



**public works**

Department:  
Public Works  
REPUBLIC OF SOUTH AFRICA

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

## **Construction Industry Development Board National Stakeholder Forum**

**Premier Hotel OR Tambo, Johannesburg, 4 July 2012**

**Keynote Address: TW Nxesi MP**

## CHECK PROTOCOL

- Chairperson of the Board, Mr Bafana Ndendwa and members of the Board
- Chairperson of the Select Committee on Public Services, Honourable MP Sibande
- Representative of the Portfolio Committee on Public Works, Honourable LB Gaehler
- Honourable MECs
- Representatives of government departments
- Representatives of SOEs, industry associations, academia and the private sector
- The CEO of the CIDB, Ms Ursula Ntsubane and staff members
- And most importantly, all stakeholders in the Built Environment sector

Greetings, and thank you for inviting me to share some ideas with you at this important event.

On a lighter note: I see that the CIDB Act requires that the Board must convene an annual meeting between the stakeholder's forum and the Minister – so you had to invite me whether you want to or not!

On a more serious note, the Act also states that matters to be raised with the Minister “be submitted to the Minister, in writing, two months prior to the meeting.” Maybe next year we should try to stick to that so that we encourage a real exchange of views.

And of course the most important thing for the CIDB and for myself as minister is that we hear from you - the stakeholders:

- Tell us: what are the challenges you are facing?
- What are we doing wrong – as CIDB or as Public Works?
- How can we improve and better support the people on the ground?

I look forward to receiving those inputs.

Turning to the CIDB: you are at the cutting edge of technical development and transformation in the sector. This reflects in the key themes you have chosen for discussion at this Stakeholder Forum:

- Contractor Development
- Skills for Infrastructure Delivery
- Balancing Delivery and Empowerment and Procurement Strategies
- Best Practice and Contractor Performance.

I will refer to some of these themes, but I will leave the detailed discussion to the experts from CIDB and the stakeholders.

In the time available I want to say something about the bigger picture – from the side of government – against which we all need to measure ourselves.

The President's State of the Nation Address earlier this year is a good place to start. As government we are saying that our priority is to

combat the triple challenge posed by the evils of poverty, unemployment and inequality. These go to the heart of issues of inclusive economic development and social cohesion.

Operating, in the Built Environment, we are also aware that a critical part of the strategy to address this triple challenge is the roll out of infrastructure plans. I want to speak in some detail on this issue – where I have personal experience and knowledge as a member of the PICC (Presidential Infrastructure Coordinating Council) process.

The Infrastructure Plan for the country has its origins in discussions held in the Cabinet Lekgotla of July 2011, which established the PICC and its various structures. Out of this process came the groundbreaking proposals in the State of the Nation Address and the subsequent Budget. Let us remind ourselves of the concept that were presented in the SONA:

- It spoke to the need to develop a comprehensive plan which would address the legacy of apartheid spatial planning by integrating those parts of the country – rural areas in particular – which had been historically excluded from economic development.
- It spoke to the need to use infrastructure development as a lead sector in developing the necessary economic linkages to drive inclusive economic growth and development; and

- It spoke to the need for infrastructure development to lead the struggle against the triple evils of poverty, unemployment and inequality. This was all the more urgent in an uncertain global economic context, where South Africa would need to rely on its own efforts to drive economic development.

The conceptual work has been done: 17 major long-term Strategic Integrated Projects (SIPs) have been developed with planned major positive effects on regional economies and job creation. Let me give some examples – to give you a flavour of what is envisaged:

**SIP 1** – the Northern Mineral Belt - centred on the development of the massive mineral resources of Limpopo – coal and platinum – and related economic activities, in particular rail transport, power generation and water supply:

- It is a long-term project – we are talking 20 years and beyond – which takes into account the need to shift dependence from the depleting coal resources (principally in Mpumalanga) to opening up new mines and power stations in Limpopo.
- It will drive economic development in one of the largest and poorest rural provinces for decades to come.
- It will impact on the surrounding provinces and beyond, including the entire Southern African region.
- It also begins to address the energy needs of the country to sustain economic growth required to tackle unemployment and poverty.

**SIP 3:** South Eastern Node and Corridor Development – to promote rural development through:

- A new dam at Umzimvubu with irrigation systems
- The N2-Wildcoast highway to strengthen supply chains and access
- Building manganese rail capacity from the Northern Cape to PE and building a manganese smelter in the Eastern Cape.
- A possible refinery at Coega
- Development of a trans-shipment hub at Ngqura, and port and rail upgrades to improve industrial capacity and the performance of the automotive industry.

**SIP6:** Integrated Municipal Infrastructure Project – to assist the 23 least resourced districts to address all infrastructure, maintenance and services backlogs.

**SIPs 8,9,10:** deal with promoting green energy as well as expanding production of electricity.

**SIP 12:** Revitalisation of public hospitals and other health facilities

**SIP 13:** National school building programme:

- Mud schools in E Cape – PICC has instructed us – DPW and DBE - to come up with a rapid programme to address this continuing scandal
- Refurbishment of established schools.

The general point here is that government has committed resources to address the country's massive infrastructure backlogs. The crucial

issue now is how we implement these decisions. We must be clear that the infrastructure roll-out must address the following priorities:

- To trigger sustainable economic growth that begins to address the triple challenge of poverty, unemployment and inequality;
- To ensure that we build in labour intensive methodologies to ensure more jobs; and to build in skills development to enhance the quality of those jobs;
- To support the development of black and emerging contractors; and
- To also use infrastructure investment to break down the apartheid pattern of spatial development – and especially to help drive rural development.

As government, we are exploring ways of building into the specs for construction contracts, the requirement for skills development, job creation and the use of labour intensive methodologies.

This is important. I need to mention that currently only 25% of qualified built environment professionals are black. There is a real problem whereby aspirant young black graduates are not finding placements in industry so that they can get the necessary experience to qualify for professional status.

We have to engage vigorously with contractors and say: if we are going to give you a multi-million rand contract, in return we expect more than the completed infrastructure – including that you facilitate the training of young professionals and artisans, and upgrading of the workforce in general.

The SONA provided a clear commitment to major infrastructure roll-out in the years ahead. But clearly the state cannot achieve this alone. We are going to have to forge real partnerships with the private sector to provide a number of services:

- to provide capacity in the construction sector and to source high level built environment professionals and other skills that are lacking in the public sector
- to project manage and implement large projects, and
- to help unlock infrastructure spend.

As the public sector and the private sector we need each other. Having said that I think it is important to add that the relationship has to be carefully monitored and managed to ensure value for money – in terms of the public funds that we have to account for. Issues that we have to consider include the following:

- In any assessment of the correct division of responsibilities between state and private sectors in a partnership, the issue of where risk and final responsibility lies is crucial.



- We can agree that where we do not have capacity as the public sector – in relation to design and construction - we have to in-source. But government and client departments in general need to build capacity to manage their relations with service providers and consultants – from design and specifications, through construction phase, to maintenance and even disposal.

**BBBEE** - As government we remain responsible for the regulation and transformation of the construction sector. The construction industry has to create an environment where emerging contractors graduate into sustainable businesses.

This is also the mandate of the various public entities which report to the Minister of Public Works – principally the Construction Industry Development Board and the Council for the Built Environment. The relevant programmes need to be accelerated or reviewed, including:

- Implementation of the Construction Sector Charter codes;
- The National Contractor Development Programme – driven by the Construction Industry Development Board (CIDB); and
- The Contractor Incubator Programme (CIP) contributing to the development of emerging contractors.

It is inconceivable that the state's commitment to major infrastructural investment can take place without massively expanding the

opportunities for – and support of - black and emerging construction contractors.

## **Challenges**

It is entirely appropriate that this Forum should discuss the many challenges and impediments to delivering on the Infrastructure Plan – so that we can start to develop appropriate strategies and solutions. Constraints within government (including local government) include:

- corruption, nepotism, and collusion
- (to a lesser extent) poor quality of construction, and
- Impediments to BEE and contractor empowerment

## ***Corruption***

Corruption – corrupt officials and the tenderpreneurs who corrupt them – represents a major drain on public resources – intended for service delivery to the poor. It also demoralizes the many honest public servants who end up getting tarred with the same brush. This scourge has to be addressed at the political level, as well as by mobilizing all the relevant security agencies and legal processes.

In the case of National DPW, years of poor management, under-capacity and lack of financial controls have provided fertile terrain for fraud and corruption. This has been most apparent in relation to leases

– although no doubt there are problems in the construction side of the Department. It is for this reason, that shortly after my appointment I removed certain financial delegations to regions of the Department, such as withdrawing their powers to sign leases.

Twenty-two irregular leases have already been identified in one region alone – involving payments of over R64 million. This includes leases where DPW paid for the duration of the lease without the building being occupied. We have instructed our lawyers to approach the High Court to nullify these irregular lease agreements, and institute civil action against whoever benefited unduly.

Criminal cases are being opened against several officials; more are expected.

When it comes to tenders for construction projects – and the existence of corruption and collusion - these challenges also need to be addressed by stakeholders across the value chain, and it is important that the stakeholders address and interrogate these challenges at this Stakeholder Forum.

From the side of the DPW, my Acting DG is already taking action to put a stop to the situation where variation orders have become the norm – it's a type of collusion. This requires that we – as DPW - we improve our project management, budgeting and monitoring of contracts.

We also expect that the CIDB will be highlighting the role that it is playing in addressing challenges of corruption at this Forum.

### ***Quality***

On challenges around quality in construction, I will leave that to CIDB and the industry experts here to tell us on their plans to improve quality – in terms of quality, time and cost.

More generally the CIDB needs to encourage discussion on its role, and on the role and contribution of stakeholders in delivering on the Infrastructure Plan.

### ***BEE and Preferential Procurement***

I need to thank CIDB for allowing DPW to second Ms Inba Thumbiran to assist us in addressing SCM challenges in the Department. Inba has been in the Department for two days – but already she is educating us on the need to re-look at the issue of preferential procurement and the PPPFA – which she tells me is not suited to the construction environment and is not assisting the development of emerging contractors.

The statistics on this are incontrovertible – and she tells me that as DPW we are failing to give projects to small contractors. We are going to have to explore alternative policy tools in this respect.

## ***Challenges facing DPW***

One of the most critical challenges we face as government is the question of capacity to support the delivery of the Infrastructure Plan. Under-spending of infrastructure budgets has been of concern to government over the past few years, and government recognizes that every Rand that is not spent and that is returned to National Treasury, or every Rand that is misappropriated through corruption or collusion, undermines job creation, service delivery, economic growth, and black economic empowerment.

In this regard, in partnership with the National Department of Public Works, National Treasury, the DBSA and other stakeholders, the CIDB is playing a very important role in supporting the development of capacity at both national and provincial level to unlock infrastructure spend.

Another specific challenge that needs to be recognized and addressed is that of the transformation of the construction sector, and black economic empowerment within the sector. Whilst under-spending by government undermines black economic empowerment, so too does the inappropriate packaging of projects – in such a way that projects fail to facilitate or encourage participation of the emerging sector.

In this regard the discussion of a specific theme on appropriate procurement strategies and '*balancing delivery and empowerment*' is a crucial contribution of this Stakeholder Forum. These deliberations by

stakeholders are very relevant, and I look forward to receiving the output of these deliberations in due course.

At a recent quarterly meeting of entities to report on progress, and recognizing the need for transformation in the construction industry, I specifically tasked the Department of Public Works and its entities to host a summit later this year on transformation in the construction industry. This summit will be led by Ms. Ursula Ntsubane, the CEO of the Construction Industry Development Board. We will be communicating more about this Summit in due course.

This Forum also provides an opportunity for you to criticize DPW – so let me get in first with some self-criticism:

- First as DPW we have to re-invent ourselves as a better client – a model client - to the construction industry. So we cannot be happy with the late payments which threaten the lifeblood of small contractors in particular. I understand that CIDB is already working on regulations which will penalize late payments.
- As DPW we also need to be absolutely transparent – in relation to open tenders and making sure that we run an equal opportunity regime – so that all contractors have equal access to contracts.
- Lastly as DPW it is not just about getting the budget spent. We have a duty to the public to ensure value for money. In addition as DPW in the contracts that we award, as part of government, we also need

to ensure economic and social spin offs in terms of jobs, skills development and contractor development – in relation to work opportunities, training and enhancing standards in the industry.

### ***In closing***

The various themes that will be discussed here at the Stakeholder Forum – contractor development, skills, procurement and the performance of contractors – are all central to delivery on the government's Infrastructure Plan, and are central to the CIDB's strategy for the development of the construction industry.

However, as we acknowledge the important role that the CIDB is playing, the Department and CIDB also acknowledge the need to be responsive to the needs of stakeholders and to deliver value to stakeholders. As part of attaining this – I need CIDB to develop a concept of what constitutes a developed construction industry – an ideal state – that supports the developmental agenda – so that we can measure our efforts against this.

It is against this background that the deliberations here at this National Stakeholder Forum have been informed by provincial consultations on the role and responsiveness of the CIDB – which findings were presented earlier in the morning. These consultations – which have provided both positive and some less positive feedback – are important to the CIDB and to the Department of Public Works. They provide an

important reality check and wake up call to all of us to continue to strive for improved performance and service delivery.

In this we are motivated by the conviction that working together we can achieve more.

I thank you.