



THE VOICE OF CONSULTING ENGINEERING

Presidential Message 2015

**Meeting Socio-Economic
Challenges through
Sustained
Infrastructure Investment**

Abe Thela
11 February 2015



**Welcome
&
Thank you for
being here
today !**

THE VOICE OF CONSULTING ENGINEERING

Presidential Message 2015

**Meeting Socio-Economic
Challenges through
Sustained
Infrastructure Investment**

**Abe Thela
11 February 2015**

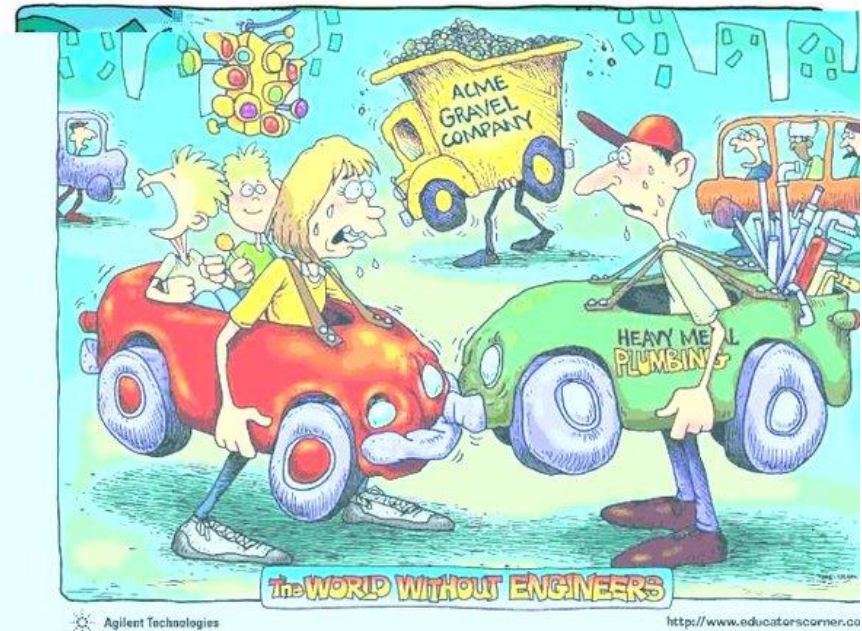
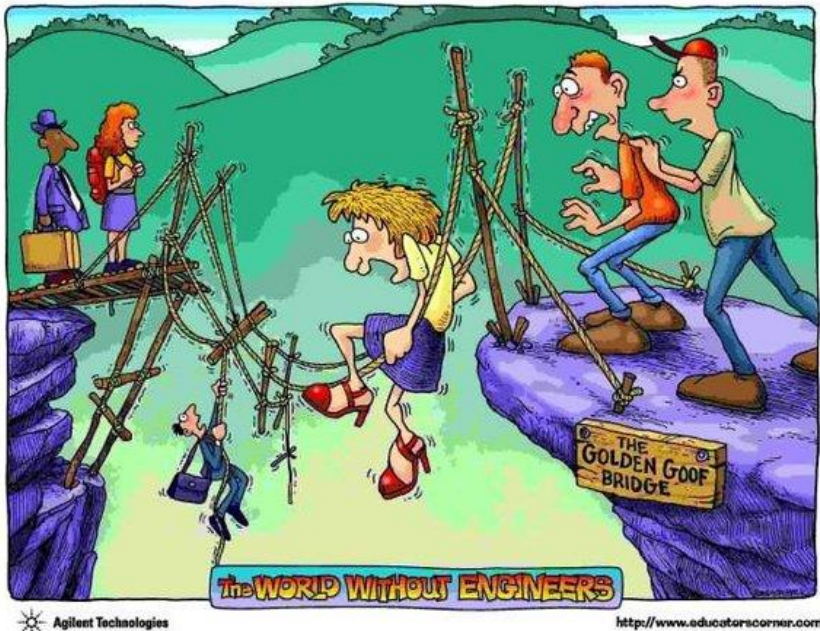
⌘ https://www.youtube.com/watch?v=4w0_q-Np4x4

1. Revisiting 2014: Are we winning?
2. Socio-economic realities
3. Increased Infrastructure Investment
4. Human Capital Development
5. Concluding thoughts

1. Are we winning?

2014 Theme : “Sustaining Consulting Engineering is Key to Growing the Economy”

Creation of an environment for implementation of NDP
and practice of consulting engineering



1. Are we winning?

2014 Theme : “Sustaining Consulting Engineering is Key to Growing the Economy”

Regulatory Challenges

✓ Inappropriate procurement approaches & practices	Slow progress
✓ Lack of access to project opportunities for emerging and small Consulting Engineering firms	Slow progress
✓ Internal competition - application for Consulting Engineering services to be designation as local	Cul-De-Sac
✓ Requirement for consolidated / joint BBBEE scorecard requirement for JVs	Slow progress
✓ Appointments of Consulting Engineers based on scope of work to be delivered	Slow progress

1. Are we winning?

2014 Theme : “Sustaining Consulting Engineering is Key to Growing the Economy”

Institutional challenges

✓ Insufficient project planning & implementation capacity & capability in Government	Slow progress
✓ Rampant corruption	Very slow progress
✓ Erratic investment in new infrastructure investment & in maintenance of existing	Very slow progress
✓ Poor quality of education	Slow progress
✓ Lack of infrastructure maintenance	Very slow progress

1. Are we winning?

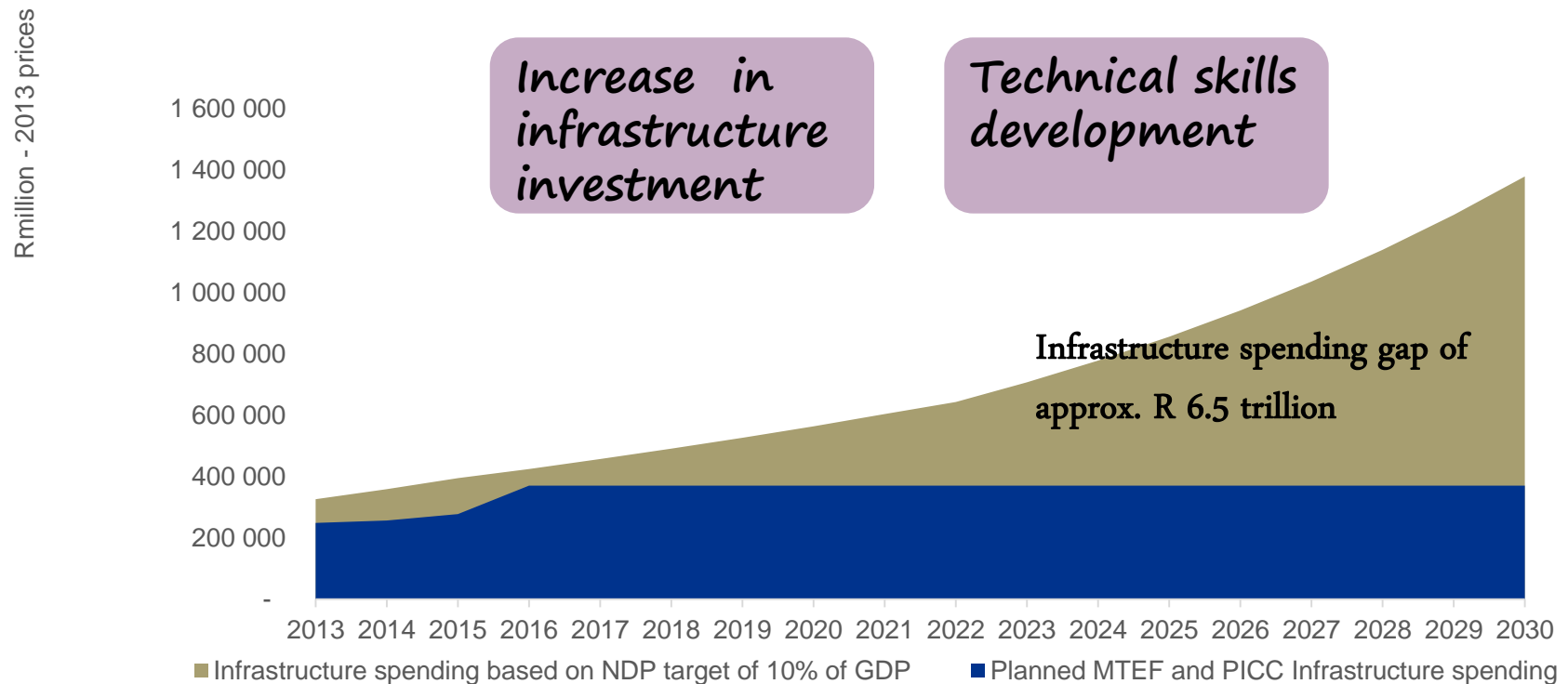
2014 Theme : “Sustaining Consulting Engineering is Key to Growing the Economy”

- ✓ **2015 Public Sector Supply Chain Management Review**
- ✓ Containing all Issues CESA has persistently raised
- ✓ **Separate infrastructure related procurement**
- ✓ CESA to continue participating in established government / private sector liaison structures

Some of the liaison platforms:

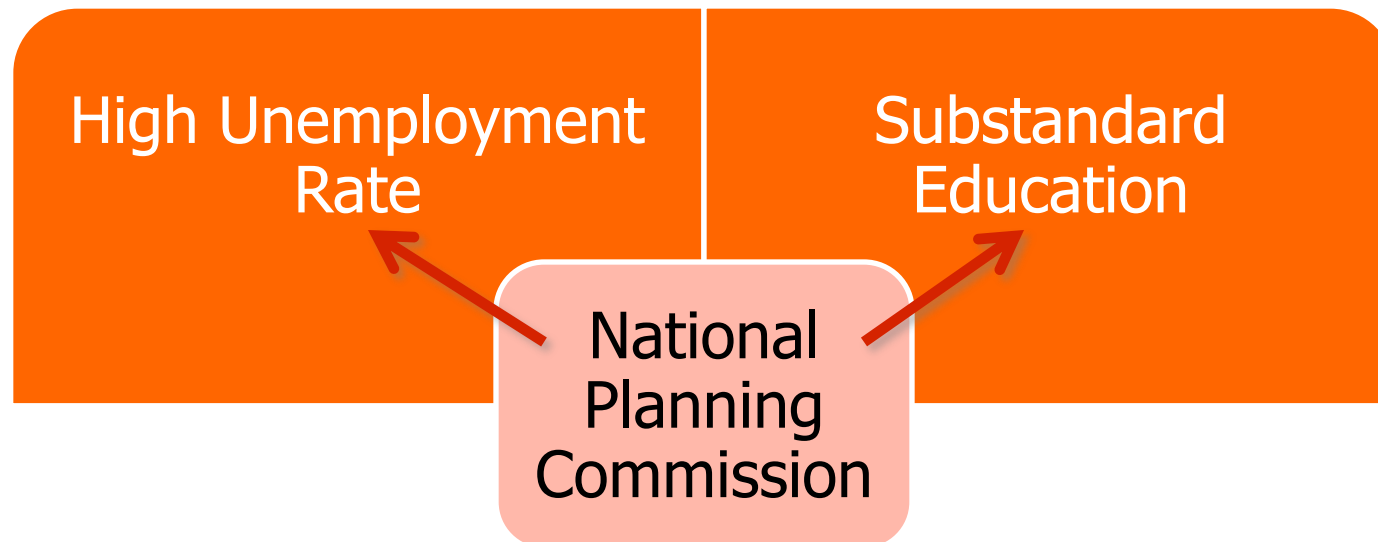
Presidential Infrastructure Task Team, National Treasury, DTI, the Department of Cooperative Governance and Traditional Affairs (COGTA).

Meeting Socio-Economic Challenges Through Sustained Infrastructure Investment



2. Socio-economic realities

Two most pressing challenges



2. Socio-economic realities

25.4% unemployment rate



50% Youth unemployment (15-24 years)

Consequences

- ✓ low savings,
- ✓ high levels of income inequality,
- ✓ lack of retirement provision,
- ✓ ***a narrow tax base***,
- ✓ limited access to tertiary education,
- ✓ lack of housing,
- ✓ an overburdened public health care system and
- ✓ a high crime rate.

This coupled with the rising youth population:

- Reflect a generation at risk - contribute to socio-political disorder - put heightened strain on the country's limited financial resources - arrest economic growth.
- Render social spending unsustainable.

2. Socio-economic realities

What is the solution then?

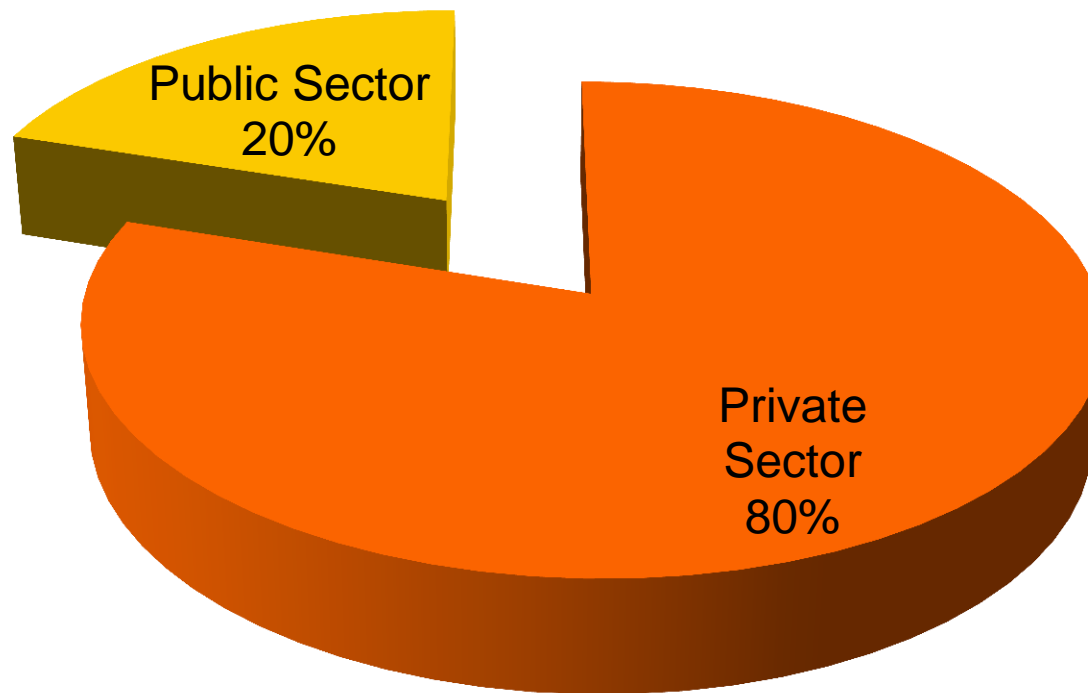


**Creation of private
sector driven
permanent jobs**

2. Socio-economic realities

Private sector driver of employment

Employment Creation



2. Socio-economic realities

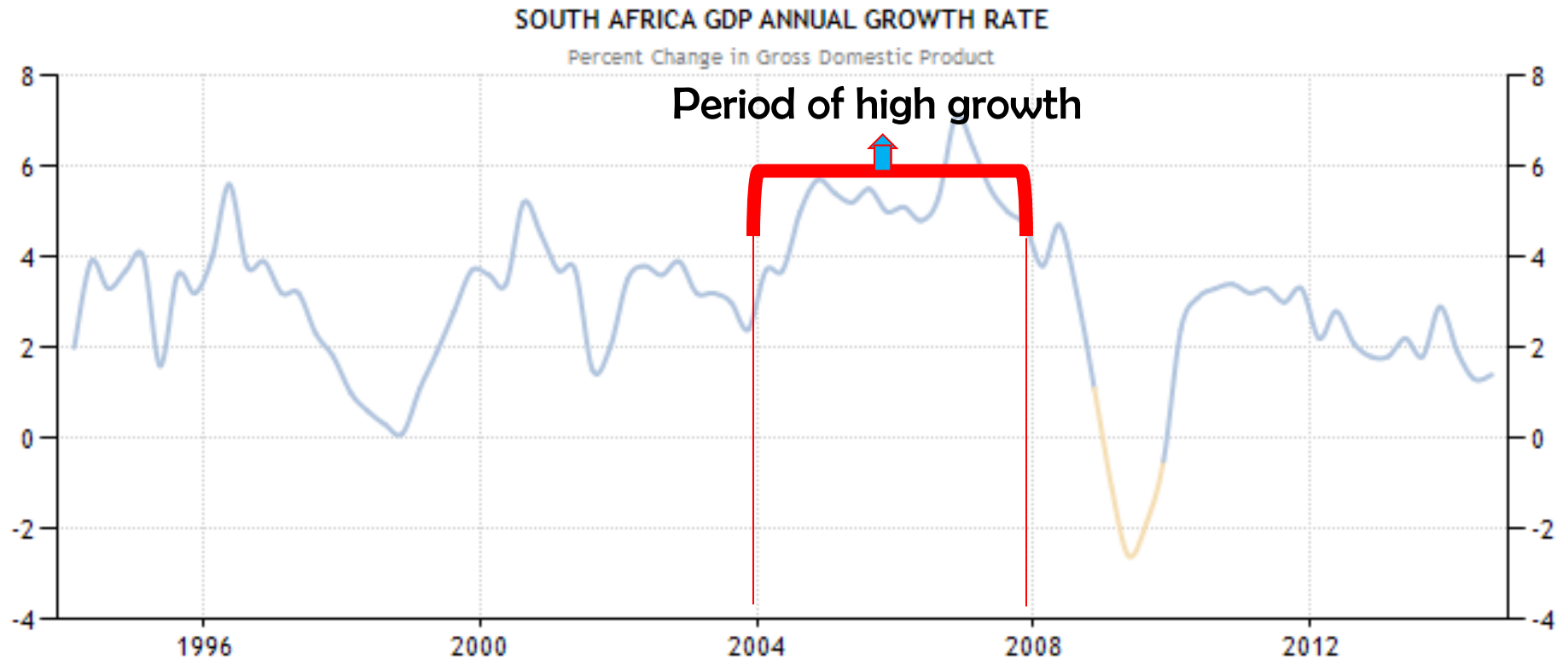
Employment rate



SOURCE: WWW.TRADINGECONOMICS.COM | STATISTICS SOUTH AFRICA

2. Socio-economic realities

Economic Growth Rates

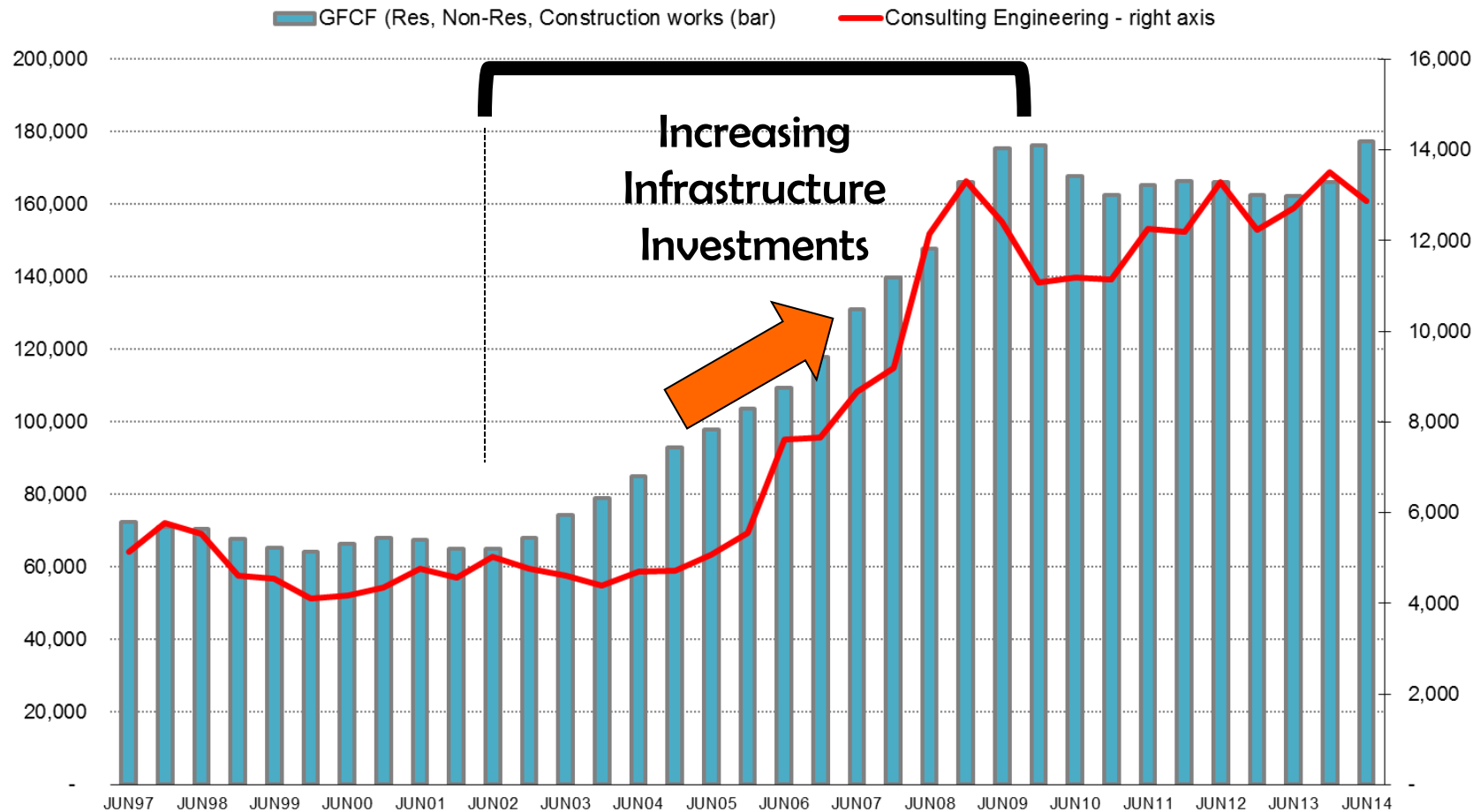


SOURCE: WWW.TRADINGECONOMICS.COM | STATISTICS SOUTH AFRICA

2. Socio-economic realities

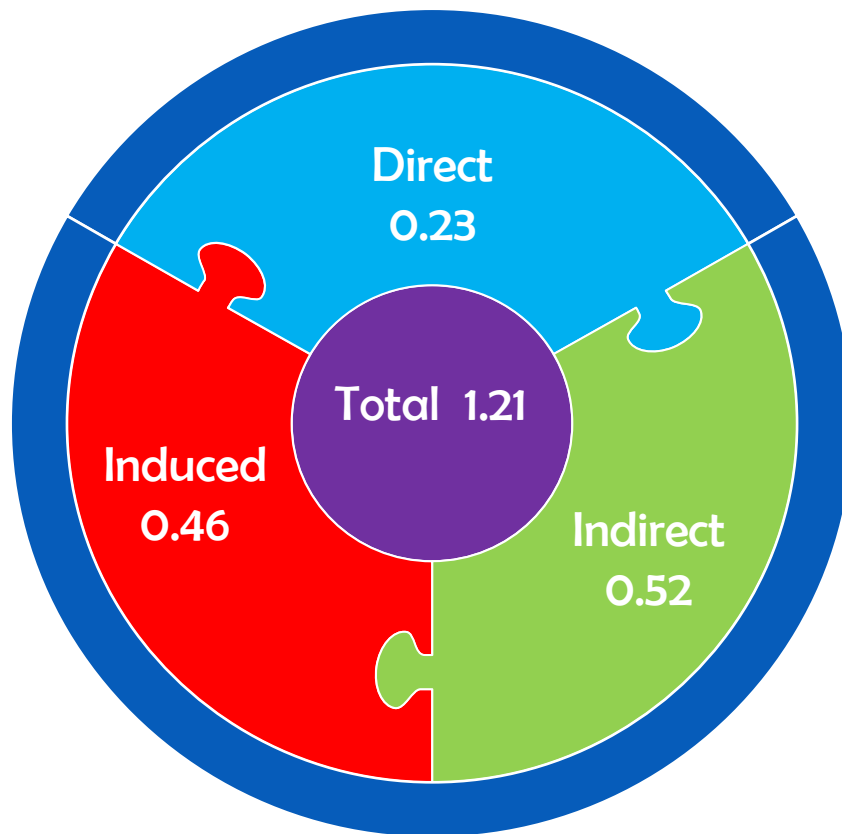
Gross Capital Formation

Consulting Engineering profession in SA vs GFCF Construction work
Rand billions (Real 2005 prices)

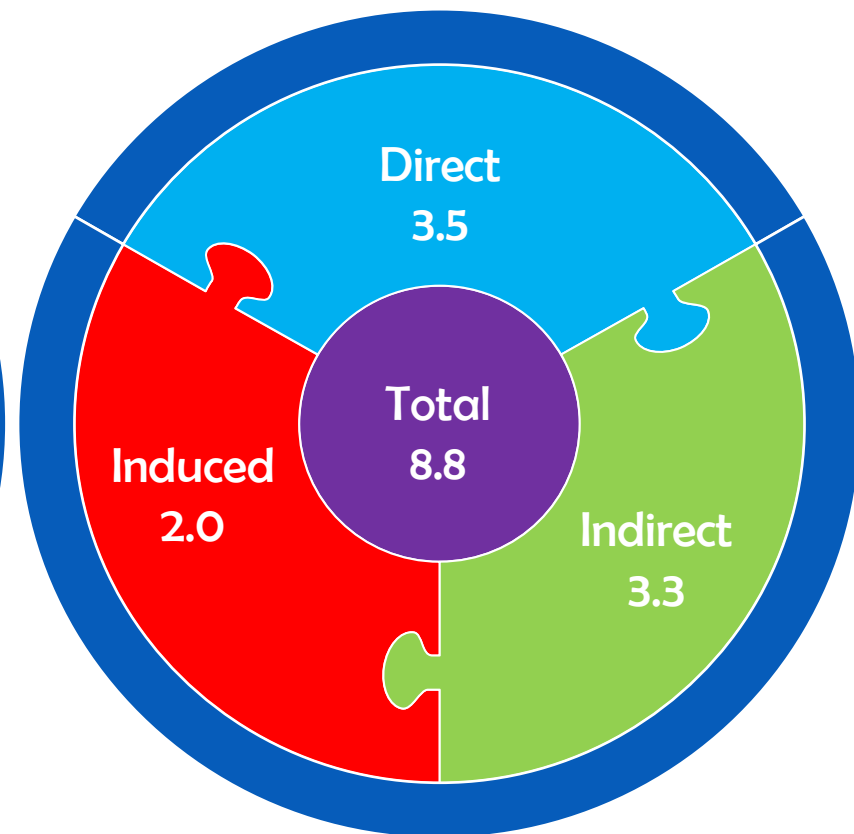


2. Socio-economic realities

GDP multipliers for the construction sector




Labour multipliers for the construction sector



Courtesy of **KPMG**

2. Socio-economic realities

If infrastructure is the solution:



**Why is Government
not increasing
investment in
infrastructure?**

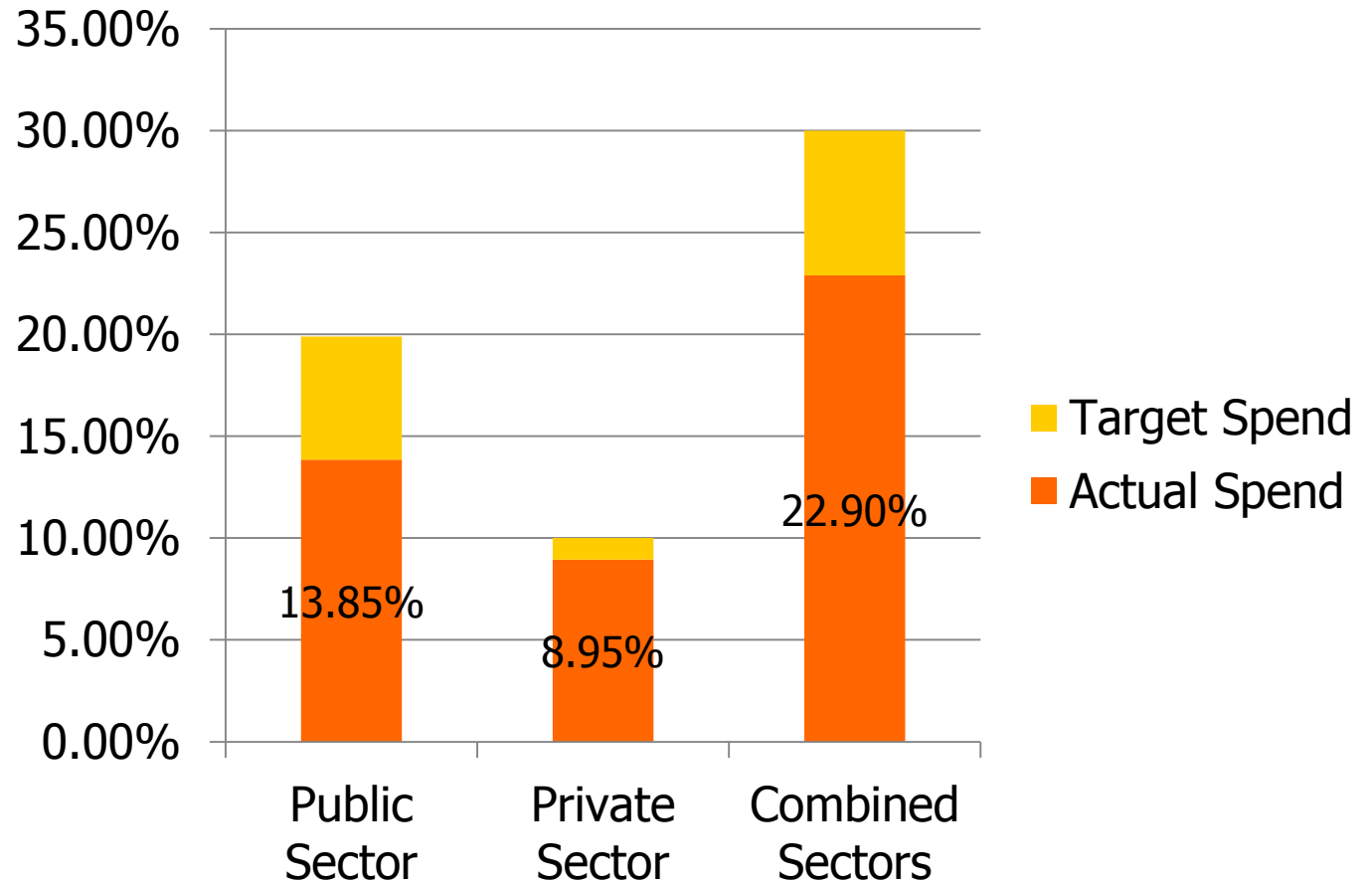
3. Increased Infrastructure Investments

Infrastructure Investment – NDP Requirements

NDP

Spend 30% of GDP on Infrastructure.

Eradicate poverty; halving unemployment & economic growth (5-7% per annum) by 2030



3. Increased Infrastructure Investments

- ✓ Government resources inadequate for all needs **concurrently**
- ✓ Other possible avenues:
 - Leveraging private sector resources
 - Addressing the inefficiencies in the Government supply chain management system
 - Improving the business confidence
 - Improving the country's investment credit rating

Leveraging private sector resources

- ✓ Public-Private Partnerships (PPPs) – most important model to close infrastructure gap
- ✓ PPPs not new to SA (transport, water, prisons, etc. sectors)
- ✓ Renewable Energy Independent Power Producer Procurement Programme
 - Add 3 725 MW to power grid
 - Create jobs
 - Transfer skills on new technology

3. Increased Infrastructure Investments

Leveraging private sector resources

- ✓ Not used to its full potential in SA
- ✓ There are more PPP opportunities
- ✓ The process must be:
 - transparent,
 - the project pipeline clearly defined,
 - regulatory red-tape removed and
 - the public must receive better and more cost effective services

Addressing inefficiencies in SCM system

- ✓ Inefficiencies impacting infrastructure delivery include:
 - Lack of planning & project management capacity & capability
 - Inappropriate procurement approaches
 - Lack of other necessary technical skills in the public sector
 - Rampant corruption

Addressing inefficiencies in SCM system

- ✓ Lack of planning & project management capacity & capability
 - Delayed project completion
 - Cost overrun
 - Budget underspending
 - Inappropriate technology
- ✓ Cost of inefficiencies
 - Approximately 76% of R846 billion MTEF 2010/11 – 2012/13 infrastructure budget spent
 - Amounting to some R200 billion

Addressing inefficiencies in SCM system

- ✓ Cost of inefficiencies (cont.):
 - Delayed projects completion & budget overrun estimated to cost the economy billions of Rands
 - Approx. R30 billion procurement budget lost to corruption
- ✓ High levels of prosecutions needed

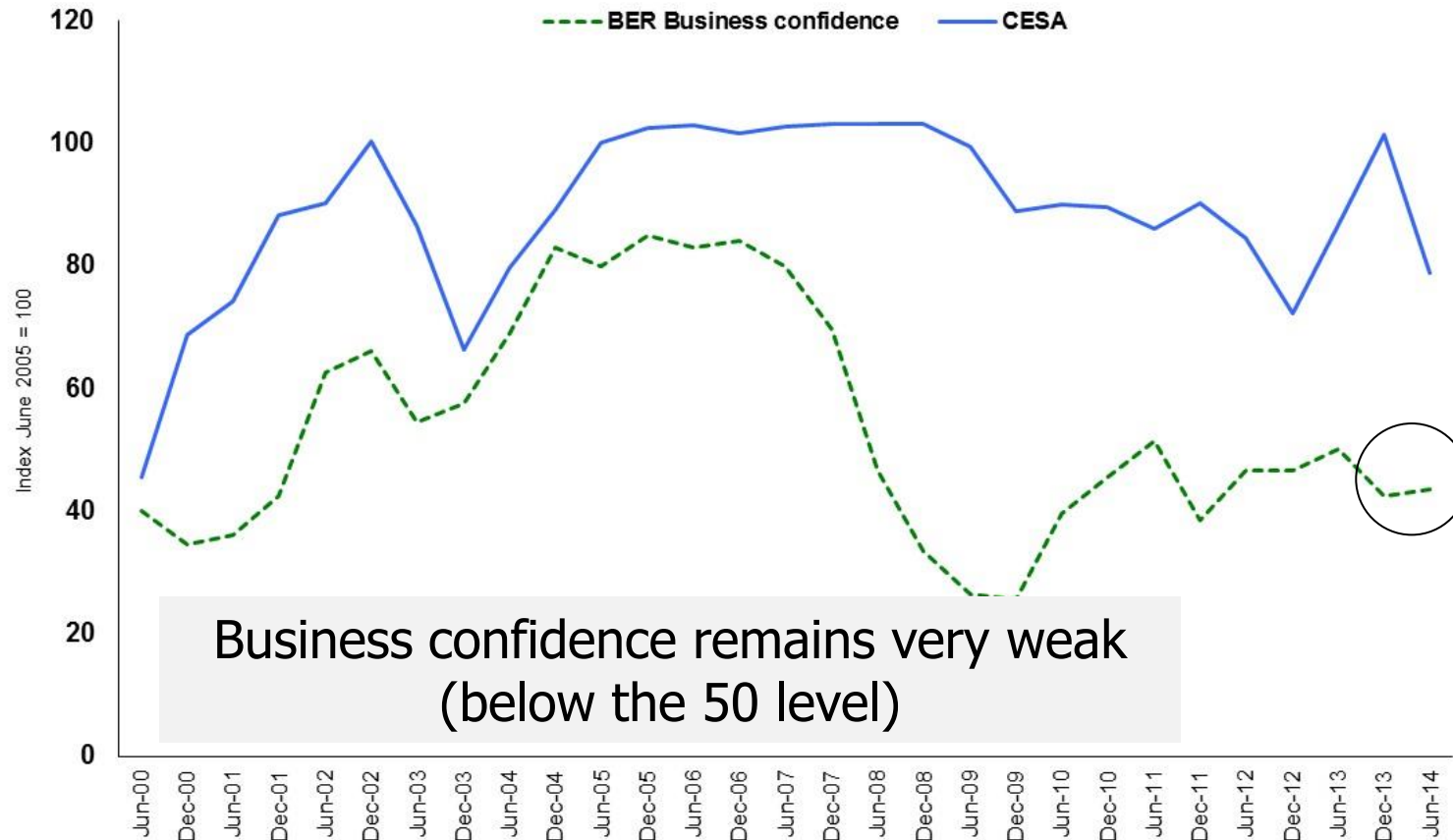
CESA applauds...

Gauteng Provincial Government's (GPG's) intention to focus on infrastructure spending, and ensuring efficient and transparent procurement.

Increased Infrastructure Investments

Address Business Confidence

BER Business Confidence vs CESA Confidence



3. Increased Infrastructure Investments

Address Business Confidence

- ✓ Private sector still lacks impetus to increase investment
- ✓ Treasury listed factors contributing to weakened confidence:
 - strikes;
 - rating agency downgrades and
 - policy uncertainty
- ✓ Private sector postponing investment decisions.

Improve SA's credit rating

- ✓ SA 'Investment Grade' Credit Rating downgraded to Baa2 from Baa1 (Moody's Rating Agency)
- ✓ Outlook adjusted to stable from negative
- ✓ Still maintaining 'investment grade':
 - continue to access credit from lenders &
 - Lending rates relatively favourable
- ✓ Further downgrades will:
 - Limit much needed investment
 - Increase cost of borrowing
- ✓ attention needs to be paid to the political, social and economic conditions threats

4. Human Capital Development

- ✓ Increase in infrastructure investment:
 - ✓ Will require increased engineering capacity
 - ✓ Can be used as catalyst to develop engineering capacity for SA
- ✓ Late 1960's and early 1970's saw a massive increase in the production of engineers
- ✓ At the back of increase in infrastructure investment

Top 100 scarce skills

- ✓ Professions requiring basic education maths and science top the list
- ✓ Top 5 scarce skills - professions involved in infrastructure planning & implementation:
 - Electrical Engineer
 - Civil Engineer
 - Mechanical Engineer
 - Quantity Surveyor
 - Programme or Project Manager
- ✓ Tool for:
 - human resource planning and funding allocation
 - programme development
 - Planning immigration strategies

Human capital development plan – minimum requirements

To address:

- ✓ Poor Quality of basic education including Maths & Science
- ✓ Youth unemployed and unemployable
- ✓ Structure of the education system
- ✓ Plight of Youth with qualifications but without experience

Poor Quality of basic education including Maths & Science

- ✓ Maths & science teachers also listed as a scarce skill
- ✓ World Economic Forum (WEF) has ranked the quality of South Africa's maths & science education **last** out of 148 countries



“...South Africa's quality of education requires a lot of fixing, and is well below where it should be. ...”

- Martin Gustafsson, a researcher in the economics department at Stellenbosch University

4. Human Capital Development

Youth unemployed and unemployable

> **50% Youth** unemployment

- ✓ High drop-out rates & inadequate skills
- ✓ Poor academic record
- ✓ Skills mismatch
- ✓ Insufficient financial resources

Targeted programmes

- ✓ Vocational training as artisan
- ✓ Retraining skills mismatched
- ✓ Prioritising financial aid for scarce skills



4. Human Capital Development

The former President of the ANC O.R Tambo once said:

“a nation that does not take care of its youth **has no future** and **does not deserve one**”.

Structure of the education system

- ✓ 20% of the top 100 scarce skills are for artisans
- ✓ require strong vocational training programme
- ✓ Entrepreneurial training must be compulsory for all learning programmes
 - Produce more employment creators than job seekers
 - Support Government initiative to create (black) industrialists
 - Contribute to economic growth

4. Human Capital Development

Youth with qualifications but without experience – 7%



**Implement youth wage subsidy – entrepreneurial training -
internships through infrastructure implementation**

Failure to increase infrastructure funding and tackle these challenges decisively will:

- ✓ deprive a whole generation of opportunities to develop their potential,
- ✓ escape poverty and
- ✓ support the country's trajectory toward inclusive growth and economic transformation.

CESA with the backing of our over 500 strong member firms recommit ourselves to partner with Government and other key role players in finding lasting and practical solutions to these problems, especially in relation to infrastructure development.



Thank You!

THE VOICE OF CONSULTING ENGINEERING

Presidential Message 2015

**Meeting Socio-Economic
Challenges through
Sustained
Infrastructure Investment**

Abe Thela
11 February 2015