



DEVELOPMENT THROUGH PARTNERSHIP

Transformation in the Construction Industry: A New Hope

Rodney Milford
26 February 2018



The SA economy: A new hope

cidb Breakfast, 21 February 2018

Craig Lemboe

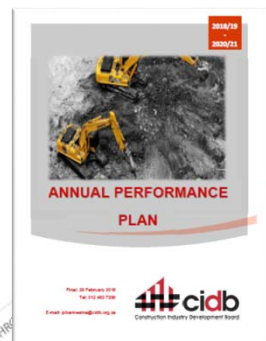


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90:90:90

***90% or more of the capacity of the construction industry is
90% or more black-owned, and
delivers 90% or more of construction contracts by value***





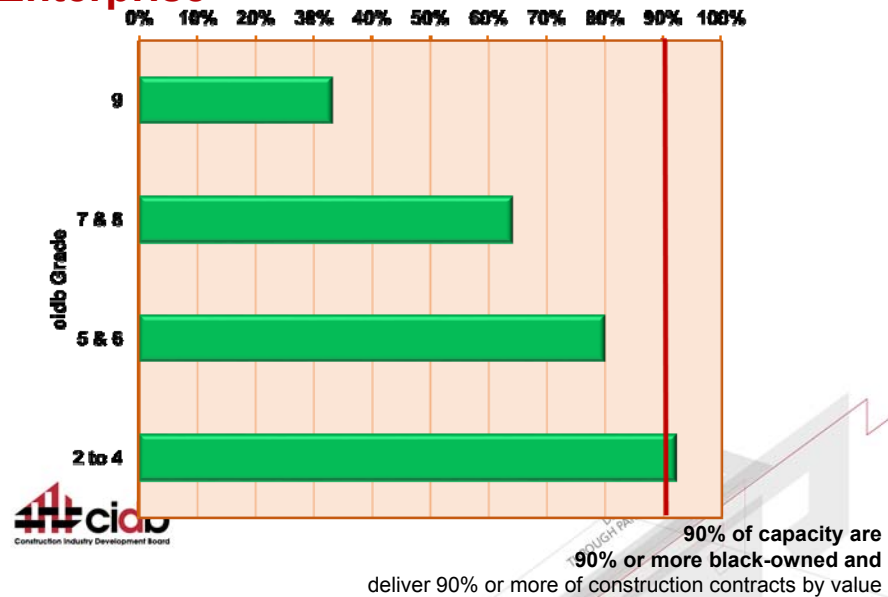
State of Transformation

Contractors; Black-Ownership (90%+); Entity

Grade	Number	Black (%)
	Black-Ownership; 90%+	
9	52	33%
7 & 8	924	64%
5 & 6	2 169	80%
2 to 4	7 890	92%
Total	11 035	86%

90% of capacity are
90% or more black-owned and
deliver 90% or more of construction contracts by value

Contractors; Black-Ownership (90%+); Enterprise

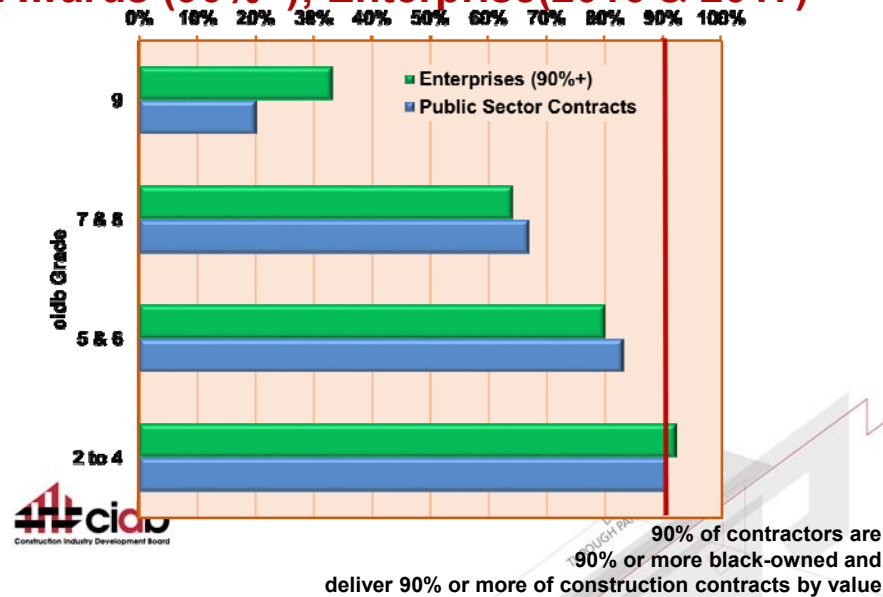


Contractors; Public Sector Contract Awards (90%+); Entity

Grade	Black (%)
9	20%
7 & 8	67%
5 & 6	83%
2 to 4	91%
Total	78%

90% of capacity are 90% or more black-owned and deliver 90% or more of construction contracts by value

Contractors; Public Sector Contract Awards (90%+); Enterprise(2016 & 2017)



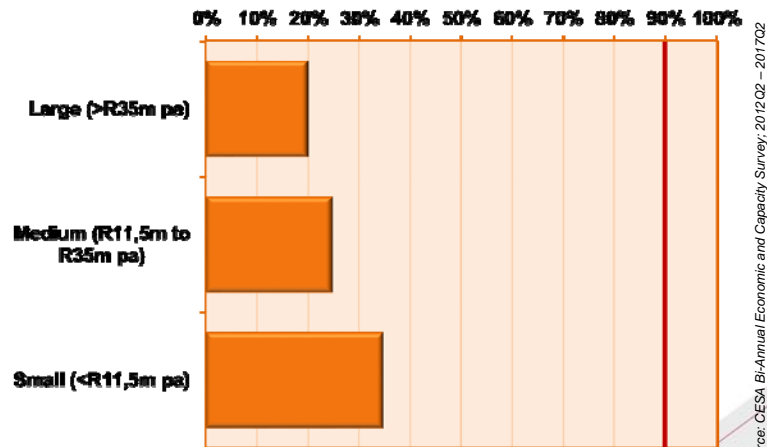
Consulting Engineers; Black-Ownership (51%+)

Black-Ownership (50%+); June 2017	
Size	%
Large (>R35m pa)	20%
Medium (R11,5m to R35m pa)	25%
Small (<R11,5m pa)	35%
Total	32%

Source: CESA Bi-Annual Economic and Capacity Survey; 2012Q2 – 2017Q2

90% of capacity are 90% or more black-owned and deliver 90% or more of construction contracts by value

Contracting Sector: Black-Ownership (50%+)



Source: CESA Bi-Annual Economic and Capacity Survey, 2012 Q2 – 2017 Q2



**90% of capacity are
90% or more black-owned and
deliver 90% or more of construction contracts by value**

Summary

*representation by black-owned medium and large contractors has
not increased significantly over the past three years – and does
not represent an inclusive industry*





Grow the Pie

- i. **Macro-economic / business conditions** impact on the total work available to the construction sector and the underlying business conditions within which transformation must take place
 - An effective transformation strategy must aim to increase the total government spend and the efficiency and rate of spend

Redistribute the Pie

- ii. Access to work / participation:** Within the construction economy, enhancing transformation is dependent on black-enterprises accessing work
 - An effective transformation strategy must increase the participation of the black-sector in public and private sector spend through regulation, development programmes and best practice

Deliver Value

- iii. Enterprise factors:** Notwithstanding that access to work is fundamental to enhancing transformation, enhancing transformation requires support to enhance the capabilities of black-enterprise, availability of skills, access to finance, etc.
 - An effective transformation strategy must enhance the development and sustainability of the black-sector, and enhancing quality in the delivery of construction works

Good Governance

- iv. Good governance:* Transformation must be associated with the highest standards of corporate governance of all participants
- An effective transformation strategy must therefore encourage transparency and good governance in the delivery of construction works



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Commitment

- v. Commitment:* Addressing transformation is not the responsibility of one entity or organization, and requires the commitment from the established construction industry to transform from within, and to support the transformation of the black construction sector
- Amongst others, public sector clients have a key role to play in supporting the transformation of the construction sector through developmental support and procurement interventions



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cidb Transformation Framework

- i. Grow the Pie
- ii. Redistribute the Pie
- iii. Deliver Value
- iv. Good Governance
- v. Commitment



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Macro-economic / Business Conditions

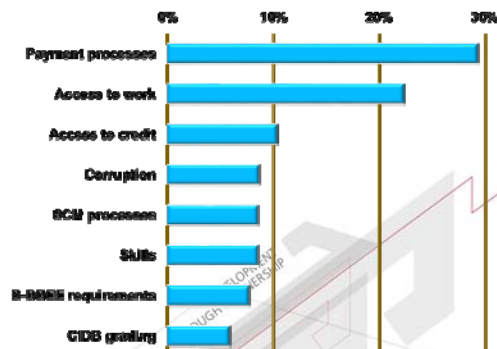
- Grow the Pie



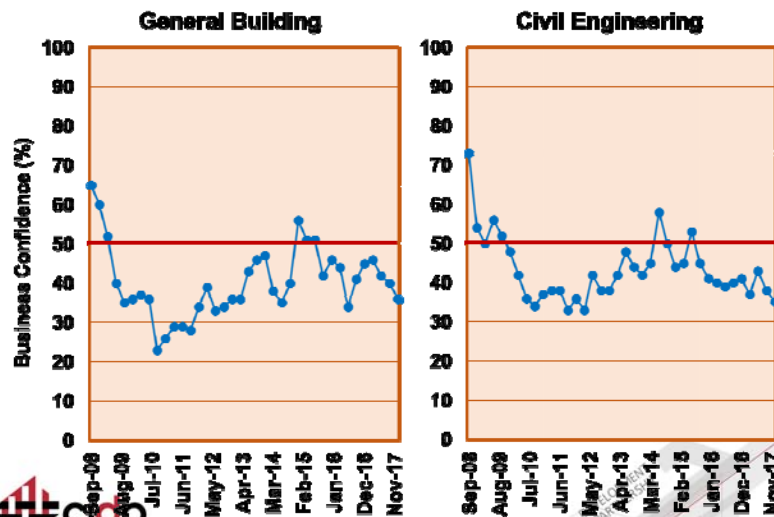
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General Business Environment Constraints; Contractors

- Payment processes; 29%
- Access to work; 22%
- Access to credit; 10%
- Corruption; 9%
- SCM processes; 8%
- Skills; 8%
- B-BBEE requirements; 8%
- cidb grading; 6%
- no constraints; 12%



Business Conditions (cidb Grades 3 to 8)

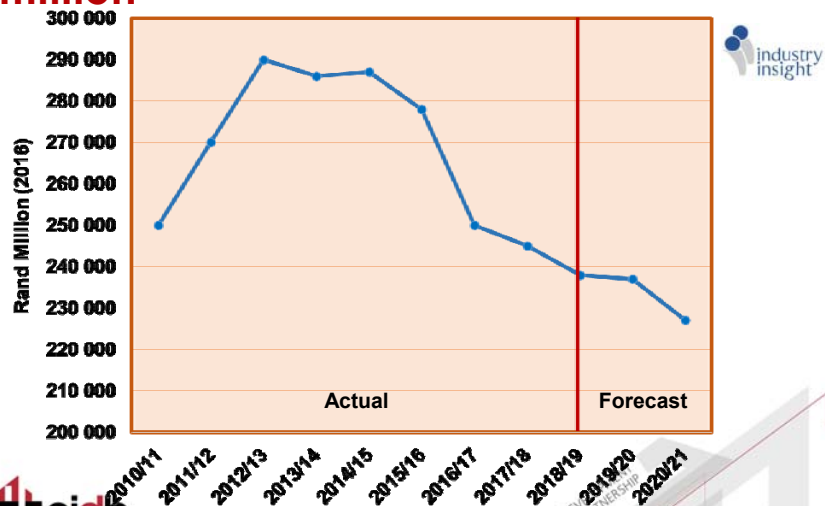


Source: BER

Under-Spending; Local Government

	Variance against Budget (Rm)			
yyyyqq	201601	201602	201603	201604
Metro	-9 916	-4 925	-5 087	-7 453
District Municipality	-2 344	-2 175	-995	-1 514
Local Municipality	-6 299	-6 164	-2 672	-3 925
Total	-18 559	-13 264	-8 754	-12 892

Public Sector Infrastructure Spend; R million



UCT Graduate School of Business Roundtable Discussion 19 April 2017

*You cannot have transformation in a shrinking
economy that's just received junk status...*



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The SA Economy; A New Hope

- Global economic recovery on track:
 - developed economies leading the way
- Global investors returning to SA:
 - helped by positive global sentiment
 - recent political developments are seen by analysts as favourable for economic activity



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Standard for Infrastructure Procurement and Delivery Management (SIPDM)

- Issued in terms of Section 76(4)(c) of the Public Finance Management Act of 1999 (Act 1 of 1999)
 - Applicable from 1st July 2016
- Defines:
 - **control framework** for the planning, design and execution of infrastructure projects, the tracking of such projects and the monitoring of performance
 - **requirements** for infrastructure procurement and delivery management:
 - institutional arrangements
 - demand management
 - acquisition management
 - contract management
 - logistics management
 - disposal management
 - reporting of SCM information
 - regular assessment of SCM performance
 - risk management and internal control

National Treasury Budget Facility Infrastructure (BFI)

9) Institutional and Operational Readiness

- Sufficient capacity to deliver the project on time, on budget and to specifications should be demonstrated
- An institutional arrangement that is conducive to effective delivery is critical
- The analysis should demonstrate that the institutions responsible for implementation, including project management, and operational responsibility will be appropriate to the task
- SIPDM / OGC Gateway Review?

cidb Competence Framework for Procurement

- Ultimately, procurement and delivery management is dependent on, and influenced by, an institution's capacity and competence
- cidb has developed a *Procurement and Delivery Management Competency Framework*:
 - aligned to the SIPDM
 - presently developing assessment tools to underpin the cidb *Competency Framework*



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cidb Client Recognition Scheme: Objective Criteria

- Compliance with requirements for project award and project closure on cidb *Register of Projects*
- Alignment to SIPDM annual performance report requirements:
 - expenditure incurred in infrastructure delivery against the budget
 - average price of all packages where stage 7 (Works) was completed
 - average time taken to award a contract
 - average number of days that payment is later than that required
- Assessment of the competence of SCM and Delivery Management officials against (draft) cidb *Competence Framework for Construction Procurement* (April 2014)



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cidb Client Recognition Scheme: Subjective Criteria

- **Assessment of the performance of agencies based on cidb *Client Performance Reports* (on a scale of -1 to +2)**



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Access to Work / Participation

- Redistribute the Pie



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PP Regulations (2017); Eligibility Criteria

- 4.(1) If an organ of state decides to apply pre-qualifying criteria to advance certain designated groups, that organ of state must advertise the tender with a specific tendering condition that only one or more of the following tenderers may respond:
 - (a) **a tenderer having a stipulated minimum B-BBEE status level of contributor**
 - (b) an EME or QSE
 - (c) a tenderer subcontracting a minimum of 30%



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PP Regulations; Subcontracting as Condition of Tender

9.(1) for a contract above R30 million, an organ of state must apply subcontracting to advance designated groups

(2) the organ of state must advertise the tender with a specific tendering condition that the successful tenderer must **subcontract a minimum of 30% of the value of the contract** to:

(a) an EME or QSE;

(b) an EME or QSE which is **at least 51% owned by black people**;

etc.

(3) The organ of state must make available the list of all suppliers registered on a database approved by the National Treasury in respect of the applicable designated groups from which the tenderer must select a supplier



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PP Regulations; Preferential Procurement

(2) The following table must be used to calculate the points out of 10 for BBEE:

B-BBEE Status Level of Contributor	Number of Points
1	10
2	9
3	6
4	5
5	4
6	3
7	2
8	1
Non-compliant	0



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B-BBEE Level; cidb Grades 2 to 9

Grade	1	2	3	4	5
9	4%	38%	70%	89%	94%
7 & 8	25%	50%	80%	93%	97%
5 & 6	31%	45%	89%	98%	99%
2 to 4	39%	41%	93%	100%	100%



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National Treasury; Draft Procurement Bill

- March 2018?
- Will ring-fencing by ownership be introduced?



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Site Intimidation

- Contractors complain to KZN council after vigilante group stops construction; 21 September 2016 Nce Mkhize
- KZN business forum denies threats, intimidation; 13 January 2017, Bernadette Wolhuter
- Durban building 'Mafia' stops work at Cornubia construction sites; 21 June 2017, Barbara Cole
- Firm seeks to interdict business forums; 3 October 2017, Jeff Wicks



Leon Lestrade / ANA



R3.50

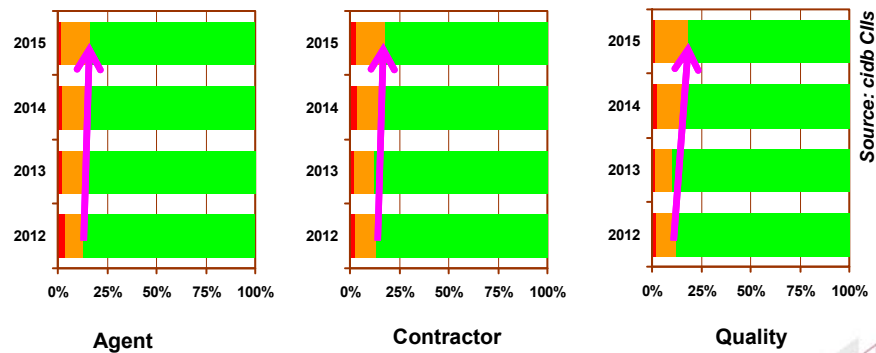


Enterprise Factors

- Deliver Value



Client Satisfaction



Source: cidb CIs

Client satisfaction is decreasing
Likely to be due to business conditions
and tight margins



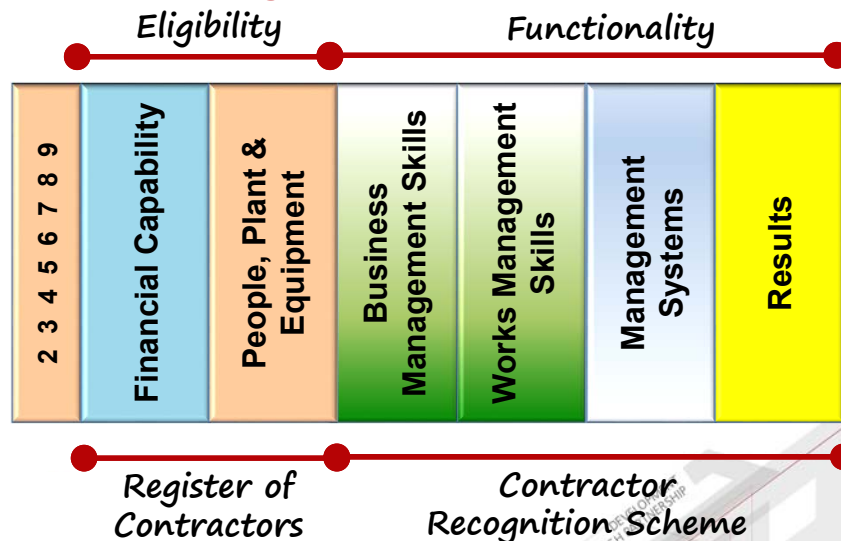
Enterprise Factors (i)

- cidb Guidelines for Contractor Development Programmes
- cidb Standard for Indirect Targeting for Enterprise Development
- CMG 101 Construction Management Guidelines
- cidb Contractor Recognition Scheme:
 - cidb Competence Standard for Contractors
 - cidb best practice: Construction Management Systems
 - cidb best practice: Anti-Bribery Management Systems
 - cidb Contractor Performance Report
- cidb Business Advisory Services
- cidb Development Support:
 - cidb Credit Fund



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A Contracting Enterprise



You have a two to three year window

*to have your capabilities
recognised by the cidb
before clients start selecting
contractors that are
recognised by the cidb*

*✓ which will be used by
clients to assess contractors*



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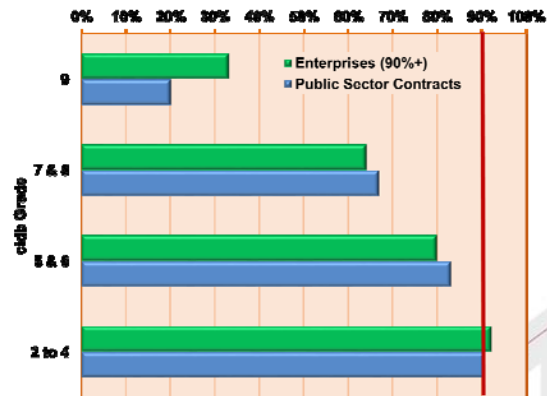
cidb Developmental Support (Subject to Board Approval)

Item	5 Year Total (Rm)
Contractor Development	508
Skills Development	109
Other	525

Estimated start: 2019/20



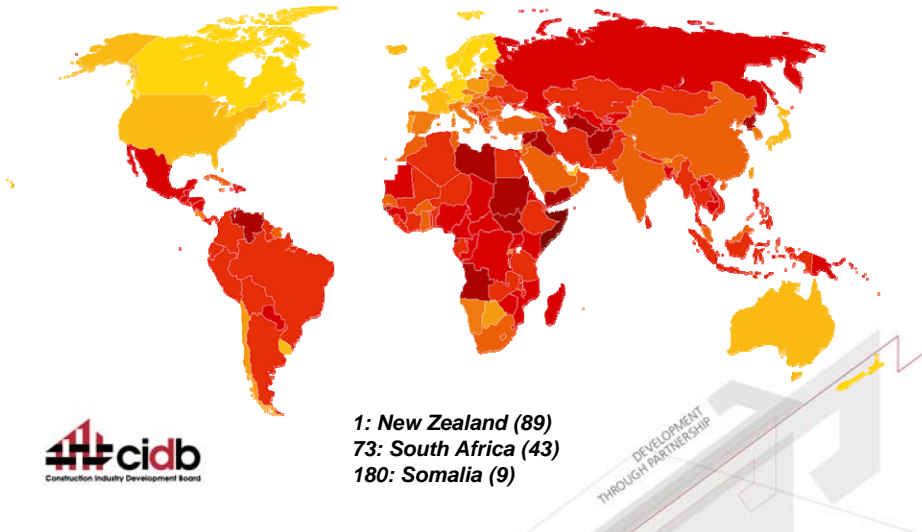
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Good Governance

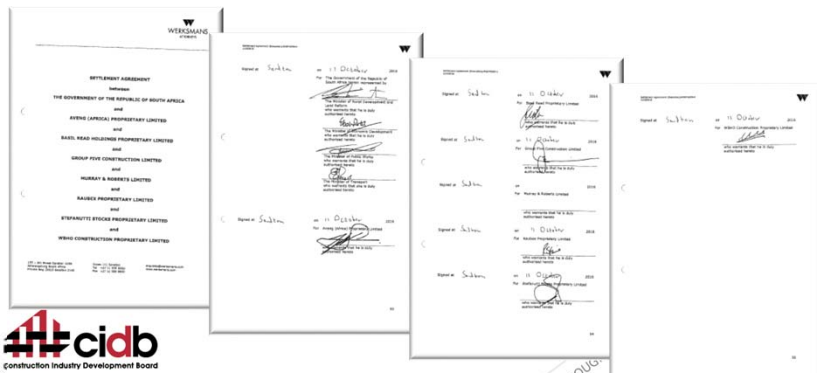


South Africa Ranks 71 out of 180 Countries



Collusion and the Voluntary Rebuild Programme

- Financial contributions by the companies of R1,5 billion for developmental projects:
 - in addition to the R1,4 billion in competition penalties previously imposed by the Competition Tribunal



SANS 1734 / BS 10500

- **Best Practice: Specification for a Fraud and Corruption Management System (June 2015):**
 - certification to BS 10500 [BS 1734]
Specification for an Anti-Bribery Management System (ABMS), but extended to fraud and corruption
 - best practice for Grade 9 enterprises



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SANS 1734 / BS 10500

- **But – SANS 1734 is not only for contractors:**
 - all enterprises and organisations
- **cidb is to be 'certified' to SANS 1734:**
 - committed to zero tolerance approach to fraud and corruption



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A New Hope



Commitment

Commitment

Addressing transformation is not the responsibility of one entity or organization, and requires the commitment from the established construction industry to transform from within, and to support the transformation of the black construction sector:

- public sector clients
- private sector institutions
- academia and R&D



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Concluding Comments

A New Hope

*A transformed construction industry that is inclusive,
ethical and contributes to a prosperous South Africa
and the World*



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Thank You