

**Minister of Public Works
Ms S Sigcau
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Construction Conference

MEC for Works in KwaZulu-Natal, Mr Mike Mabuyakhulu
DG for the national Department of Public Works, Mr James Maseko
Heads of Departments in KwaZulu-Natal
Chairperson of Murray & Roberts, Mr David Brink
CEO of CETA, Mr Themba Dlamini
Distinguished guests
Ladies and gentlemen

Introduction

To look at the development, growth and challenges within the construction industry is a regular review on my side, because I do want to believe that this industry is one of the national assets of our country. To look at it from the perspective of each province will bring us closer to workable solutions, and also ensure that alignment throughout government is achieved in our interaction with this important industry.

Construction cannot be seen separate from any individual's life it is part of the environment within which we work and stay.

Many employment and training opportunities are to be found within the construction industry; thus it has a huge bearing on economic progress and development and is by and large an enabler for other socio-economic growth and development.

We, as government, be it national, provincial or local, should endeavour to ensure the best possible return on investment through the construction industry. This comprises best practice in terms of procurement, tendering, supply, training, delivery and sustainability of end results and products. We are joined in this responsibility by the private sector. Where government focus may be geared more towards the macro and socio-economic benefits and that of the private sector towards profit, we share the interest in return on investment, growth and development of the industry as a major player in our gross domestic product and quality of life in the country.

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 industry. The industry must therefore be effective and competitive.
2. The construction industry should be considered a national asset.
3. The development of the industry must reflect the development and transformation of our society - including the full participation of women.
4. The industry is emerging from decades of decline into a period of significant growth and opportunity that is driven by government's commitment to infrastructure delivery and by increasing levels of public and private sector investment.

The realisation of this opportunity depends on the collective ability of all stakeholders to address a range of constraints to growth and empowerment.

National Public Works

As the national Department of Public Works we have placed great emphasis on broadening participation in the industry, by targeting the inclusion of previously disadvantaged groups and in particular women. We have

also begun to address the issue of fighting against HIV/AIDS from this front.

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 advantaged 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

Lack of financial support /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

I hope that this conference will enable us to exchange ideas on the many challenges we face as women and men working together to develop a construction industry that nourishes sustainable enterprises, employment and a rewarding career path at all levels.

We are aware that access to opportunity does not always translate into enterprise sustainability and my Department is initiating an Incubator Programme to ensure that promising emerging contractors do indeed emerge as fully fledged people in construction. We are looking to the industry and to the CIDB to support this programme. Indeed, I believe that the CIDB Construction Registers Service will do much to promote an enabling environment for sustainable enterprise development.

I believe that we need to expand our empowerment focus beyond the main contractors and consultants with whom we have the most immediate contact. The scorecard approach should enable us to expand access by historically disadvantaged South Africans throughout the construction supply chain, particularly in areas not yet meaningfully penetrated such as materials extraction, manufacture, supply, and specialist subcontracting.

The capacity issues facing the industry and the public sector are of great concern and require a concerted effort by all stakeholders. Last year's Stakeholder Forum meeting highlighted this problem and linked it unequivocally to improvement of the image of the industry.

After much reflection on this matter I requested the CIDB to test the views of stakeholders on their willingness to support a Construction Industry Week that would address the current industry image as well as the reality that underpins this image. I am pleased to learn that all stakeholders have responded positively. The onus is on us to as a department to take this initiative forward.

I am also certain that all of you share a vision for a globally competitive construction industry that is proudly South African and also proudly representative of women. All of you have a valuable role to play in shaping the content of that vision.

Government, and the support institutions that we have created can only do so much. Ultimately the empowerment of women will depend on the will and determination to succeed and I remain convinced that the construction sector will not be transformed until women are full participants throughout the construction supply chain. In order to achieve this women should position themselves in the mainstream economy and not accept a marginal role.

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