

## **CESA SEMINAR AND AGM 2017**

### **PRESIDENT'S OPENING STATEMENT**

Version 1, 5 November 2017

#### ***INTRODUCTION***

Since the start of my term as the CESA President, we were faced with ever-growing challenges which had a significant impact on our profession as consulting engineers and our role in society. These included downgrading of the country's investment status, concerns about financing and the investment in and the maintenance of infrastructure, ever-increasing civil protests about service delivery matters, escalating to concerns about "state capture" and the implications that all of this will have on the economic outlook of South Africa. Through all of this, consulting engineering firms have to remain resilient and sustain themselves in a highly competitive market.

During 2016 the negotiations around the Construction Sector Council Charter Scorecard was concluded and submitted to the Department of Trade and Industry. It was submitted for public comment in December 2016, and the revised version was subsequently submitted to Cabinet for approval. We received word last week that the revised BBBEE Scorecard for the Construction Sector Charter Council has indeed been accepted by Cabinet. Subsequently, the Preferential Procurement Policy Framework Act was promulgated which placed a renewed emphasis on transformation imperatives in the Construction Sector.

We, as Consulting Engineers in South Africa, are part of this country's transformation agenda. The knowledge-based-services we provide, the design of projects and the management of the construction of these projects, directly contribute towards social and economic upliftment, job-creation, nation-building, infrastructure growth and

economic development of South Africa and across the SADC region towards the greater African continent.

CESA also believes that its member firms should pursue transformation because it makes good business sense in other respects. Firstly, it is the right thing to do given the imbalances of the past (CESA has always held the position that ethical business is good business - hence the introduction of a mandatory requirement for a business integrity management system) and secondly, it is a sustainable approach to ensure the development of the next generation of professional engineering staff. In furthering transformation amongst CESA members, the profession will benefit, firms will benefit and ultimately the South African society will benefit from a more transformed consulting engineering sector.

The Presidential Message of 2017 was themed “Let’s talk transformation!” Through this CESA aims to participate in broader transformation within in the construction sector and ultimately within our society. Since February this year I have travelled across South Africa to most of our regions to meet with our members and their clients to strengthen these partnerships and to discuss how we can work together to achieve constructive and sustainable transformation of the industry. The critical role that the engineering industry, in particular the consulting engineering profession, has in the development and functioning of SA’s economy and the transformation of our society, cannot be underestimated. We have identified the professional registration of young engineering staff, providing support to small and medium size business, mentoring, the acknowledgement of the “glass ceiling” and monitoring progress as strategies to adopt towards achieving our transformation goals.

The CESA CEO was charged with commencing a process to establish the CESA Thuthuka Bursary Scheme. Some companies have expressed interest and we are in

the process of establishing the agreements with the respective companies to contribute towards this. Through this intervention we can identify and support learners with the aptitude for Maths and Science at secondary school level, provide support, guide and mentor learners towards choosing to study further in the field of engineering, provide financial assistance towards tertiary engineering studies, provide the necessary social support to students from disadvantaged schools and backgrounds, assist with work placement after graduation, mentor graduate engineering staff in the workplace to ensure that the necessary skills and competencies are developed towards professional registration.

This year CESA has also assisted National Treasury with the training of public sector officials in the implementation of the Standard for Infrastructure Procurement and Delivery Management. This initiative of National Treasury allows for the sound development and implementation of engineering projects and will go a long way towards improving infrastructure provision by the public sector.

Partnerships with the International Federation of Consulting Engineers or FIDIC, as well as the regional block of the Southern African Development Communities and the rest of Africa, is of utmost importance to further ensure quality and uniformity in engineering consulting practice and creating a conducive business environment for working within Africa. CESA hosted the conference for the FIDIC Group of Member Associations (GAMA) in Cape Town this year which was well attended. The common refrain was that partnerships are vital to achieving progress and believes that together, we can do great things and take the African continent to new heights and grow dynamic and vibrant African cities.

## **LEGISLATIVE ENVIRONMENT**

Let us reflect on a few developments in the legislative environment in the last few months that will form the basis for the deliberations at today's seminar:

Firstly, let us reflect on the **BBBEE scorecard negotiation process of the Construction Sector Charter Council**. One of the concerning aspects highlighted by the negotiating process was the fault line in our industry; the Established Sector vs the Emerging Sector. The latter sector representing the interests of black business within the construction sector and the former representing the interests of white business within the construction sector. CESA, notwithstanding the fact that it is a longstanding organization with members across both sectors, was assigned to the Established sector. This position was extremely challenging to manage as the CESA membership comprise established and emerging consulting engineering firms.

The **Preferential Procurement Policy Framework Act (PPPFA)** was enacted in April 2017. This Act contained Pre-qualification criteria for preferential procurement. It states that 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 tenderer having a stipulated minimum B-BBEE status level of contributor;
- an EME (Exempted Micro Enterprise) or QSE (qualifying small business enterprise);
- a tenderer subcontracting a minimum of 30% to listed designated groups. This approach has already been adopted by CESA in 2014 in its position paper on "The empowerment and development of emerging and small consulting engineering firms in the infrastructure delivery"

This Act also states that an organ of state must state in the tender documents if the tender will be evaluated on functionality; implying that functionality is optional. In addition, a very significant change is that the 80/20 preference point system will apply to all procurement equal to or above R30K and up to R50M; in essence the 80/20 preferential procurement will apply to all consulting engineering services

We also look to the **Constitution** as some are of the opinion that the PPPFA is unconstitutional. CESA's view is that it is indeed constitutional as the Constitution clearly states that government can procure goods and services giving preference to certain groups and that government must develop a procurement framework enabling this policy to be implemented.

So we are operating in a legislative environment that clearly spells out the transformation imperative and giving it teeth through the introduction of the PPFA.

#### **CONTEXT OF CONSULTING ENGINEERING**

But let us look at industry:

- CESA represents approximately 540 consulting engineering firms which comprise about 80% of all consulting engineering firms operating in SA. In addition our member firms also employ about 23 000 engineering staff. It can be assumed then that CESA is representative of the consulting engineers in private sector.
- When considering all employment in our membership base, approximately 50% is white. However, when only professionally registered engineering practitioners are considered, only 16% of all professionally registered engineers and technologist are black.

- The employment breakdown indicates that black people are typically employed lower down on the professional hierarchy as technicians, technical assistants, and laboratory / survey assistants.
- A review into the breakdown of the CESA membership at January 2017 also indicates that only 21% of our member firms have black ownership greater than 51%
- Furthermore, CESA Membership eligibility criteria requires a minimum of 51% shareholding by registered Professional registered engineers and technologists.

The imbalance in the industry self-evident and as an industry, representative of the private sector, we have acknowledged that not enough has been done to transform the business landscape in South Africa.

#### ***LET'S TALK TRANSFORMATION!***

Since 1994 many new black-owned and women-owned consulting engineering firms have been established. Many bursaries became available for black and female learners to study engineering. Since 1994, with the introduction of the previous version of preferential procurement policies, progress has been made, but not necessarily to the extent that was expected.

Within the built environment profession, including consulting engineering, various challenges were also experienced. Notably, the BBBEE policies gave rise to the phenomenon of "fronting" and today questions are being raised about the effectiveness of the BBBEE scorecard in realizing the country's transformation objectives.

So now in 2017 we have to look at where we are right now and consider where we want to be as a Country another 23 years from now. Do we really want to have our grandchildren wonder why we did nothing and find that they face worse challenges 20 years from now? So are we really in a position to argue against the current procurement strategies?

Transformation is not a short-term action. To be sustainable, we need to take a long-term view and ensure that the necessary building blocks are in place to realise this. Having said that, we need to start accelerating the pace of transformation.

CESA believes that its member firms should pursue transformation because it makes good business sense in other respects. Firstly, it is the right thing to do given the imbalances of the past and secondly and it is a sustainable approach to ensure the development of the next generation of professional engineering staff. In furthering transformation amongst CESA members, the profession will benefit, firms will benefit and ultimately the South African society will benefit from a more transformed consulting engineering sector.

#### ***OPPORTUNITIES AND CONCERNS***

The BBBEE Scorecard for the Construction Sector Charter Council is more progressive than the current Generic Code that by default most firms had to align with; although implemented with a staged approach. Although the new PPPFA puts transformation at the forefront of the way consulting engineers are doing business in SA and its intent is lauded, we are concerned though over some unintended consequences and how it might impact the sustainability of our member firms and our profession at large.

- It is a common statement the growth of the SA economy relies significantly in the growth of the small business sector. The PPPFA favors small businesses

and provides great opportunities for the development and growth of small business, but we are concerned that there might insufficient capacity among consulting engineering SMMEs, especially in sectors where specific specialist expertise might be required.

- The 30% allocation for the participation of small business as part of the procurement of large projects is a significant departure from business as usual and therein lies opportunities for small black-owned consulting engineering business to participate in larger projects and build their business profile. A concern expressed is that the sustainable development of small consulting engineering firms are also at risk as there is a real danger that qualifying financial thresholds may be reached before these businesses attain business maturity.
- Also concerning is the sustainability among large companies when the procurement framework favors smaller firms and the very competitive bidding environment being experienced. What are the implications for the large consulting engineering firms?
- Apart of the imperative to increase black and women shareholding, the spirit of the PPPFA also recognizes that value and goals will be reached through a partnership approach. So large and medium sized firms are required to increase their procurement of black and women-owned business and assist in developing smaller firms.
- Potential fragmentation of larger/ medium companies could also come about because of the favorable recognition of small businesses in the procurement environment. Is this good for the consulting engineering industry?

- The capacity of the public sector to realise the required infrastructure spend has always been a concern. Recent statistics issued by SANRAL indicates that only “19 tenders worth R615m or about 26% out of a proposed 72 engineering tenders to be issued in financial 2017. This means that 53 tenders worth about R1.2bn remain unissued”
- Fronting has been and still is a concern.
- The statement in the PPPFA that an organ of state must state in the tender documents if the tender will be evaluated on functionality, creates the impression that functionality is optional.
- The emphasis on price has led to suicidal bidding and is a real threat to the sustainability of our industry. One of the unintended consequences so often raised by the young professionals is that with reduced profit margins, they are experiencing a reduced focus on skills development, mentoring and training.
- When it comes to transformation, one of the areas that have received little attention to date is the organizational culture we work in. Young black engineers and women engineers are at times challenged by barriers that there is very little understanding of or appreciation for. These include cultural differences, the role of language and accent in the workplace, the impact of corporate culture and a patriarchal society on the business environment. The impact of a privileged position in society on professional progression should never be under-estimated. This can limit the progression of young engineering staff who come from a non-privileged background. So if these challenges are not adequately addressed, the engineering profession and CESA will find that our most talented engineers will leave the profession. Generally strategies mostly focus on attracting prospective engineers to the profession. It is

beginning to become clear that it is not only about attraction, but also retaining engineers in the profession. We have to acknowledge these social barriers and work on retaining women and black engineering staff in the profession.

The impact of corruption on our business landscape and the confidence in the business sector is being eroded. One of our young professionals have raised this matter recently. How vulnerable are we to corrupt and fraudulent elements, and as a result do we have systems and processes in place to mitigate that risk? In our efforts to partner with role-players and help our clients, especially in the public sector, is there a threat of being complicit to ongoing corruption? The CESA Board's view is that we stand for what is right in consulting engineering and in doing so, must always pursue an ethical business approach.

### **CONCLUSION**

This seminar aims to create a platform for dialogue in working towards improved delivery of infrastructure and engineering services within the context of a transformation project ongoing in South African society. In doing so we have to grapple with vexing challenges and questions which include the state of the economy, the state of the infrastructure sector considering engineering skills and infrastructure, supply chain management practices, transformation in the construction sector and also consider trends in the political landscape.

In the last year as CESA President since the Transformation debate has been raised within CESA, I have come to realise a few things:

- Our transformation project is going to be journey to liberate ourselves from that which is holding us back to truly transform our profession and industry.

- Along this journey we have to share our experiences, stories and fears and in doing so, we must meet one another half-way
- This requires us to open ourselves up to understanding of one another's fears and experiences and how it is shaping our future

Regulation is not going to bring this about. CESA can create the opportunity for dialogue where these experiences can be shared. We have repeatedly stated that there is no silver bullet that is going to fix us. Along this journey we are going to stumble into a period that is completely unfamiliar and along this way we have to transform our relationships from relationships intertwined with fear and power to relationships based on trust and partnerships.

CESA views consulting engineers in South Africa as active partners in furthering infrastructure delivery in South Africa and in line with this, we invite all of you to join us in this Seminar. I challenge all of you to find a renewed spirit in the midst of these ongoing challenges and partner with us in deliberating on these challenges and develop potential solutions for the future.

Having started the debate on transformation at CESA and reaching the end of my term, I now hand over the leadership of CESA to my successor and trust in CESA's leadership to ably guide us through vexing period. This journey is going to require dynamic, visionary and ethical leadership. Our journey is not complete and many challenges lie ahead. However, going forward we will continue to play our part in improving the business landscape so that we do enable consulting engineering excellence in South Africa. I have great confidence in the leadership and vision of my successor to lead CESA in navigating the dynamic business environment we are facing. Although challenging, it is an opportunity for growth and change towards a more inclusive consulting engineering profession and business environment.

Thank you for charging me with this opportunity to lead CESA for the last 2 years. It has been a challenging and humbling experience, but also uplifting. I have met so many passionate and dedicated engineers along the way, believing in their skills and abilities as consulting engineers, to bring about the desired change in South Africa – willing to do their bit.

I thank you!

Thank you!