
Aveng	6	5	14,881,000	21,565,000	2,480,167	4,313,000	74
Cashbuild	4	4	5,614,000	6,154,000	1,403,500	1,538,500	10
Group Five	2	2	7,842,000	9,142,000	3,921,000	4,571,000	17
Murray & Roberts	5	5	16,642,000	23,326,000	3,328,400	4,665,200	40
PPC	6	5	10,434,000	12,913,000	1,739,000	2,582,600	49
Wilson Bayly Holmes	2	3	3,281,000	4,945,000	1,640,500	1,648,333	0
Basil Read	1	1	1,587,966	2,681,929	1,587,966	2,681,929	69
Average % Increase	26	25	60,281,966	80,726,929	2,318,537	3,229,077	39
Average Annual Increase (Rands)					2,318,537	3,229,077	910,540
Average Monthly Increase (Rands)					193,211	269,090	75,878

## COMPANY PERFORMANCE

Company	NPBT 2005	NPBT 2006	% Increase				
Aveng	402,400,000	787,100,000	96				
Cashbuild	126,710,000	135,413,000	7				
Group Five	133,796,000	231,973,000	73				
Murray & Roberts	615,600,000	736,400,000	20				
PPC	1,536,000,000	1,876,000,000	22				
Wilson Bayly Holmes	197,872,000	304,614,000	54				
Basil Read	24,266,000	57,229,000	136				
Company Performance (%)	3,036,644,000	4,128,729,000	36				