

Deputy Minister of Public Works
Rev KM Zondi
26 September 2003

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Address at NAFBI occasion

The Master of Ceremonies
The National President of NAFBI, Mr J Mbetse
Officials Present
Ladies and Gentlemen

Introduction

Construction and building industries have driven major civilization of the world, not least the African civilizations. The Great Pyramids of Egypt and the Great stonewalls of Zimbabwe bear testimony to the role of these industries in our past. The challenges brought by the twenty first century as an African millennium will once again prove the necessity of these industries in the reconstruction and development of the continent into the future.

Significance of the Construction Industry

Ladies and Gentlemen, I would like to restate and underline a few fundamental views of our government on the significance and role of the construction industry.

1. South Africa's economic growth depends on the physical infrastructure that is delivered by the construction and building industries. These industries must therefore be effective and competitive
2. Given the above, the construction industry should be considered a national asset
3. The development of the industry must reflect the development and transformation of our society - socially and economically
4. The industry is emerging from decades of decline into a period of significant growth and prospects, driven largely by the government's commitment to infrastructure delivery and by increasing levels of public and private sector investment.

For the past four years, government has reiterated its commitment to increase investment in capital works expenditure including infrastructure-related projects.

On 14 February 2003, the President, Mr Thabo Mbeki announced a public sector investment of more than R100 billion towards infrastructure development in the next medium term expenditure framework. Unless moving at full throttle, our industry might lack the capacity to make this vision possible.

Talking about capacity, the recent Growth and Development Summit, among its agreements, recognized the role of the construction industry in fuelling growth and development.

The following were identified as lead programmes to jump start economic regeneration and open opportunities for jobs: construction of roads, dams, rail, multi purpose community centres, schools, clinics, prisons, labours as well as electrification and major renovations and maintenance of public buildings.

National Public Works and the Construction Industry

Annually the South African construction industry executes, order and contracts in excess of R37 billion. More than 50% of this one is made up of public sector infrastructure demands. In essence, this means that the government and other public owned enterprises are the single largest consumers of the construction industry output, making the public sector the most influential client.

As the National Department of Public Works we have placed great emphasis on broadening participation in the industry, by targeting the inclusion of the previously disadvantaged groups and in particular women. We have also begun to address the scourge of HIV/Aids in the industry and the problem of fronting which smothers black economic empowerment and its goals.

In 1997, the Emerging Contractor Development Programme was set up to draw into the fold emerging and

small contractors who were deliberately sidelined prior to 1994. To date, this group has managed more than 50 000 construction-related projects of varying sizes, worth R431 million.

In 1998 and 2001, two strategic initiatives were introduced as a deliberate intervention by the Department to accelerate the participation of the historically disadvantaged persons, and women in particular, as prime contractors capable of executing multi-million rand contracts. Major infrastructure projects exceeding R800 million in value have been delivered as a result of this.

Collectively all these initiatives have ensured a steady increase over the years of the stake held by the previously marginalised groups. In the last two years more than 40% of Public Works' capital works budgets have gone into the hands of the previously disadvantaged as compared to a figure of only 4% in 1994.

The above achievements would have been impossible without the deliberate and conscious intervention by the management and leadership of the Department of Public Works. Today the construction industry is standing on the brink of growth and success, poised to play an important role in laying the concrete foundations for the economic and social well being of the country and the continent.

Emerging contractors

Emerging contractors now largely see work opportunities being increasingly accessible. In general, the opinion is that the national Department of Public Works is providing consistent opportunities through the emerging contractor development programme and targeted procurement. Provincial and local departments, as well as some of the other national departments, still provide only limited access to opportunities. This corresponds with the issue that most clients do not have a clear understanding of targeted procurement.

Emerging contractors entering the public sector market are coming in at the lower end of the market (quotation jobs) making this sector extremely competitive and unsustainable for emerging contractors. Many contractors have little experience of tendering and project management. The Contracting Entrepreneurial Training (CET) course is, however, assisting in providing the necessary skills.

Emerging contractor development remains a priority and while some successes can be identified, much still needs to be done to ensure long-term sustainability. Let us just summarise some of the activities directed towards emerging contractor development:

Procurement Regime

One of the major costs to the industry is the variety of procurement practices and documentation currently used by clients. This leads to additional tendering costs to projects and increases the perceived risk on the project.

The majority of government departments, local authorities and public corporations have a preferential procurement policy as required by the Preferential Procurement Policy Framework Act. We have to ensure consistency in the application of preferential procurement policies, at all levels of government, in order to avoid having a variety of approaches to preferential procurement that perpetuate non-uniform procurement practices.

National government departments and a number of provincial government departments have standardised on targeted procurement documents as current practice for preferential procurement in the construction industry. It would be good if such standardised documents could be used in all sectors of government even at parastatal level. Contractors, who have geared to respond to targeted procurement, also want to avoid any additional tendering costs that could result from a variety of preferential procurement policies and standards.

The implementation of the Department of Public Works' Contracting Entrepreneurial Training (CET) programme has been well received by many contractors. These contractors have indicated that they require assistance with the pricing of contracts and the compilation of accounts/invoices. Banks also view contractors that participate in the Department of Public Works mentorship programme much more positively than other contractors. A mentorship programme is seen as the necessary supplement for inexperience and insufficient track record and is important to assure banks and other financial institutions (e.g. Khula and IDC) of reduced business risk.

Emerging sector issues

We all know that some of the mayor problems confronting the emerging sector are Lack of financial support and Lack of finance and credit facilities. Most public sector organisations require performance guarantees of between 5% and 10%. However, a few provincial departments have implemented performance guarantees over and above a retention system and are therefore committing up to 20% of a contractor's working capital over a long period of time. Some clients are waiving performance guarantees or retention for emerging contractors, mostly in cases where a consultant is appointed to supervise the project.

The status report survey that we have done reveals a lack of consistency insofar as the performance guarantee requirements are concerned. The way each corporation is applying its performance guarantee varies between 35% on complex risky projects to 0% on low-risk projects. Even though performance guarantees do not impact on the cash flow of the contracts, they however impact on the ability of the contractor to secure work.

Delayed payment of contractors

Growth of emerging contractors can also be constrained by delays in the processing of final accounts and are in many cases preventing the emerging contractors from obtaining new work since the limited profits they make are retained by clients as sureties or retention on the previous contract.

Emerging contractors, as with other contractors, are negatively affected by the delays in the payment of accounts. A number of emerging contractors have been liquidated due to this situation. We have however as a Department worked hard on improving the situation.

Tendering Problems

Emerging contractors are subject to the same market forces that are affecting all contractors.

In an effort to reach as many emerging contractors as possible, public sector clients could negatively affect the emerging contractors by over distributing work. Inconsistent procurement policies, practices and a lack of capacity in the public sector could also negatively influence the viability and sustainability of emerging contractors.

It is important that policy makers in local government see the contracting sector as a means of job creation for contractors and as a means for black economic empowerment. This will ensure that both job creation and economic empowerment are addressed in a sustainable fashion.

Training and Mentorship

Due to the volatile nature of resource demands and small firm structures, skilled labour remains a problem, and within the historic context of training provision and the continued decline in demand for construction goods and services, there is a lack of well trained and skilled workers, which directly impacts on the quality of products delivered by the contracting sector.

The surveys that we have done also highlighted a lack of skilled artisans, supervisory staff and site management. There is little evidence of training at any of these levels and the industry seems to be losing qualified staff to what seem to be greener pastures for them.

Conclusion

Preparations for the Construction Summit are underway. The aim of the Construction Summit is to develop a common vision between government, labour and industry as it pertains to the construction industry. The broad theme of government's position for the summit is "The creation of a better built environment for accelerated socio-economic development and improved service delivery".

The construction chamber of Nedlac facilitates the process, which will culminate in a construction sector summit early next year. The Department of Public Works is coordinating government's position.

The department has invited other government departments' involved in infrastructure development to participate in an inter-departmental infrastructure policy committee (IIPC) to develop a consolidated policy position paper for government. The departments invited to participate in the workgroup include Transport, Provincial and Local Government, Housing, Water Affairs and Forestry and National Treasury.

Critical issues that government is considering for presentation at Nedlac include transformation of the industry and BEE, development of capacity in the built environment professions, capacity in the supply side, development of artisan and technical skills in the construction industry, the use of labour-intensive approaches in construction as well as capacity of government to manage delivery.

As a build up to the Summit, the KwaZulu-Natal Provincial Department of Works held its own provincial summit on 8 to 9 September 2003. The Western Cape Public Works Department recently held a summit for women in construction as well. The rest of the provincial Departments of Public Works are expected to follow suit. Other public sector stakeholders will be consulted in the process and the various infrastructure departments will consult their provincial counterparts.

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