



public works

Department:
Public Works
REPUBLIC OF SOUTH AFRICA

**MINISTER OF PUBLIC WORKS
REPUBLIC OF SOUTH AFRICA**

**Construction Industry Development Board
cidb**

National Stakeholder Forum

*Menlyn Boutique Hotel, Pretoria
29 March 2016*

Keynote Address:

TW Nxesi MP, Minister of Public Works

Protocol:

- Programme Director
- The Chair, CEO and members of the cidb
(Construction Industry Development Board)
- And of the other public entities: CBE (Council for the Built Environment) and the Professional Councils, IDT (Independent Development Trust) and Agreement SA
- As well as the Construction Sector Charter Council
- The DG and officials of the DPW and the PMTE
- Representatives of organised business and industry associations, and
- Most importantly, the professionals, contractors and representatives of construction companies gathered here today. In many ways it is your meeting – an opportunity to raise your issues with the cidb and with government.

Let me thank cidb – and the new cidb Board

Chairperson, Mr Lufuno Nevhutalu - for organising this event – which I believe is an important occasion for the

exchange of information and views within the construction sector.

It is a pleasure to especially welcome the new members of the cidb National Stakeholder Forum. I want to personally thank you all, for the commitment you are undertaking today, to serve on this Forum. The next two years are going to be critical, as we embark on this collective journey to enhance the work of the cidb and to strengthen its leadership role in construction development.

The theme of this meeting is 'transformation' – and provides an opportunity to reflect and to take stock of where we are coming from, and importantly, where we are heading. As players in the construction industry we have the opportunity to influence transformation and to make construction an industry where all our people have a fair and equitable opportunity to participate meaningfully, regardless of race, gender, age, disability or class.

The National Development Plan 2030 says that we can only realise our goals for economic development by drawing upon the energies of our people, growing an inclusive economy, building skills, enhancing the capacity of the state, and promoting leadership and partnerships throughout society. Indeed this is where you, as players in the construction industry play a key role. Ladies and gentlemen, transformation is not the responsibility of Government alone and it cannot be achieved without all of our collective input and participation.

As Government we have set the framework for transformation within the scope and parameters of our constitution. We have established institutions necessary to facilitate development and transformation. We continue to invest in the development of infrastructure each year, to stimulate the economy, create jobs and establish the basis for transformation in this sector. Over the last three years,

Government committed 847 billion rands in infrastructure development through the Strategic Integrated Projects and other programmes which form part of the National Infrastructure Development Plan.

I. Context

Let me make some general comments about the context in which this Forum takes place:

- First, as we all know, the 1996 Constitution provides for positive discrimination to address and redress the imbalances of the past. Government has prioritised transformation to address these imbalances, and has legislated a strategy of Broad-Based Black Economic Empowerment. There is now consensus around the need to redress past injustices – not just from the ANC and the Alliance, but also from the EFF to the DA. [Of course there are major differences on how this is to be achieved!]

But there is broad understanding and acceptance – amongst the public and within industry and commerce – that redress and empowerment is not only morally justified, it also makes good business sense. When the majority of the people are excluded from the formal economy, it does not bode well for economic growth and development.

- Originally, we used to talk simply about ‘Black Empowerment’. We now use the term: ‘Broad-Based Black Empowerment.’ There is a specific reason for this: backroom deals that benefit a handful of already wealthy black businessmen do not assist us. It does not contribute to economic growth and it does not contribute to transforming the conditions of the majority of our people.

Let me not be misunderstood. When we speak of Broad-Based Black Economic Empowerment, we are still looking at issues of ownership, control and

management – and the need to ensure that these reflect the demographics of the country – in terms of race, gender, disability, youth and social disadvantage, but we are also looking at other indices which improve the conditions of the people, including:

- Encouraging a wider spread of ownership – eg. Working with trade union investment arms.
- Secondly, a commitment to good labour relations and the welfare of employees. Again this makes good business sense: healthy and happy employees are likely to be more productive workers.
- Third, a commitment to social responsibility in relation to the wider community. This would include seeking to develop relationships with emerging SMMEs – as suppliers and service providers.

- Most importantly, as government, we are keen to see a commitment to training and skills development – particularly in the scarce skills. This is the proven way of fast-tracking individuals and their families out of the cycle of poverty. It also mitigates one of the main barriers to economic growth – the shortage of skills.

I am sure you will have seen reports – as recently as last week – of the Deputy President’s speech recommitting government to the policy of BBBEE in the strongest terms.

So it is very important that we address the delays experienced in aligning the Construction Sector Code with the amended generic BBBEE codes. I am encouraged by the commitment of all the stakeholders to find solutions through a process of mediation which begins this week.

- I said my intention was to begin by reviewing the general context - so I need to mention the Competition Commission's investigations into collusion in the construction sector as well as actions taken by the cidb (Construction Industry Development Board) for alleged breach of the Board's Code of Conduct.

Just by the way, with all the talk of 'state and corporate capture' in recent days, it occurs to me that this phenomenon is not new to the construction sector and Public Works for that matter. It may not be one particular family, but the issues are the same resulting in the diverting of state resources.

The general point here is that in the wake of the collusion scandals, has come the call for a more thorough-going transformation of the structure of the construction industry and the way in which it conducts business. A few week ago, you may have

seen the article in Business Report (in the Star) in which Competition Commissioner, Mr Tembinkosi Bonakele, called for an overhaul of the regulation of builders working for government. I quote: *“We’re not looking for tweaking here and there, we think the entire industry needs serious reforms.”* So I think the discussion here today also needs to take account of these concerns.

- I can’t discuss the context within which we are having this discussion without mentioning the economic climate, and the effects of low growth on government budgets. The Budget Speech analysed these challenges in detail – and came up with a number of strategies to address these. Most important, for our purposes are the following:
 - The Finance Minister reaffirmed the central role of infrastructure development in driving economic recovery and development. The strategic thrust has not changed. But you are all

aware that many of the state's planned projects have still not been commissioned.

- To break this logjam and to re-ignite growth, the Minister called on government entities and departments to develop new partnerships with the private sector – partnerships based on mutual respect and mutual benefit.

By way of example, I should mention that as Public Works we have started this discussion with the property sector – which met on 29 February with the Property Management Trading Entity (PMTE) – an entity of the Department of Public Works. The PMTE manages the government's large property portfolio (100,000 buildings on 35,000 land parcels). It needs the expertise of the private sector to optimise the portfolio. This also provides opportunities for the private sector – particularly emerging real estate practitioners –

where, for example, we seek to partner with them in rolling out government precincts in small towns and rural areas.

I have no doubt that the PICC (Presidential Infrastructure Coordinating Commission – *both the DM and I sit on the PICC*) – with the various infrastructure departments and authorities – will be leading similar discussions with the construction sector. Again, let me reiterate the sentiments of the Finance Minister: as a country we are only going to move forward if we work together – as government and the private sector – to build partnerships to drive economic growth.

- Let me also remind you, the Budget Speech makes clear demands on government departments and entities, including to: contain costs, cut waste, combat fraud and corruption, and renegotiate all leases on property and

equipment – to ensure value for money. I want to assure this audience that, as the Department of Public Works and the PMTE, we are taking action on all these fronts.

II. Transformation: the role of Public Works and the PMTE

As the Department of Public Works we have been criticised – not without reason – for the slow pace of transformation of the built environment sectors – the construction and property industries. In our defence let me say that the first order of business, since I announced the Turnaround Plan in 2012 has been exactly that: to turn around the Department.

At the time the Department was characterised by weak and ineffective financial systems resulting in 8 years of consecutive negative audit findings culminating in disclaimers - and also providing fertile ground for fraud

and corruption particularly in the leasing and procurement environments. We have changed all that:

- The Department has moved from disclaimers to an unqualified audit in the last two years;
- We have established a dedicated Branch for Governance Risk and Compliance to drive investigations of fraud allegations and to put in place robust systems to close out the opportunities for corruption;
- We have also worked closely with the Office of the Chief Procurement Officer in the National Treasury to completely overhaul supply chain management processes to make them fit for purpose in the property and construction environment – moving away from the ‘one size fits all’ approach which characterised the public service in the past. The focus has been on transparency and value for money through

proper costing. [In fact, you will have noticed Minister Gordhan's announcement that in future all government tenders have to go through a central and transparent e-process. No more shady deals. No more 'brown envelopes.']

I like to believe that just as the construction industry is committed to rooting out collusion and corruption, so government is also cleaning up its act – preparing the ground for an honest partnership based on trust and mutual respect.

There are a number of areas in the Public Works Turnaround Plan which have a bearing on the broad theme of construction transformation – and government relations with the construction sector:

- I have already mentioned improvements to the SCM processes;

- I should also mention our focus on the 30 Days Payment stipulation. We have strengthened our systems – can you believe it – we now actually check to make sure that work has been done before we make payment. It has also spurred us on to find electronic and computerised solutions for billing and payments. Public Works has officially entered the 21st Century! This is of particular importance to smaller contractors and suppliers – where cash flow is a life-and-death issue.
- Again in relation to procurement, I need to mention that the PMTE has embraced the State procurement directive to set aside 30% of appropriate categories for SMME's, as well as township and rural enterprises.
- Another important area: the Cabinet, on the recommendation of the PICC, has mandated Public Works to coordinate the rebuilding of state capacity in the built environment and in particular the production of construction-related professionals. This

is about scarce skills and capacity. But it is also very much a transformation issue. We cannot be complacent when, still, only 25% of qualified construction professionals are black and 10% are women.

As Public Works we are working closely with our entity – CBE (the Council for the Built Environment), as well as professional councils, SETAs and other role-players – to unblock the skills pipeline and to increase the production of black and female built environment professionals. This begins with supporting identified students through school to university and beyond as candidates for professional status.

III. cidb and the transformation of the built environment

I need to highlight the continuing work of the cidb both to develop and to transform the construction sector. The Board drives development of small and medium contractors in partnership with provinces and municipalities. It also develops regulations to maintain standards and to mitigate risks to clients, as well as promoting best practice in drawing up model contract clauses which support emerging contractors, grow jobs through labour intensive methodologies and support training and skills development.

The cidb Register of Contractors shows that the industry has more than 130,000 contractor registrations. These are contractors that, by their registration with the cidb have declared an interest to play in the public sector infrastructure development space - in other words, to access the 40% of all infrastructure investment provided by Government.

The cidb Register also shows that on a head count basis, the majority of these registered contractors are

black. These numbers show clearly that there are more opportunities for participation by black contractors in the industry than pre-1994. There are more women and youth owned contracting enterprises, and more disabled people now participate in the economy. This is a direct impact of this Government's policies which have created an enabling framework for broad economic participation.

But sadly the majority of black, women and youth owned companies remain largely concentrated at the lower levels of the cidb register, begging the question whether the playing fields are indeed level. The cidb reports show that only 5 to 10% of these registered companies upgrade to higher levels on the register, while a small percentage of companies are downgraded annually. Now these are the issues that you as members of this National Stakeholder Forum must interrogate and I look forward to your thoughts and inputs on these matters.

I have mentioned the role of cidb, but we also need to reflect on the responsibilities of other stakeholders in construction.

I believe that it is our responsibility as clients and professionals to award projects in a manner that promotes transformation. Are we applying the rules of construction procurement in a manner that facilitates transformation? If not, what are the challenges? The cidb has a very critical role to play in defining the rules which guide procurement in the construction industry. To what extent are these rules empowering you to facilitate transformation?

What role are the professions playing in helping to interpret cidb rules, as well as the broader regulatory and legislative framework, to effectively harness the massive Government procurement capacity for transformation? As Government departments and entities charged with infrastructure development, our impact on transformation is as strong as the

professionals on whose services we rely, to guide and support us. Government's capacity to deliver infrastructure, to spend allocated budgets and to impact transformation depends on the role and the quality of service delivered by built environment professionals.

I know all too well how lack of professional capacity can set delivery back and compromise progress within the public sector. This has been one of the biggest challenges we have had to grapple with as the Department of Public Works.

Contractors also have a huge role to play in improving the pace of transformation. As I travel the length and breadth of the country I have spoken to contractors about their experiences and challenges – including issues they have with the cidb. Today is an occasion to raise those issues directly and for the government and the cidb to engage with a view to addressing problems

where they are within our sphere of control and influence.

The work of the cidb is central to development of the construction industry in that it must facilitate, enable, encourage and empower stakeholders to do better. One of the tasks today is to interrogate that role and its contribution to transformation.

You need to interrogate policies that the cidb has adopted to create an enabling environment for industry, as well as the partnerships that it has built with critical stakeholders to create a better performing construction industry. The cidb cannot succeed alone - hence their slogan '*development through partnership*'. It is through effective and meaningful partnerships that we can achieve skills development, contractor development, the development of suppliers and manufacturers as well as the professions.

How is the cidb leveraging partnerships with industry to address these matters? How is the cidb harnessing the contribution of the established sector to accelerate the pace of transformation?

I also need to inform you that in this period of self-introspection we will be looking to review the cidb legislation with a view to identifying gaps, challenges and opportunities where we can strengthen our role. Your inputs here will also feed into this on-going dialogue.

In concluding, the fundamental question that we must ask ourselves today then is this: to what extent has this growth in infrastructure investment benefitted the historically disadvantaged blacks, women, young people and the disabled? Yes we need investment to drive economic development – but this must in turn drive social transformation – so that economic growth is inclusive and it addresses the triple crisis of

unemployment, poverty and inequality; and so that the benefits are felt by all.

Thank you.