

## **Towards Improving Delivery of Infrastructure and Engineering Services**

Honourable mayor of the City of Ekurhuleni, Councillor Mondli Gungubele, Engineer Exaud Mushi (FIDIC Vice President from Tanzania), distinguished guests and delegates, members of the media, ladies and gentlemen. Good Morning and welcome to the inaugural “CESA Infrastructure Indaba”

We have rebranded the traditional CESA conference to “CESA Infrastructure Indaba” to ensure a broader participation of all the role players involved in infrastructure development in our country. Instead of having a pity party of consulting engineers we want to have a conversation with Government and other role players on how best to develop our country’s infrastructure.

Last year, under the theme “Sustaining Consulting Engineering is Key to Growing the Economy”, we highlighted challenges that needed to be addressed in order to grow the South African consulting engineering business sector and allow it to assume its role of being central to infrastructure development. These challenges include regulatory and institutional challenges relating to procurement of built environment professionals and more specifically consulting engineers.

I am excited to report to you today that tangible progress is being made in addressing some of these challenges. Examples of this progress include the following:

- The publication early in the year of the 2015 Public Sector Supply Chain Management Review which, among other things, highlighted the Government’s intent to repeal Procurement Regulations,
- The draft Preferential Procurement Regulations which were unfortunately leaked to the public in July of this year,
- The creation of a centralised database of service providers,
- The planned separation of the procurement of infrastructure related services from the procurement of general goods and services,
- And many more other initiatives spearheaded by our National Treasury through the office of the Chief Procurement Officer.

You will hear more about some of these initiatives latter today.

There are also a number of initiatives by other Government Departments which are designed to beef up Government capacity and capability to roll out new infrastructure and maintain existing infrastructure. This infrastructure is much needed for the acceleration of service-delivery as well as the socio-economic development of our country. The initiatives include:

- Importing of foreign engineers,
- Secondment of engineers from private sector to government departments and municipalities,
- Establishment of PMU managed by consulting engineers and other BEPs,
- Employing consulting engineers for pre-feasibility work, and
- Using retired engineers, to name a few.

As CESA we will continue to support these intermediate initiatives and to work with Government in finding long term solutions to the lack of engineering capacity and capability in the public sector.

Of concern however is the court action initiated by the City of Cape Town against one of our member firms to prevent the appointment of consulting engineers involved in pre-feasibility studies in the downstream phase of work. Currently the case is at the Supreme Court of Appeal and we are hopeful that the ruling will be in favour of allowing pre-feasibility studies consulting engineers to participate in downstream work.

Our theme for our Infrastructure Indaba is “Towards Improving Delivery of Infrastructure and Engineering Services”. This theme emanates from and is the culmination of our 2015 annual theme, namely, “Meeting socio-economic challenges through sustained infrastructure investment”. Under this theme we dealt with the state of the country’s infrastructure investment as well that of the engineering human capital development. Each of these issues is going to be discussed in detail during the course of the conference. For now I will just give you a high level overview of each of these issues and starting with the state of infrastructure investment:

According to the NDP the Government needs to spend at least 20% of the country's GDP on infrastructure development in order to attain the objectives of the NDP. Currently it is only managing to spend about 14% of the GDP on infrastructure and when you take this infrastructure spend as a percentage of the targeted GDP which is growing at 5%, our performance in public infrastructure investment is sorely lacking. We acknowledge that much has been done by the Government to deliver infrastructure but the demand for infrastructure development far exceeds the available Government financial resources.

Minister Nhlanhla Nene alluded to this constraint in the Government purse when he concluded his 2015 medium-term budget speech by saying "Without economic growth, there is not revenue growth, and without revenue growth, expenditure cannot increase and the nation cannot develop and succeed."

KPMG has estimated that the continued underinvestment in infrastructure will result in an infrastructure funding gap of approximately R6.5 trillion by 2030. This spells disaster for the social and economic development of our country and requires urgent and focussed intervention by all South Africans. As CESA we identified three (3) possible avenues that should be explored, alongside others, to close this growing infrastructure gap.

The first avenue is for the private sector to increase its investment in public infrastructure development. It is estimated that South Africa's private sector has over R1trillion in cash which is sitting idle in low interest-earning accounts. Some of this money could be invested in public infrastructure through the conventional Public Private Partnerships (PPP) as well as other institutional arrangements for the private sector to avail its financial resources for public sector infrastructure development. However there are obstacles that must be dealt with prior to realising and maximising this potential and these include, inter alia,

- regulatory red-tape
- lack of technical capacity and capability to package projects
- mistrust between the public and the private sectors
- misconception that the conventional PPP is 'privatisation'

The Infrastructure Plan provides a prioritised pipeline of infrastructure projects with high socio-economic impact, but it is unfortunately not complemented by an Infrastructure Funding Plan. This plan, I believe, should include, among other things:

- An assessment of balance sheets of state-owned Enterprises to quantify their capacity to deliver on their infrastructure delivery mandate.
- An analysis of what infrastructure the state is able to fund under the current economic situation.
- The creation of a clear pipeline of infrastructure projects per sector which are best suited for private sector funding and implementation. This allows opportunity for the private sector to gear itself up for these projects. The government's Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) in the energy sector is good example of such a project pipeline.

It is encouraging to note that various Government departments are actively pursuing ways to maximise private sector participation in public sector infrastructure investment.

- In July 2015 the Gauteng Government launched the inaugural Gauteng Infrastructure Investment Seminar and tabled project opportunities for private sector involvement.
- While in June this year the KZN Treasury successfully hosted another of its Infrastructure Funding Fairs and also showcased projects that are ready for implementation and suitable for private sector funding. I am happy to report that CESA is in the process of signing an MOU with the KZN Treasury in this regard.

The second area of opportunity to maximise infrastructure investment is the maintenance of existing infrastructure to ensure that the existing infrastructure

remains serviceable for the duration of its design life and beyond. Lack of maintenance of existing infrastructure results in premature failure of infrastructure with associated high replacement costs accompanied by widespread negative socio – economic consequences such as interrupted service delivery, loss of productivity in the economy, disruption to industry & economy and the waste of natural resources.

The third area of opportunity to maximise infrastructure investment is addressing inefficiencies in the Supply Chain Management system and more especially as it applies to Consulting Engineers and BEPs in general. These inefficiencies include:

- inappropriate approaches for procuring consulting engineering services,
- lack of technical project management capacity & capability in the public sector (resulting in poor planning and poor management of implementation of infrastructure projects),
- lack of other desired technical skills in the public sector (impacting negatively on maintenance of existing infrastructure),
- rampant corruption, etc.

Billions of rand of public money are lost due to these inefficiencies and addressing them will release billions of rand back into infrastructure development and other economic activities.

As I have indicated earlier on, the National Treasury has initiated a number of processes to deal with some of these inefficiencies. I don't know about you but I can't wait to hear from the Chief Procurement Officer later today.

Last but certainly not least let me touch on the state of Human Capital Development, particularly as it relates to the building of engineering capacity. It is common knowledge that our basic education is failing to produce adequate numbers of

students with good marks in maths and science. In fact the World Economic Forum has ranked the quality of South Africa maths and science education last out of 143 countries. This is a crisis of unparalleled magnitude.

Where to from here?

While permanent solutions to the problem are being explored, the private sector can and should stand in the gap. Many CESA members through their young professionals run extra maths and science classes for grades 10 to 12 pupils on Saturdays and during school holidays. We encourage more of CESA members to do the same.

Organisations such as Programme for Technological Careers (PROTEC) are also involved in this space and they need our support as the construction industry. As you heard when I was introduced I am also a product of industry intervention in basic and secondary education. Attending Saturday and vacation extra maths and science classes as well as visiting various engineering companies launched my engineering career. This was done through the courtesy of the engineering industry through PROTEC.

On the other side of basic and secondary education there is higher education with its challenges ranging from lack of student funding, unaffordable university fees for many deserving students, poor quality of output, and many more. As an industry we contribute skills levies to Construction Education and Training Authority (CETA) and some of this money should be apportioned to fund student from disadvantaged backgrounds.

However the process is not complete until our graduate engineers, technologists and technicians undertake in-service training, coupled with mentoring and coaching. Opportunities for on-the job training are however hampered by scarcity of infrastructure project opportunities as well as the use of inappropriate procurement

approach for consulting engineers resulting in undercutting of bid prices. In many instances these prices are undercut to below cost.

Again, you will hear more about this subject during the conference.

As I conclude, in the next two days we have an opportunity to discuss and come up with resolutions on how the delivery of infrastructure and engineering services can be improved.

Developing of our country is not the responsibility of Government alone but Business also plays a significant role in its development alongside other role players. I therefore challenge all of you to cast your eyes further than the broken trust between the public and private sectors in our quest to find sustainable solutions for South Africa (Pty) Ltd.

I thank you.