

**Minister of Public Works
Ms S Sigcau
31 January 2003**

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**Launch of BR-ILIMA
Osner Hotel
East London**

Master of Ceremonies
Distinguished guests
Ladies and gentlemen

INTRODUCTION

It is a pleasure to be able to welcome the birth of a new initiative to promote government empowerment objectives. Several things are significant about this birth.

Firstly, it means new investment in our economy.

Secondly, as evidenced by the company profile, it signifies new approaches to empowerment, to organisation and to profit sharing - an effort to seek new solutions in the specific context of South Africa's transformation and in the context of intensified global competition.

Thirdly, in welcoming this new company into our economy, it is noteworthy that its birth takes place within the construction sector, a key sector in our revised overall macro-economic strategy. The prioritisation of physical and social infrastructure to meet the basic needs of our population, and as a necessary ingredient for the country's overall development, underlines Government's commitment to mobilise increased public and private sector spending on construction and to promote the sector's development in a way which enables:

- Rapid and efficient delivery of quality assets to the public
- Sustainable employment creation
- Active promotion of small, medium and micro enterprises and the de-racialising of ownership patterns within the industry
- Sustainable growth and competitiveness of the industry, linked to
- A human resource strategy, which is holistic, sustainable and accessible.

It is against this background, that the emergence of BR-IIMA is indicative of some success in our all-round strategy for reconstruction, growth and development of the construction industry.

One thrust of this strategy is based on the need to impact on the distorted ownership patterns shaped by our country's former apartheid policies, which have polarised the construction industry along racial lines. Beyond the moral and political obligation to promote equity and stability, affirmative procurement policies and public sector measures to support emerging contractors emanate from an economic perspective and the need to broaden the industry's competitive base. These measures have generated market opportunity for previously disadvantaged enterprises, creating a foothold for movement towards a unified, vibrant and sustainable construction industry in South Africa.

There is also a cultural perspective to the empowerment of enterprises that are owned and managed by previously disadvantaged South Africans. In our joint effort to respond to the dynamics of change and to the inadequacies of outmoded relations both at home and in the global context, we view the participation of new stakeholders and new forms of partnership as a catalyst for a changing culture of enterprise.

GOVERNMENT POLICY INITIATIVES

Government interest in strengthening the construction industry is by no means confined to the empowerment aspect. In fact, it would be a mistake to believe that measures to address the previously disadvantaged sector of any industry can be successful unless they are taken within the framework of a strategy to address the growth and development of the industry as a whole.

As a developing economy, South Africa is fortunate to have an advanced domestic construction capacity, which constitutes a vital asset for our reconstruction and development programme. Confident in this foundation, we have launched a range of initiatives to address barriers to industry growth, and to its potential

economic contribution.

We have recognised that, over and above specific problems, which flow from colonialism, the practice of apartheid and our transition to democracy, the construction industry in South Africa faces problems similar to those experienced by the construction industries of many other countries. These problems include extremely low margins on contracts, problems of quality and productivity, adversarial relationships, low growth, an uneven demand, and often, poor communication between the various players in the industry. Related problems include safety, health and the environment, all of which impact on the economy and on our society.

Recognising the need for a comprehensive development strategy, Government has engaged the entire industry in a debate, which resulted in the white paper "Creating an enabling environment for Reconstruction Growth and Development of the Construction Industry".

This policy initiative represents a significant milestone in the development of the South African construction industry. It attempts, for the first time, to establish an enabling framework within which the construction industry can play a more strategic role in social development and economic growth. It is our belief that this framework provides the basis for an integrated industrial development strategy.

The broad goals of this policy initiative are:

- To enhance delivery to meet the basic needs of the majority of the South Africa's population
- To maximise the role of the construction industry as a distinct economic sector which contributes directly to the GDP, which provides the necessary infrastructure for other industrial sectors to develop, and which stimulates further growth (through forward and backward linkages with other industrial sectors)
- To obtain maximum benefit from the industry's job creating potential
- To promote development of the country's human resources and the democratisation of our society.

Other pieces of legislation and major policies to promoting empowerment are:

- The South African Qualification Act -To accelerate the redress of past unfair discrimination in education, training and employment opportunities
- The Preferential Procurement Policy Framework Act - To create categories of preference in the allocation of contracts, and the advancement of persons or category of persons disadvantaged by unfair discrimination
- The White Paper on the National Strategy for the Development and promotion of Small Businesses in South Africa
- The Employment Equity Act - To Redress imbalances of the past without compromising the ability of business to function effectively and profitably.

Implementing these policies has brought various experiences and challenges to the fore.

Almost without exception, the companies owned and controlled by people from the Historically Disadvantaged groupings have little money to put on the table. Creative financial engineering by mainly merchant banks has enabled a few individuals to control significant assets with relatively little capital outlay.

We shall be monitoring the sustainability of this arrangement very closely. Some sceptics argue that they are merely pyramid holding companies, adding little value to the assets of emerging companies.

It is also imperative that empowerment initiatives should include added value by the historically disadvantaged individuals, thereby countering any allegations of tokenism.

As organs of state we have to standardise our procedures and processes of effecting empowerment. It is also important to ascertain that the targeted groupings are the actual beneficiaries of empowerment programmes. We are aware of fronting practices bedevilling the industry.

BR-ILIMA STRUCTURE AND BASIL READ'S APPROACH TO EMPOWERMENT

A partnership is by definition "*An undertaking of a risk*" and implies a "speculation to make money".

Some have described joint ventures as an economic marriage that, like a marriage itself, offers a great opportunity to exploit and share resources, skills and financial strength. There is an indispensable need for mutual trust, sharing of resources, information and confidentiality. Common reasons for partnerships are:

- To share risk in undertaking a high-risk contract
- When a contract is too large or complex
- If the resources of a company which could normally handle the contracts tendered on, are committed elsewhere.

For Black Economic Empowerment purposes, the motivation for partnerships takes a slightly different twist. Joint ventures are used as a vehicle for the transfer of technology, improvement of managerial and technical skills and also as a means of access to finance. (The BR-ILIMA is supposed to be one such partnership.)

It is imperative that in the partnership, the Black Economic Empowerment partner should:

- Be responsible for clearly defined aspects of the contract
- Provide resources to execute the contract
- Share meaningfully in the ownership, control, management, responsibilities, **risks and profits** of the partnership.

CONCLUSION

This partnership is a remarkable reflection by the private sector of government's confidence in the empowerment goal. It is not so long ago that it would have been inconceivable to imagine a company with Historically Disadvantaged Individual equity doing a contract of about R200 million. Under apartheid the barriers to the formation of such an enterprise included:

- An education and training system which denied opportunities to acquire artisan, technical and professional skills
- Job reservation
- Racial segregation and forced removals and
- Restrictions on ownership rights, which limited the acquisition of assets and the ability to accumulate capital.

While these barriers have been removed by our new constitution, the effect of their application over many decades remains with us. Active public and private sector measures are necessary to accelerate the process of change and to overcome the debilitating effect of apartheid practice on the construction industry.

It is in this context that the emergence of a BR-Ilima demonstrates the impact of public sector measures to promote the growth of enterprises owned and controlled by previously disadvantaged individuals.

Of significance has been the introduction (by the Department of Public Works) of the Affirmative Procurement Policy which has opened up market opportunity to previously disadvantaged construction enterprises and has provided a vital platform for the sector's growth.

Affirmative procurement has been reinforced by the introduction of an Emerging Contractor Development Programme, which addresses supply side constraints such as entrepreneurial training, finance, credit and business advice. Already more than 3 000 emerging black contractors have been registered and served by this programme in 11 national centers.

The combined impact of the above initiatives implemented on national Department of Public Works projects alone, includes an increase in the SME share of public works contracts from 4% in 1994 to over 50% in this financial year.

These measures and our commitment to a comprehensive strategy for growth and development of the construction industry provide the incentive for private sector initiative. Without the organised business input of emerging contractors themselves, and of the industry as a whole, the full benefit of public and private sector initiatives will not be realised.

The outcome of our joint effort must lead to the development of the sector as a vibrant, equal and integral component of a racially undivided South African construction industry. I maintain that our construction industry should be a national asset.

This is indeed the context within which we view the establishment of your partnership. It is a private sector response to public sector initiatives, and it appears to contain elements of the "new". Indeed, the partnership profile appears to contain some of the elements of "ubuntu".

As it takes its place within the construction economy, it is therefore our hope that this partnership will not just be one more enterprise in the image of many, but that it will carve its own identity.

All of us are seeking new approaches to the many social and economic challenges that confront South Africa, our continent and the global community. Building on the existing strengths of the construction industry, its relevance will ultimately depend on its capacity to promote a unique, and truly South African, culture of construction and enterprise. In this context, I am certain that the industry will be observing with interest the growth of this new entity.

It is our hope that new approaches by Basil Read and by other leading South African construction enterprises, will help us to build on our different cultural strengths and to create a construction industry of the new South Africa, the kind that can promote Africa's emergence in the 21st Century.

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