

**Minister of Public Works
Ms Stella Sigcau
17 September 1999**

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**At the Launch of Nare Construction (Pty) Ltd
Johannesburg Country Club**

"PROMOTING SKILLS DEVELOPMENT AND OWNERSHIP"

Master of ceremonies (Mr Jones),
Chairperson of Nare Construction (Mr Nyembe),
Managing Director of Nare Construction (Mr Molefi),
Distinguished guests,
Ladies and gentlemen -

I am honoured to share this address with you, particularly dealing with a subject as essential in the economic growth of our young democracy as the development of skills and ownership among emerging entrepreneurs.

Within your own organisation I am aware of the progress you have made in representation and inclusion of emerging contractors, offering opportunities on technical and construction activities and participating in the formalisation of business entities as well as training and development.

It is on these endeavours that I believe we need to share information - on the policies, mechanisms and implementation programmes; as well as on the very real needs, expectations and contributions.

Business remains business, the means to improved living, and whether we consider the best return on the taxpayers' money or the direct profit of a business, the overall business consideration should be whether or not it is contributing to the stimulation and upliftment of economic activity in our country, to benefit our communities and pave a better way for our children.

I believe Nare Grinaker has done this, all the way en route to become Nare Construction (Pty) Ltd.

The initiatives and principles Government are championing give practical effect to integrated policies and strategies in increasing job creation, fostering the participation of communities and previously disadvantaged individuals in economic activities and deepening democracy in the institutionalised sphere.

Government on its own has an impossible task - it is only when the private sector co-operates as you have done in this joint venture that the intended objective can be realised. You have brought together the relevant expertise on the market, manpower, operations in the townships coupled to the systems, working capital and personnel to train both office and site management, and integrated it into a proven management system that reaps results and growth.

Nare Construction's shareholding now is 70% in the hands of previously disadvantaged contractors - a milestone indeed! And actual as well as projected turnover is growing. I share in your pride and trust that within two years from now, you will indeed be the largest black-owned and managed construction company in South Africa.

I am sure that you are aware of the various programmes and initiatives by government, and in particular that of Public Works, to promote inclusivity through the transformation of the construction and property industries, and the access to public contracts created by the Affirmative Procurement Programme.

Please familiarise yourselves with the details, information which could easily be obtained by accessing the internet, and I will refer you to the websites on www.pwdprocure.co.za and www.publicworks.gov.za.

Our National Public Works Programme (NPWP) provides the philosophy and acts as a catalyst for implementation of the Reconstruction and Development Programme by encouraging more labour-intensive technologies in public building and construction contracts. In addition to job creation, the programme is focused on the promotion of small, medium and micro enterprises and previously disadvantaged individuals through the affirmative procurement policy and the transformation of the construction industry.

A concerted effort is made in fostering participation of previously marginalised groups in all facets of

development. This includes equity participation, engagement as part of professional teams, participation in the construction of projects, participation in the marketing of the development as well as participation in the long term management of the completed development. Through participation, we believe that training, development and growth will be achieved.

The Strategic Projects Initiative is a sub-initiative located within the broader implementation of the Affirmative Procurement Policy, and represents a logical progression to what we view as the second phase of empowerment within the South African construction industry.

The Strategic Projects Initiative is aimed at the development and promotion of the sustainable growth of black construction capacity at prime contractor level. This initiative comprises:

- Amended tender specifications to create a preference for black contractors wishing to participate on large scale public works contracts as prime contractors.
- Identification of appropriate projects for inclusion
- Developing an appropriate mentorship program to guide the development of the participating black construction enterprises
- Mobilisation of appropriate private sector financial resources for initial capitalisation
- Easier access to plant and materials.

Furthermore, the respective Premiers have given a commitment to implement the Affirmative Procurement Policy in the various provinces, endorsed by the Public Works MINMEC. We have set targets for the application of the Affirmative Procurement Programme to be applied to:

- 90% of the National and Provincial Public Works projects
- 25% of public works projects at a local government level
- 15% of public works projects procured by parastatals.

Participation by Affirmable Business Enterprises now account for $\pm 30\%$ of contracts awarded by the National Department of Public Works, as opposed to less than 5% in 1995.

CONCLUSION

As I said in the beginning, for more than only direct profit, but also for the good of the community and the country, in stimulating economic activity and adding value in the reconstruction and development of the entire country, continue with the good example you have set, and make use of all the possible empowerment tools as well as programmes of government.

Cuts:

Implementation of the Affirmative Procurement Policy by the Department of Public Works

In August 1996 the State Tender Board approved that the National Department of Public Works pilot implementation of the Affirmative Procurement Policy on all its construction projects.

Since commencement of the programme in August 1996, some commentators within the construction industry predicted that a final premium in the order of 10 - 15 % per project would be incurred by the implementation of the Affirmative Procurement Policy specification. The overall premium paid has been 0,8%. Measured against the benefits that will accrue to the country by the broadening of the construction base, this premium can be justified.

Recorded ABE participation occurred significantly on minor, building and civil contracts, whilst limited participation has taken place on electrical and mechanical contracts, the latter largely to be attributed to the high entry thresholds required within these sectors. It is envisaged that even greater participation of ABEs on public works construction projects will take place after the full implementation of the Emerging Contractor Development Programme and other initiatives such as the Strategic Projects Initiative.

Strategic Projects Initiative

Although significant gains have been made in the application of the APP thus far, both the wider application of

the APP and intensified mobilisation and reinforcement of the sustainable growth of the black construction entities are now pursued to create large-scale black construction capacity in South Africa.

The Strategic Projects Initiative is an endeavour to address the previous imbalances within the construction industry in South Africa and a response to the present economic and political reality confronting us. We remain committed to ensure that significant procurement opportunities for the established construction sector will continue to be generated.

THE ROLE OF THE CONSTRUCTION INDUSTRY IN RECONSTRUCTING THE SOUTH AFRICAN ECONOMY

Whilst the South African construction industry has contributed less than 5 % of the South African gross domestic product since 1970, it is envisaged that the contribution of the construction industry will significantly alter as the construction industry has been identified as a key sector of South Africa's revised overall macro economic strategy. The prioritisation of physical and social infrastructure by the South African government as a necessary ingredient for the country's overall development indicates that the public sector fixed investment will be dramatically increased over the short to medium term. Projections of between R200 billion to R250 billion investment in infrastructure over the next five years, should increase the public sector's contribution or proportion of the gross domestic fixed investment to three or five fold and see the total construction Gross Domestic Fixed Investment (GDFI) more than double.

The development agenda enunciated in the RDP and GEAR necessitates the construction industry to be appropriately geared to respond to some imperatives. These include:

- Rapid and efficient delivery of quality assets to the public.
- Sustainable employment creation.
- The active promotion of small, medium and micro enterprises, especially enterprises originating from historically disadvantaged communities
- De-racialising of ownership patterns within the South African Construction Industry
- Improving the competitiveness of the South African construction sector and gearing for global markets.
- Sustainable economic growth and productivity of the sector.
- A human resource development strategy for the sector which is holistic, sustainable and accessible,

What I would like to share with you is the focus on public sector construction procurement as a mechanism to broaden and de-racialise the construction economy in South Africa.

Affirmative Procurement Policy

The Affirmative Procurement Policy is part of the overall Public Sector Procurement reform initiative. Government identified this initiative as being critical to the economic empowerment of those sectors of the country's population who were previously excluded from mainstream economic activities. Since August 1996 the procurement reform policy was implemented on government construction and engineering projects.

Objectives of this procurement reform focus on the creation of an enabling environment for small, medium and micro enterprises to participate in government contracts; achieving a uniform procurement system with standard tendering procedures; promoting participation by emerging enterprises in public procurement and on reviewing the role and functions of tender boards. Throughout accelerated employment creation is emphasised.

The three key principles of the National Public Works Programme, i.e., job creation, training and skills transfer, and business opportunities for the emerging sector are achieved through the use of the APP specifications.

Previously, contractors, suppliers and service providers were required to construct, supply and provide a service in accordance with a technical specification. The application of the Affirmative Procurement Policy now also requires contractors to execute their contracts in accordance with a human resource specification. This specification defines and sets out goals for Affirmable Business Enterprise participation in the performance of the contract in such a manner that it can be quantified, measured, verified and audited. Human resource specifications set out how contractors can meet these goals in order to comply with the requirements of the contract.

Furthermore, they set out the measures which the client body has at its disposal to remedy and penalise non-compliance.

For construction projects in excess of R2million, the Affirmative Procurement Policy calls for projects to be awarded on a development objective/price mechanism, whilst for projects for less than R2million, ABEs are encouraged to participate as prime contractors by way of Government providing a direct preference of 14%.

Participation goals for projects greater than R2million, are defined as the value of goods and services which affirm contracts to engage ABEs in the performance of a contract. ABE participation in these contracts could take place in one or more of the following ways:

- Subcontracting parts of the contract to ABEs
- Obtaining supplies and materials from ABE suppliers
- Obtaining manufactured articles from ABE manufacturers
- Engaging ABE professional, technical or managerial service providers
- Entry into joint venture arrangements with one or more ABEs.

In this changed environment, tenders are awarded not on price alone, but on a point-scoring system in terms of a development objective/price mechanism.

The Emerging Contractor Development Programme

Whilst big projects are underway, mechanisms and procedures in place, the Department of Public Works has also established the Emerging Contractor Development Programme (ECDP) as part of its strategy of transformation and creating an enabling environment in the construction industry.

The ECDP provides an enabling network of assistance to emerging contractors within controlled work opportunities, training and support to encourage development as responsive and responsible prime contractors. By the design of the programme the tendency of a dependency syndrome is avoided.

It provides support to emerging contractors who are as yet unable to quote or tender competitively within the public sector construction opportunities, due to lack of previous exposure to formal tendering procedures.

Key elements of the programme include:

- Helpdesks in all the Regional Offices of the department of Public Works, to provide advice on systems, procedures, screening and categorisation. These helpdesks are the point of contact for emerging contractors.
- A database of emerging contractors, recording, monitoring and evaluation of their respective performances on the programme, the impact of advice on contractor performance and
- Access to support in terms of training, mentoring, credit and loan finance as well as
- Information on job opportunities available.

Contractors are being divided into three categories. Those capable of dealing with contracts up to R30,000, contracts from R30,000 to R200,000 and from R200,000 to R2 million.

The main priority in terms of training is developing the business skills of contractors by improving performance in tendering and quoting for work, management of construction and overall business management. The participating contractors, while in command of basic technical skills, will be supported in the advancement of their technical competency. Specific training is available on a multi-media/video programme, explaining the ECDP procedures and quoting or tendering and the ECDP adjudication process.

The Department's prime role in this is to facilitate the development of a national network of training providers adequately equipped with appropriate accredited training programmes.

The Department sees the ECDP as a role model which can be adopted by other clients at national, provincial and local level. In this way work opportunities and support can be directed towards emerging contractors in a more co-ordinated way and monitoring will ensure their systematic progress towards becoming fully fledged contractors whose credit-worthiness is recognised by financiers and suppliers and whose performance is acceptable to clients.

The ECDP has all the potential of removing most of the risks associated with participation of emerging contractors and thus make it possible for financiers to provide the much needed capital in this sector.

To enhance the effectiveness of the ECDP it is envisaged to expand its information services to other major work generating organisations, both in the public and private sector.

The ECDP slogan: "Sakhasonke - your concrete business opportunity", encapsulates the spirit of the Department's inclusive approach towards developing emerging contractors to become self-sufficient and respected as prime contractors.

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