

## **CESA Presidential Message 2020**

### **2020 A time for Reflection, Renewal and Regeneration**

South Africa once again finds itself in the throes of a new era, and we are certainly in a period of great change. In times such as these, there is always uncertainty as to how events may unfold, and a certain amount of trepidation as to what the change may entail, and what the future may hold. There is a further sense that, as a country, we are going through a period of catharsis, a period of deep reflection on a decade that can undoubtedly be described as a 'lost decade'; but there is also a sense that through this process, we are indeed in a period of renewal and regeneration. In keeping with this sentiment that seems to be filtering through the country, Consulting Engineers South Africa has chosen our theme for the year as **'2020 - A time for Reflection, Renewal and Regeneration'**.

Honourable members of the media, members of the CESA Board, and esteemed guests, I warmly welcome you to CESA's annual Presidential Media Briefing, to share my 2020 Presidential message

for the year ahead.

Whilst we all acknowledge that we have been through very tough times and that these difficult and uncertain times are certainly not over yet, the message from CESA, is primarily one of hope; and further one of renewal and regeneration in anticipation of a better business landscape for all those involved in infrastructure delivery. Let me expand CESA's thinking by way of reflection on some of the key issues that are facing our industry. I will then demonstrate CESA's commitment towards the nation's renewal and regeneration project in terms of the practical solutions that CESA can offer and some of the changes that we implore the country's leadership to implement.

## **Reflection**

Over the past few years, we have without doubt witnessed a number of disappointments. I will try to focus on the industry related issues, but these are inextricably linked to the issues facing the country and our citizens. Without trying to address all the issues and also without going into the detail of each of them, as we are all well aware of them, I will rather just highlight the crux of a few critical



issues, as follows:

- The tragedy of state capture, and apart from the billions of precious Rands that have been siphoned off, the enormous damage that state capture has inflicted on the effective functioning of key state institutions through the corruption of officials, the demise of internal processes, the lack of checks and balances, and the loss of accountability within the various levels of those state institutions. President Ramaphosa has thankfully reiterated in his January 8<sup>th</sup> statement that building a capable state will be one of the core priorities this year. We must acknowledge that the private sector has also been complicit in these dealings, and there are sadly many examples of these dealings in the construction industry.
- The continuous decline in audit outcomes across all levels of government, as contained in the annual Auditor General reports, and the resulting negative impact that this has had on service delivery. The public's confidence that public money is being effectively and efficiently spent is probably at an all-time low. The AG's report has also consistently shown that government entities are failing to spend the budgets that have been allocated to them for infrastructure delivery which, as we



have seen, results in, amongst others, poor levels of maintenance and communities crying out for functional services and basic infrastructure.

- The unintended consequences of the public audit process and its outcomes. Whilst CESA is fully supportive of the critically important work that the AG's office does, and indeed of all work that the Chapter 9 institutions are supposed to do, there are unintended consequences beginning to emerge. There is a sense that senior government officials are reluctant to make key decisions, particularly relating to procurement and supply chain management, because they could be held accountable and liable in their personal capacities if something does go wrong. Thus, these officials would rather err on the side of caution; understandably so, in order to avoid falling foul of any regulations. Whilst the regulations do limit these consequences to instances of gross incompetence or corruption, officials would rather tread very cautiously. This approach has led to a paralysis in decision making particularly with the roll out of infrastructure projects. I will offer some solutions to this issue a little later.
- The continuous changing of regulations – a few years ago the



Standard for Infrastructure Procurement and Delivery Management (SIPDM) was promulgated, based very much on the cidb's IDMS. SIPDM was critically important because it separated infrastructure procurement from general procurement and established a clear framework for how the roll-out of infrastructure should be planned. However, soon after it had been promulgated, it was relegated to the dust bin, and was not implemented at all. SIPDM was recently replaced by the Framework for Infrastructure Delivery and Procurement Management (FIDPM), which has yet to take root. Further, the long-awaited Procurement Bill is expected later this year, which may add further confusion and uncertainty, as the details have not been made available yet. The continuous changing of the legislative and regulatory regime most definitely leads to paralysis, with officials reluctant to take decisions, which then results in the absence of implementation.

- Poor inter-governmental communication – there still appears to be a lack of genuine communication between, on the one hand, the three tiers of government and the SOE's as the implementers, and on the other hand the likes of National



Treasury and the AG's office, as the regulators. Through member company interactions with their clients and general CESA interaction with client organisations, we often hear how difficult it is to obtain advice from the regulators as to the interpretation of certain pieces of legislation or regulations. As described in my previous point, this seriously delays decision making and often decisions are not taken. Again, this has severe negative consequences on infrastructure delivery.

- Decimation of the construction sector and in particular the effects on large contractors - the market cap of the listed companies has fallen to an all-time low with most currently in business rescue. The medium sized and smaller contractors are also not faring any better. The key issue is the lack of opportunities, but the other issue of grave concern is delayed payments to contractors and indeed to consulting engineers for work that has been completed and accepted.

The reason that so many contractors find themselves in financial distress is that a project pipeline has not been forthcoming and if one analyses the construction value chain, the contractors, as the implementers, are the first group to be



affected. The next group that are already being impacted are the suppliers of material and the plant and equipment suppliers. The next group up the value chain that are also already being affected will be the consulting engineers and other built environment professionals. Thus, if this decline in the construction value chain is not arrested as a matter of urgency, the entire value chain will be decimated within a very short space of time. The consequences for the economy and for the country will be catastrophic.

- The phenomenon of the ‘construction mafia’ must be addressed with utmost urgency. Whilst communities have legitimate demands as to their involvement in the roll out of infrastructure projects, either through sub-contracts for SMME’s, material supply, or local labour involvement, criminal elements have hijacked these processes, and are causing absolute havoc on construction sites. This must be dealt with decisively by our Criminal Justice Cluster.
- SAICE scorecard - the SAICE scorecard which rates the condition of infrastructure in the country has shown a consistent decline in the quality of the country’s infrastructure assets, which is a worrying trend. The breakdown of



infrastructure is already a common occurrence, which must be arrested as soon as possible. One should note that this scorecard has been produced on 3 occasions, viz. in 2006, 2011 and 2017. From 2006 to 2011, the overall grade of infrastructure increased to a “C minus” (“satisfactory for now - coping but stressed”), but in the 2017 version the overall grade has dropped to a “D plus” (“at risk of failure”).

- The looming threat of a ratings downgrade and the impact that it may have of the state’s ability to fund further infrastructure development.
- And finally, a general lack of confidence in the state and in the economy, coupled with uncertainty, has resulted in low levels of investment by the private sector. The private sector has, to some extent, assisted in private sector development, but the investment has been relatively small. This unfortunately is a local and well as an international phenomenon.

There have notable successes over this period as well and I would like to highlight just a few of them. Most of these successes have experienced a decline, but I touch on them to highlight the potential that exists for recovery:



- Gross Fixed Capital formation exploded in the early 2000's, dipped after 2010, and has been fairly stagnant over the last few years
- BBBEE and in particular the Sector Scorecard has ensured that the sector continues to transform and has resulted in opportunities for a large number of firms. CESA can report that approximately 60% of our member firms are now majority black owned, approximately 14% have Black Women Ownership greater than 30%, and as a Broad Based measure, in excess of 60% are either have a Level 1 or Level 2 rating. These changes are a direct result of the legislative framework that governs BBBEE.
- Many multinational consulting firms entered the country in the early 2000's due to the potential and opportunities that they saw in South Africa and on the continent. South Africa's economy was growing, our institutions were strong, and the NDP had a grand plan for the country, which gave these companies confidence to invest in the country. At that time, we were also planning for the 2010 World Cup, which was delivered par excellence. The reason for this success was that we had a common vision, and we all worked toward achieving



that vision. That confidence has unfortunately waned, and it appears that we don't have that common vision any longer.

- The Expanded Public Works Programme (EPWP) and its many implementation models were an excellent programme utilising construction as a means to increase the absorption of labour, particularly those with low skill levels. Unfortunately, political support for these programmes appears to be waning.

In spite of what has happened during what is being termed as the 'lost decade', and the challenges that we are confronted with, there is a sense that all is not lost, and that green shoots are beginning to emerge. CESA is however concerned that the pace of change is frustratingly slow, and we must reiterate that we do not have the luxury of time to address our challenges. CESA participated in the Business Economic Indaba that was hosted by BUSA on 14 January 2020, where President Ramaphosa was the keynote speaker. The President confirmed that government is aware of these problems, but more importantly that they are determined to act decisively and with speed. Indeed, many commentators have also said this, and we reiterate our position that we must act, we must act now, and that we must act decisively.



The following key developments provide us with hope that the process of Renewal and Regeneration has indeed started, and that we are in the midst of the change that we expect to see:

## **Renewal**

- Zondo commission - the commission is slowly unearthing the scale and depth of state capture. We now refer to it as ‘broad-based corruption’. The process has been painfully and frustratingly slow, but we do appreciate the work that is being done. We also welcome the news that high-profile prosecutions are imminent, especially in 2020, following on from those that were made towards the end of last year. One of CESA’s core principles is that of integrity and ethical commercial dealings and the work of the commission is very much in line with CESA’s stance on corruption in which our members subscribe to the highest ethical standards. We are resolute that all perpetrators must be brought to book as swiftly as possible, and we will also hold our members accountable if they are found wanting. The state capture project has severely hamstrung the capability of several key entities that are critical for the development of infrastructure; and this capability to spearhead infrastructure development



must be restored, and is indeed slowly being addressed.

- We welcome the added powers that the Auditor General's office has been granted, in that it will now be able to ensure that its recommendations and corrective actions must be implemented. This will ensure that audit outcomes will start to improve. We believe though, that results from this intervention will only be felt over the long term and we believe that measures should be found to fast track these processes. I spoke previously of the unintended consequences of holding individuals to account, and whilst we believe that this is a positive step, we believe that a balance needs to be sought to enable officials to discharge their duties within the parameters of the law, whilst holding them to account in cases of gross negligence or corruption. As described previously, we have encountered these discrepancies particularly in the procurement and supply chain management spaces. Communication therefore needs to be significantly improved, particularly from National Treasury and the Auditor General's office, to guide officials in this regard. We believe that the Planning, Monitoring and Evaluation Directorate (P, M&E) in the Presidency needs to be further capacitated so that it can



facilitate inter-governmental dialogue when these stumbling blocks regarding the interpretation of regulations are encountered. There is also often no appreciation for the construction contracts that govern the Client Contractor relationship, and the interpretation of regulations tend to be in conflict with these contracts. Thus, officials need to be empowered to effectively deal with often ambiguous or conflicting regulations and contracts.

- CESA is further calling on the P,M&E Directorate in the Presidency to become more visible and vocal. The P,M&E directorate should be playing a critical role in identifying challenges to implementation and to unlocking those challenges. Our view is that this function needs to be driven with a lot more energy and focus. CESA participated in a working group hosted by the Directorate of P, M&E in January 2020, where the issue of procurement was discussed. Whilst there is work being done to address some of these challenges, this must be fast-tracked and converted into implementable solutions.
- CESA welcomes efforts towards the re-capacitation of the leadership at key state institutions that are large infrastructure



departments such as Department of Public Works and Infrastructure (DPWI), the Department of Human Settlements Water and Sanitation (DHSWS), Eskom, etc. Indeed, the rebuilding of key state institutions such as SARS and the Criminal Justice clusters are also important and critical projects towards building a capable state. The state must be able to attract and retain suitably qualified and experienced individuals, but this will only be achieved once the public services begins to professionalise.

- CESA is also calling for programmes that are working, such as the Independent Power Producers (IPP) programme, to be restarted and in particular the 5<sup>th</sup> round of bidding of the renewables programme. In addition to its value as a short-term intervention towards addressing our electricity crisis, it will also inject, albeit small, much needed project opportunities for consulting engineers and contractors.

## **Regeneration**

Now that we have reflected on some of the key challenges that affect the industry and some of the efforts that are afoot in terms of the renewal process, CESA offers the following thoughts that we



believe can act as a catalyst towards regeneration and building for the future:

- CESA currently boasts a membership in excess of 580 member companies that employ approximately 21,000 people and is by far the largest organisation that represents consulting engineering companies in the country. CESA has been in existence for 68 years, and over this time, the expertise of our members with regard to infrastructure development is unquestionable; but we believe that, at this point in time, sadly underutilised.

There is a strange dichotomy with regard to the distribution of skills in the country. Within CESA we have the expertise, experience and capacity, in a country that is crying out for infrastructure development, but many of our member companies are confronted with underutilised expertise, which results in the retrenchment of key skills and resources. On the other hand, many government departments are under-resourced, and therefore cannot effectively plan and implement infrastructure projects.



CESA's call is that, as a short to medium term measure, the capacity that exists within the private sector should be utilised to, firstly, capacitate the state, and also to mentor some of the young engineers that are currently employed in the state.

This can be achieved either through secondments from the private sector, or by appointing Owner's Engineers, similar to many other industries.

The Owner's Engineer can be utilised to develop projects to a stage where they can be let to the market. The Owners Engineer then becomes the municipality's in-house technical capacity, whilst an external professional team is then appointed to execute those projects, as is the case currently.

Over time genuine capacity can be developed in the state, so that they can effectively manage the implementation of infrastructure projects and programmes on their own.

The other huge benefit of this approach is that projects then begin to flow, and the project pipeline begins to develop. The



benefits to the industry and indeed to the country would be enormous.

This approach is an intervention that can be implemented almost immediately, so that the process can start unfolding.

CESA, through our members, is also more than willing to volunteer sometime to kick start this process. This obviously needs to be done in a very structured manner so that the rules of engagement are defined, and for a limited period of time. Our members do run commercial enterprises and would need to balance their commercial interests with their philanthropic interests.

But, if the end result is that this approach will assist with unlocking the project pipeline, then this will benefit us all. This short-term use of private sector capacity can also be used to develop the processes and systems that are required, and will realise the ultimate objective that budgets that have already been allocated will be spent on the correct infrastructure and will be spent efficiently. The multiplier effect is so obvious to



see!

Whilst we do applaud the political conviction that a capable state does need to be developed, this process will, by its very nature, be a long-term project. We unfortunately do not have the luxury of time.

It should be noted that this intervention, if adopted, can and must be used to continue to address some of the national imperatives such as transformation, supporting of small and medium businesses, knowledge and skills transfer, mentoring etc. These imperatives can be built into the selection process when skills are deployed from the private sector into the public sector and mechanisms can be developed to objectively measure the inclusion of these imperatives over the period of the process.

- We welcome the establishment of the Infrastructure and Investment Office and are particularly pleased to see that it resides within the Presidency. We have had interactions with the head of the office, Dr Ramokgopa, and welcome the frank and open discussion that we have had in terms of the



challenges that need to be addressed that will ultimately result in infrastructure roll out. We will continue to engage with his office, and we believe that we will be able to provide practical solutions to implementing the many programmes that the office is mandated to implement.

As an industry, we are committed to transparent, fair and competitive tendering practices, and we are confident that none of these would need to be circumvented to achieve any of the goals set for the office. The fact that the office is being housed in the highest office in the land also gives us comfort that major infrastructure development is being afforded the attention that it so desperately requires.

CESA has long been calling for an Engineer General that oversees major infrastructure development in the country, and we believe that this office will become the de-facto Engineer General in the country.

The head of the office, Dr Ramokgopa is a former mayor and a civil engineer, so he has an acute understanding of how



infrastructure should be developed and also of the many challenges that infrastructure development currently faces - we seem to have a similar understanding of what the critical impediments are.

We are also cautiously optimistic that the Infrastructure Fund that will be housed within the Development Bank of South Africa (DBSA) will also start to gear into action, so that funding for project preparation can be unlocked. We have had initial discussions with Dr Phillips who heads the fund, and we will continue to engage with his office so that, as industry, we contribute to unlocking this fund.

- The Khawulesa District Improvement Programme launched around the middle of 2019 is a welcome intervention to address some of the challenges being experienced at the local government level. However, CESA cautions that many similar interventions have been tried in the past but because these interventions were not supported by political will, they did not yield the results that were expected. Thus, this programme must be implemented in full so that visible and long-lasting change can be realised. We must not allow ourselves to fall



into the trap of trying to perfect a plan before we implement. The programme must be implemented on a wide scale and can be refined if some interventions are not realising the desired outcomes. The focus must be on immediate implementation.

- CESA will also recommence discussions with the Construction Industry Development Board (cidb) in terms of the Register of Professional Service Providers. Whilst there has been uncertainty as to the nature of the Register in the past, we believe that as an initial step, all Built Environment Professionals, including Consulting Engineering companies, must be registered with the cidb, before they are permitted to contract with the state. The initial registration could use a mixture of past experience in terms of projects completed and/or registered professionals employed within Built Environment Professionals (BEP) firms to ensure that only credible and registered companies work for the State. The system must obviously cater for start-up enterprises as well, and this can easily be achieved by firms demonstrating that they have in their employ appropriately qualified and professionally registered individuals (i.e. individuals with the



fundamental competency) that will be responsible for actual delivery. This process will also ensure that Consulting Engineers are held accountable for the work that they undertake.

- CESA has started interaction with the new minister of Public Works, and we will continue to engage with her department in the near future. We further welcome the Minister's call to the cidb to resubmit a report containing views on issues faced by the industry and recommendations on how to solve these issues by the first week of March. CESA will provide further input to the cidb as required.
- CESA is also calling for a wider debate on whether existing initiatives that have been run successfully for a number of years, can be investigated to improve service delivery. Initiatives such as the IPP programme, SANRAL's concession programme, the BOTT (Build Operate Train and Transfer) programme and the DBOT (Design Build Operate and Transfer) programme were successfully used as implementation tools. These implementation models could be transferred to other types of infrastructure roll out, such as general maintenance of infrastructure, provision of water



infrastructure, provision of sanitation, waste management, etc. A mindset shift is required from the implementing departments so that these tried and tested tools can be used to effect short term high impact interventions.

- Infrastructure Delivery Departments, and in particular, local government, must invest heavily in master planning, programme management and project preparation. As discussed previously, the AG's office has consistently highlighted poor audit outcomes in terms of the processes that are used to implement infrastructure, and the inability to spend budgets that have been allocated. CESA can assist with interventions to assist municipalities that may not have the capacity or skills to commence with master planning and project packaging.

Project directory / project book – A consistent project pipeline in the context of a master plan cannot be overemphasised. The project pipeline can only flow from the development of a master plan. The importance of a project pipeline for contractors, for consulting engineers and indeed for all built environment professionals is absolutely critical.



At our Infrastructure Indaba that was held last year in Durban, the KZN Department of Infrastructure noted its progress with the development of its project book, and through our interaction with the Gauteng Department of Infrastructure Development and the office of the Premier of the North West, we also learnt of the progress that they had made with their project books. Thus, we applaud those municipalities and departments that have developed their project pipelines and we eagerly await the rollout of those projects.

Government at all levels must invest in finalising their master plans and start implementing their infrastructure programmes. The master plan does not have to be perfect before it is implemented. As long as the plan has been well thought out, it can be implemented. As the plan is implemented, it can be refined as circumstances change.

- CESA continues to collaborate with the Engineering Council of South Africa (ECSA) and welcomes the news that the issue of Guideline Fee Scales is being addressed. ECSA has noted its intention to reconstitute the Fee Guideline Committee, so



that Fee Guidelines can once again be published. We believe that this will assist buyers of professional services to gauge what fair compensation would be for a particular assignment. This will in particular assist smaller municipalities with little or no technical capacity to assess bids in a more informed manner.

A critical aspect of the Fee Guideline that is often overlooked is the actual scope of services that the professional service provider needs to provide. The guideline offers a comprehensive scope of the services that should be expected, and we believe that if client bodies insist that that scope of services are delivered, then we will see better outcomes in terms of infrastructure delivery.

CESA is committed to the competitive sourcing of professional services, but we are adamant that competition cannot be based on price alone. CESA, in line with the International Federation of Member Associations (FIDIC) and global best practice, has long advocated for Quality Cost Based Selection (QCBS) for professional services, so that quality enabling



innovative design and functionality, play a key role in the selection process. The concept of value for money must be reintroduced into the procurement process.

There is also no doubt that other critical procurement issues such as BBBEE and the involvement of SMME's and start-ups can easily be factored into the QCBS process.

- Department of Human Settlements, Water and Sanitation R900 billion Master Plan – CESA welcomes the launch of the Water and Sanitation Masterplan by the Department. Whilst the plan acknowledges the state of water infrastructure in the country, and the dire straits that many water entities find themselves in, it does offer a plan to address these challenges.

We are, however, apprehensive about the proposal to create other State Owned Entities (SOEs) in the water sector, as we are acutely aware of the huge amount of resources that are required to maintain these SOEs. It may be prudent to house these functions within the Department. We are hopeful that we will be able to engage with the Department around these



issues.

- CESA welcomes the news that Continental Free Trade agreement is likely to become active this year, as many of our member firms are currently working in the rest of Africa. The success of the free trade agreement will most certainly depend on the availability of sound basic infrastructure across the various sectors, and we are again cautiously optimistic that this will start to boost further investment in infrastructure across the continent.

CESA has confidence that if these initiatives are implemented, that we will start to realise meaningful change in a relatively short space of time. These interventions have the potential to effect high impact change.

### **Continuing initiatives**

CESA will continue with many of the initiatives that we have previously initiated and that are still very relevant in the industry. I will highlight a few of these:

- Transformation
- Young Professional, Management Development Programmes



and Leadership Seminars

- Graduate database – opportunities for graduates. We cannot afford to lose young people to emigration
- Greater engagement with all industry stakeholders in order to access centres of excellence and capacity to further support engagement with government

### **Concluding Remarks**

As CESA, we have decided to embrace the change that is happening around us, and we have committed ourselves to becoming part of the solution and in fact to offering solutions that we believe will provide the maximum impact in a relatively short period of time.

I have reflected on the key issues that are facing the industry and the renewal processes that have already commenced. Because of these initiatives, we are cautiously optimistic that the tide will turn. I have also offered our thoughts as to additional initiatives that can be implemented to fully arrest the current decline and indeed set us on a new growth trajectory. The key initiative that we believe will have the greatest impact, is a short-term intervention to recapacitate the



state through the use of capacity that resides in the private sector and we are confident that no procurement rules would need to be circumvented to achieve this outcome. People are, without doubt, the heartbeat of any organisation, and if the people issue is addressed, most, if not all of the other operational issues will be resolved.

CESA is calling for implementation around a common vision. We need to act, to act now and to act decisively. We need to, once again, turn our entire country into one massive construction site, imbuing confidence which in turn will result in investment and economic growth, creating the jobs we need for our people and our country to thrive.

CESA will continue to actively engage through the relevant platforms and will continue to be your 'Partner in enabling Consulting Engineering Excellence'.

I thank you!

