



THE VOICE OF CONSULTING ENGINEERING

## **KZN Presidential Visit**

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

**Abe Thela**  
**13 March 2015**



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

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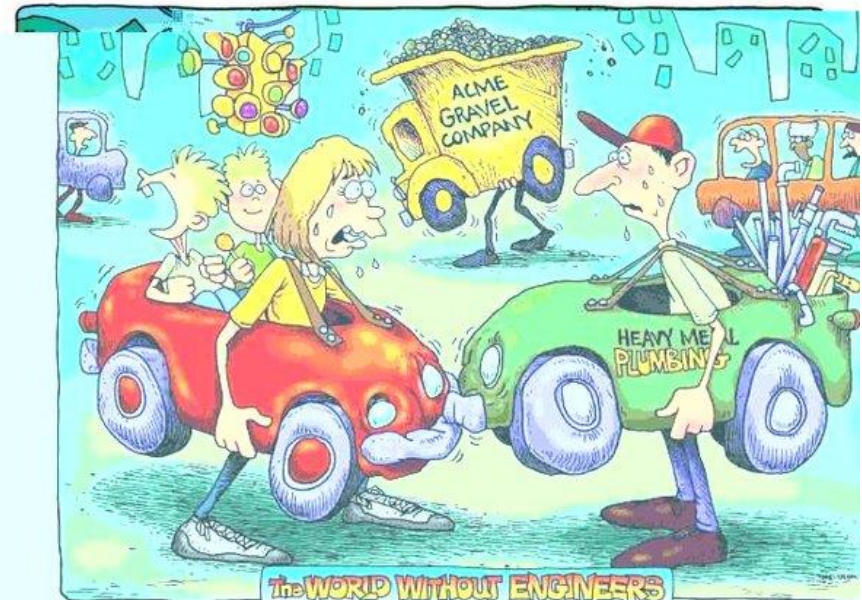
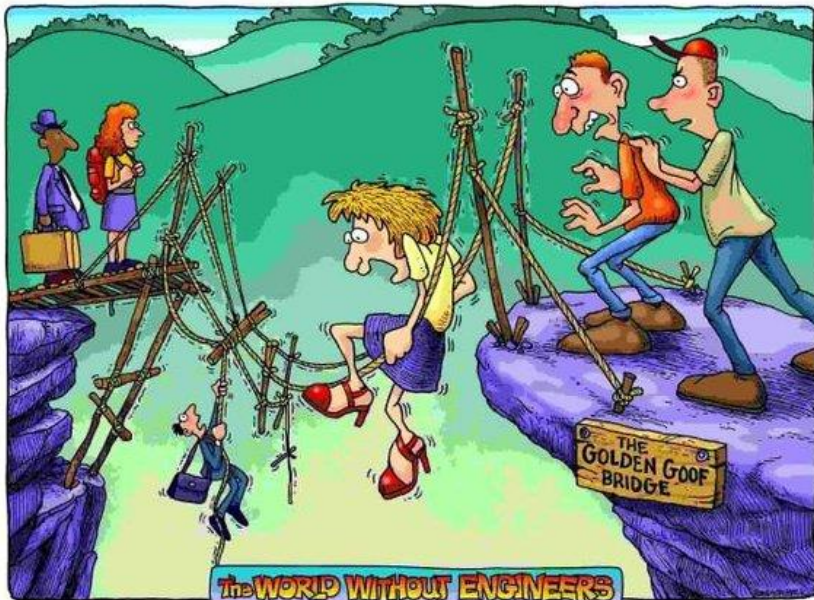
**Abe Thela  
13 March 2015**

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

# 1. Revisiting 2014: 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. Revisiting 2014: Are we winning?

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

- ✓ Identified regulatory & institutional challenges to be addressed
- ✓ Key challenge - Inappropriate procurement approaches & practices
- ✓ Are we winning?
- ✓ National Treasury – **“2015 Public Sector Supply Chain Management Review”**
- ✓ **Separate infrastructure related procurement**

## Other Challenges

### Regulatory Challenges

✓ 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
✓ Precluding prefeasibility study consulting engineers from downstream engineering work ( <b>Late addition</b> )	Slow progress

## Other Challenges

### Institutional challenges

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

# 1. Revisiting 2014: Are we winning?

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

## Way Forward

- ✓ Through constructive engagement: CESA will continue participating in established government / private sector liaison structures

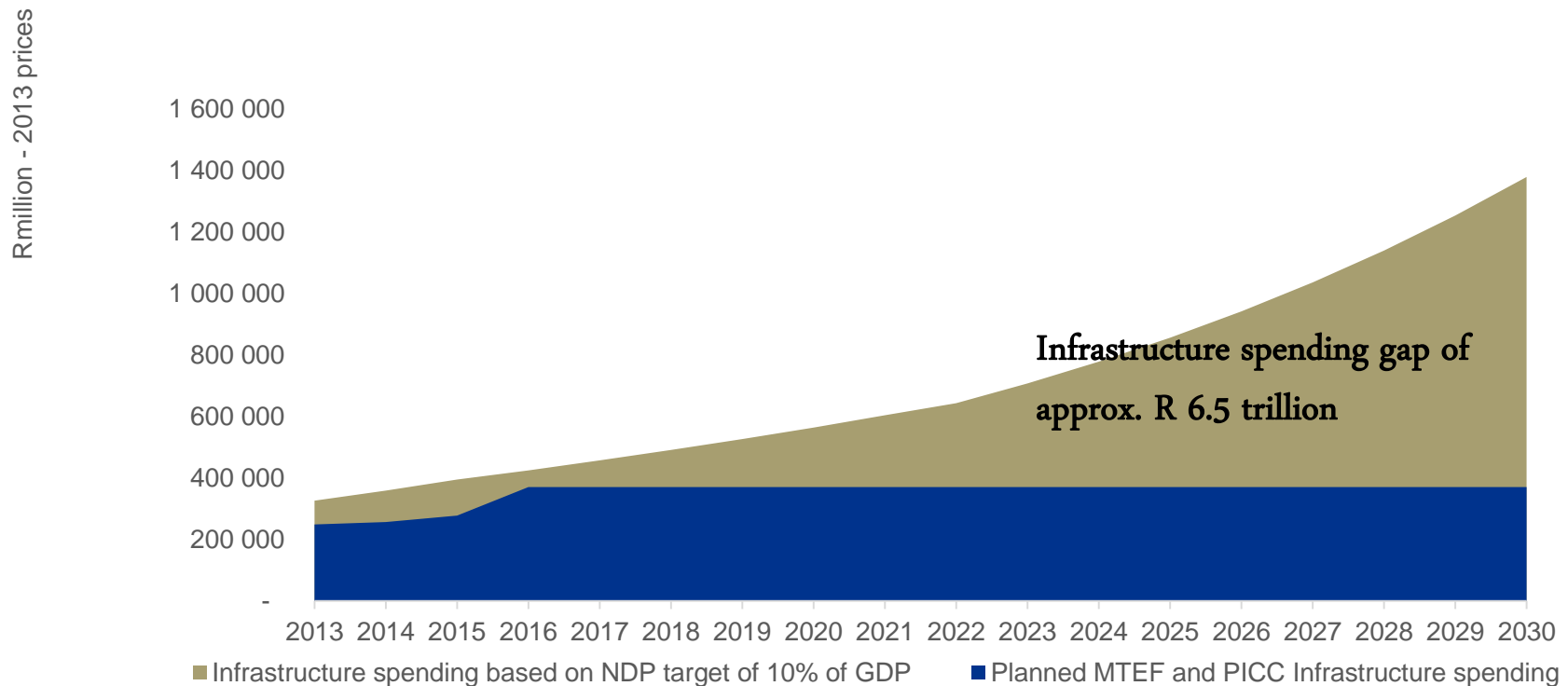
### Some of the liaison platforms:

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

- ✓ As activists: Challenge issues in public platforms & engage in public debate

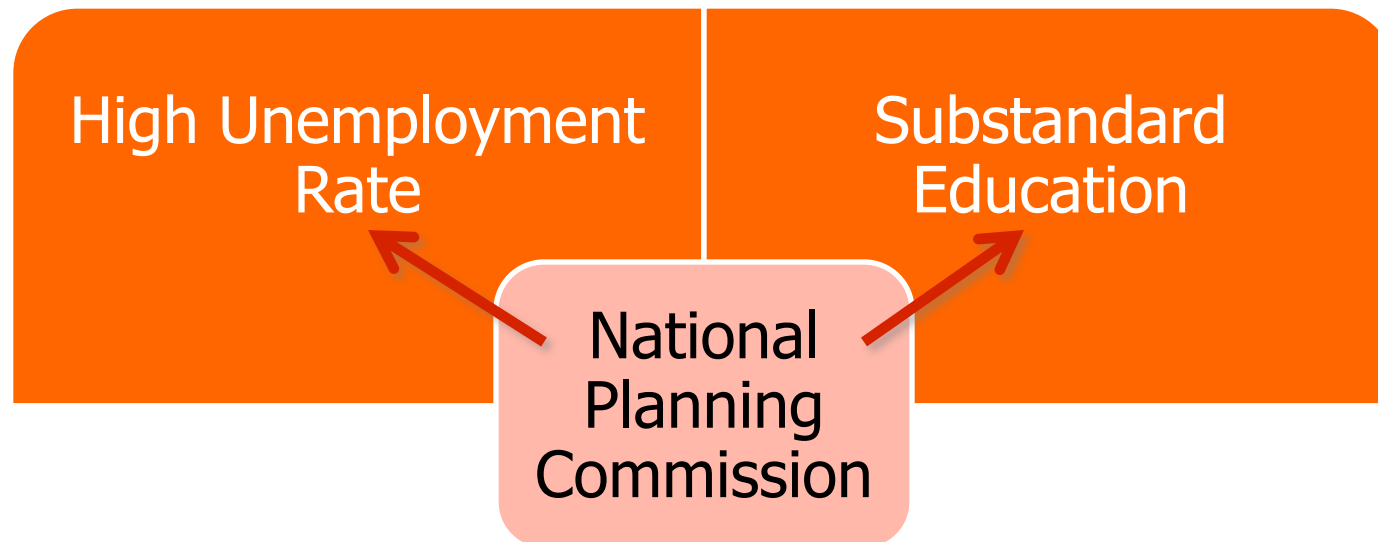


## Meeting Socio-Economic Challenges Through Sustained Infrastructure Investment



## 2. Socio-economic realities

### Two most pressing challenges



## 2. Socio-economic realities

>25% unemployment rate



50% youth unemployment (15-24 years)

## 2. Socio-economic realities

### Consequences of high unemployment rate



- ✓ limited access to tertiary education,
- ✓ lack of housing,
- ✓ an overburdened public health care system and
- ✓ a high crime rate.

- ✓ low savings,
- ✓ high levels of income inequality,
- ✓ lack of retirement provision,
- ✓ ***a narrow tax base,***

### The ultimate risk

- A generation at risk
- Marked with socio-political disorder
- Heightened strain on the country's limited financial resources
- **Arrest economic growth.**
- Render social spending **unsustainable.**
- **Threatens collapse of industry**

## 2. Socio-economic realities

### Employment rate

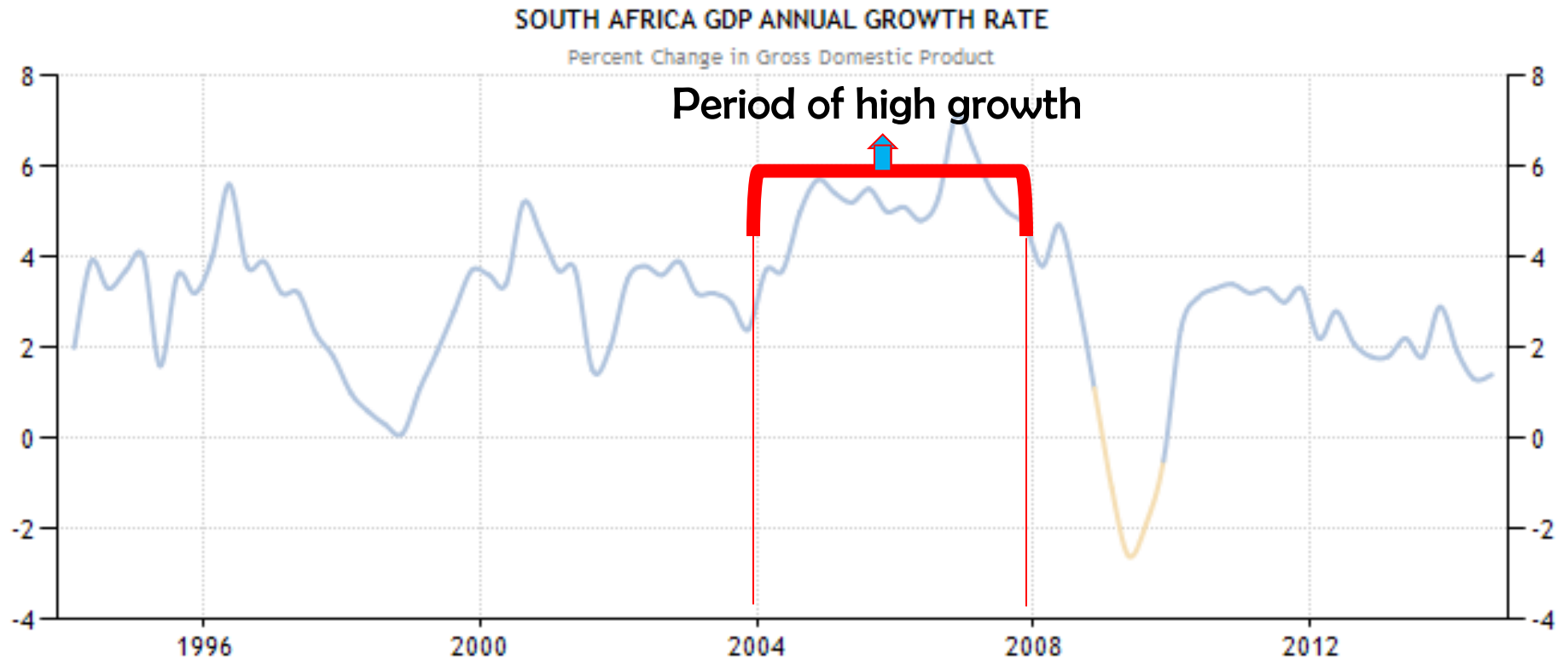


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## 2. Socio-economic realities

### Economic Growth Rates

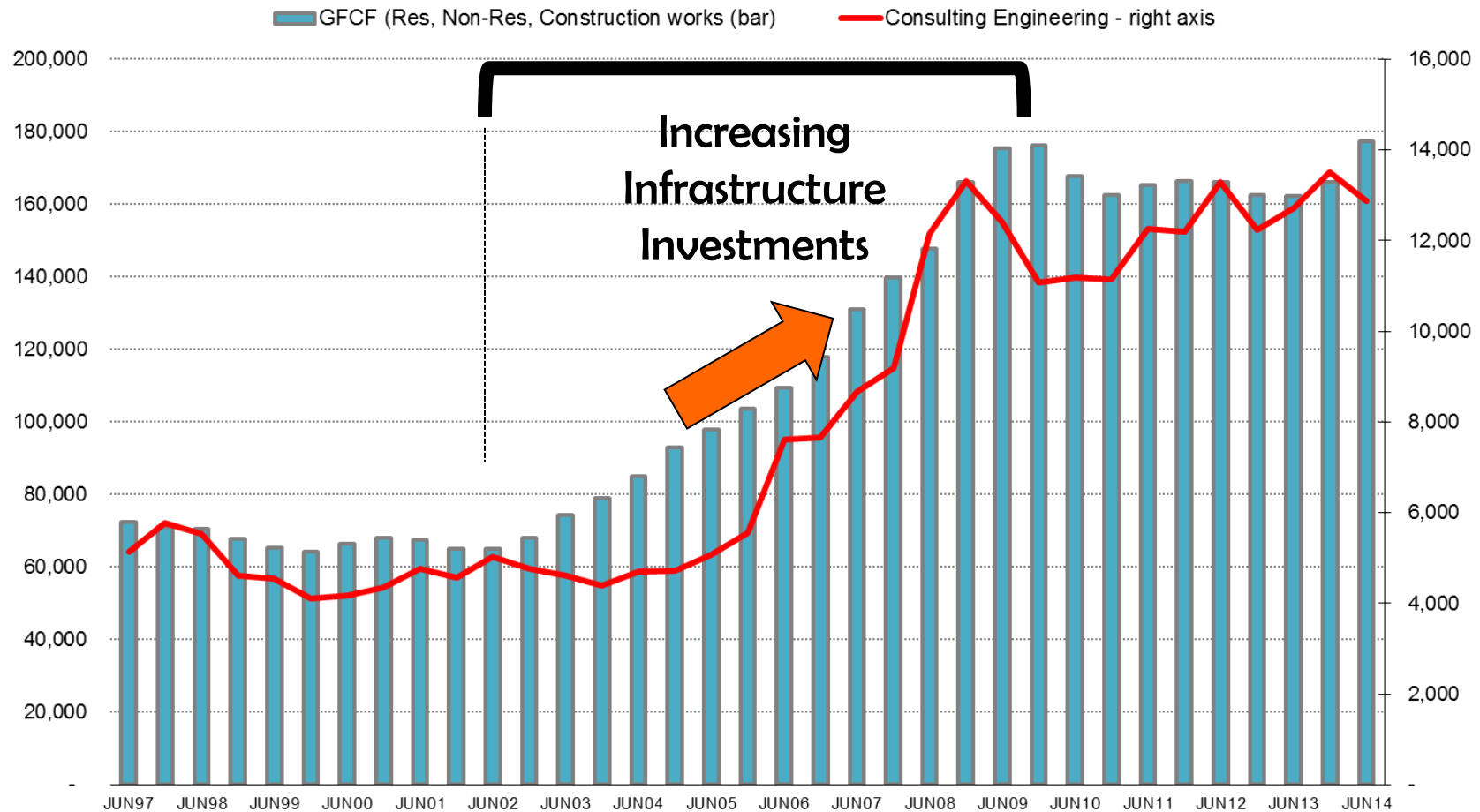


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## 2. Socio-economic realities

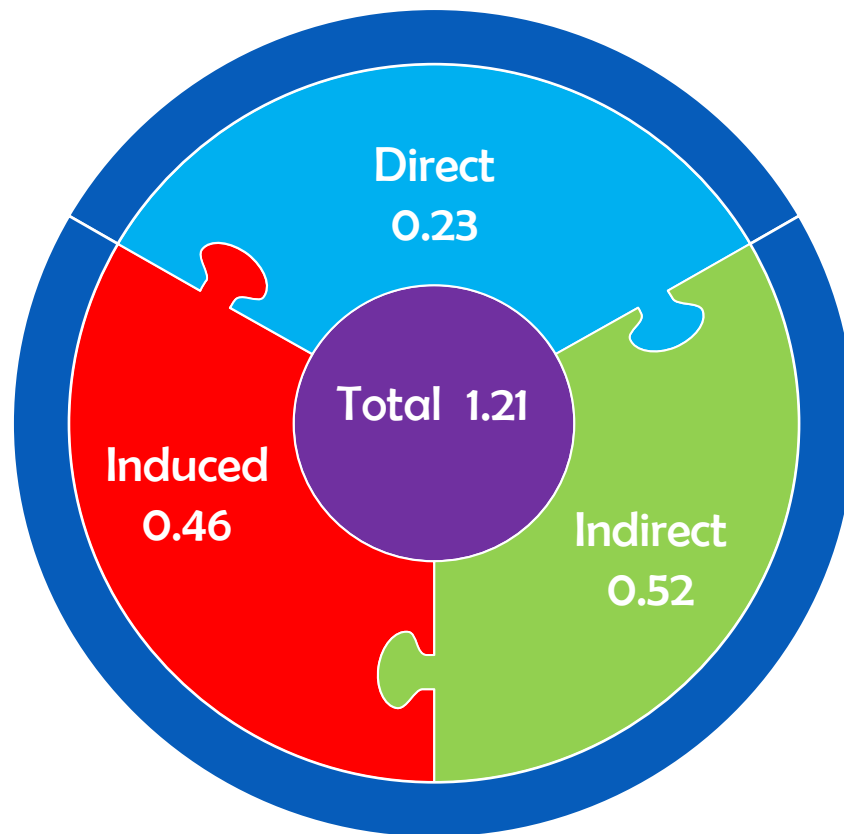
### Gross Capital Formation

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

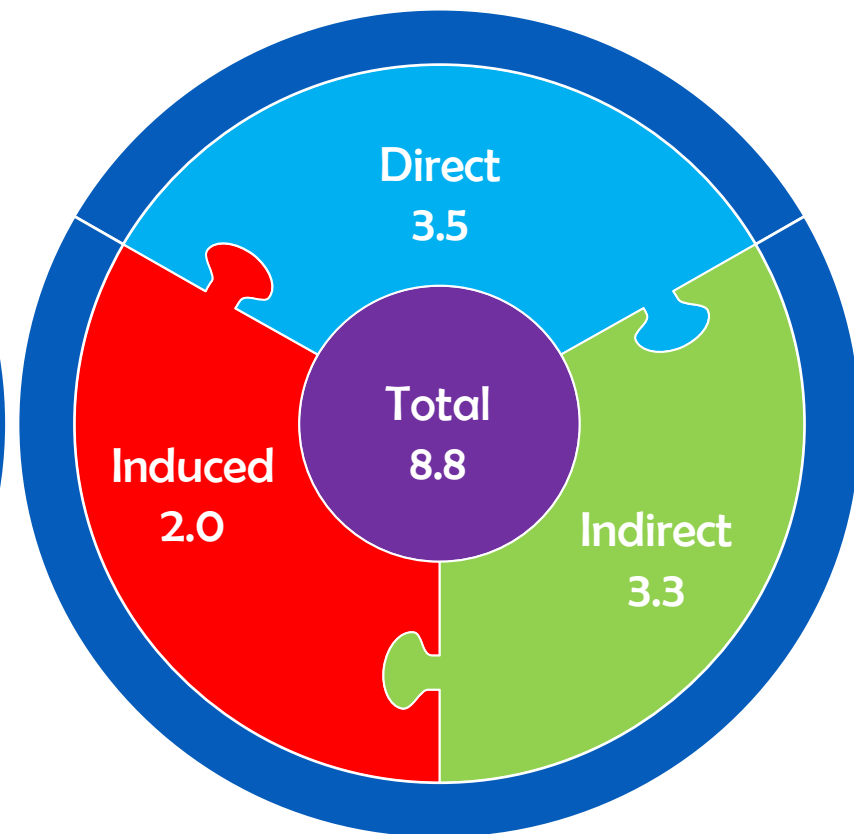


## 2. Socio-economic realities

### GDP multipliers for the construction sector




### Labour multipliers for the construction sector



Courtesy of **KPMG**

**If investment in infrastructure is the solution:**



**Why is Government  
& private sector  
not increasing  
investment in  
infrastructure?**

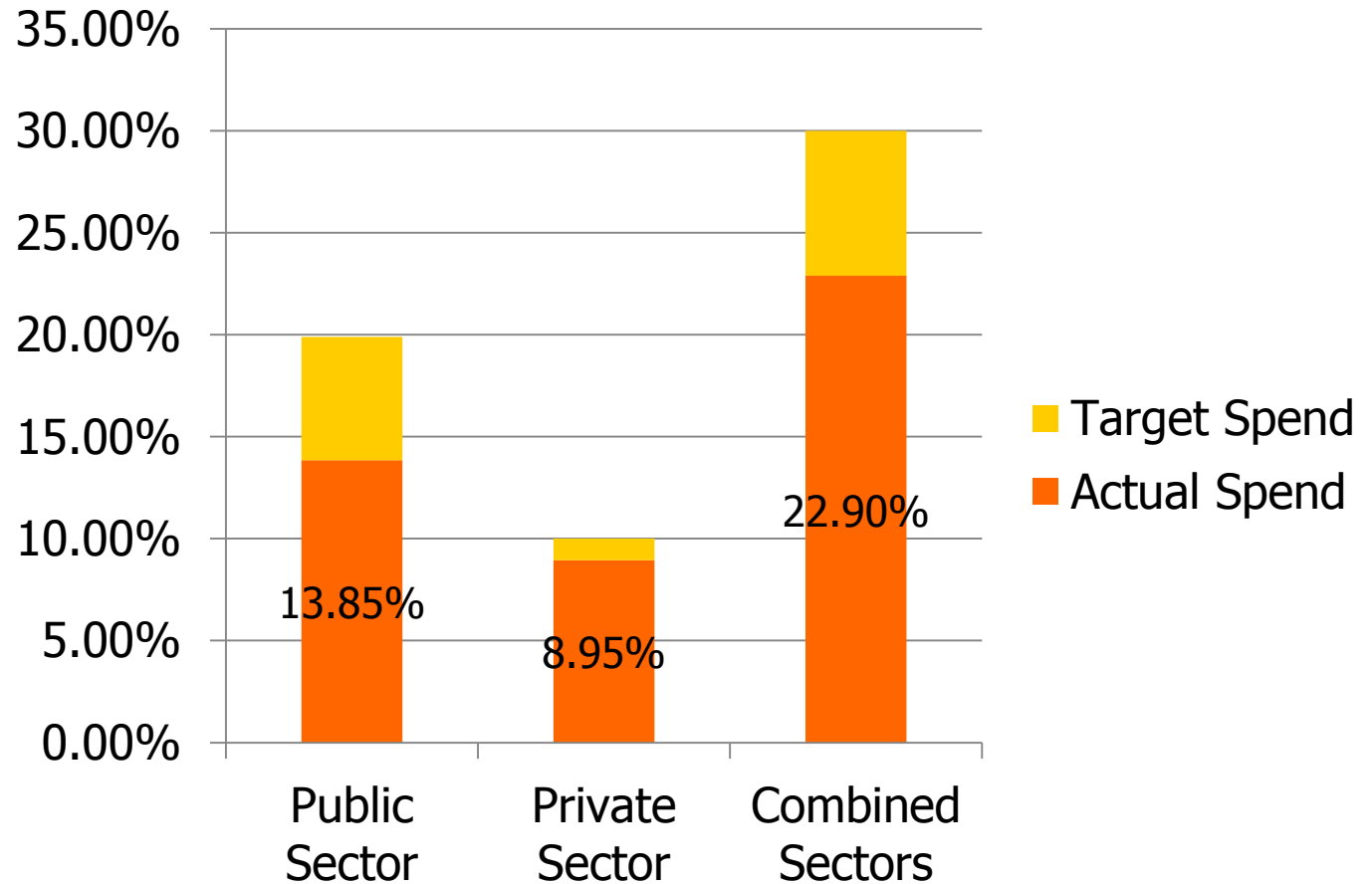
# 3. Increased Infrastructure Investments

## 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**
- ✓ Clarion call: State budget must favour investment in infrastructure
- ✓ Other possible avenues
  - Leveraging private sector resources
  - Addressing the inefficiencies in the Government supply chain management system
  - Maintain existing infrastructure
  - Improving 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)
- ✓ Recent example - 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**

# 3. Increased Infrastructure Investments

## Maintain existing infrastructure

- ✓ Lack of maintenance:
  - Interrupt service delivery
  - Results in high replacement costs
  - Causes loss of productivity
  - Disrupt industry & economy
  - Waste natural resources
- ✓ Support infrastructure maintenance grant



#### 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

- ✓ Cost of inefficiencies:
  - Approximately 76% of R846 billion MTEF 2010/11 – 2012/13 infrastructure budget spent
  - Amounting to some R200 billion
  - Delayed projects completion & budget overrun estimated to cost the economy billions of Rands
  - Approx. R30 billion procurement budget lost to corruption

## Addressing inefficiencies in SCM system

### CESA applauds...

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

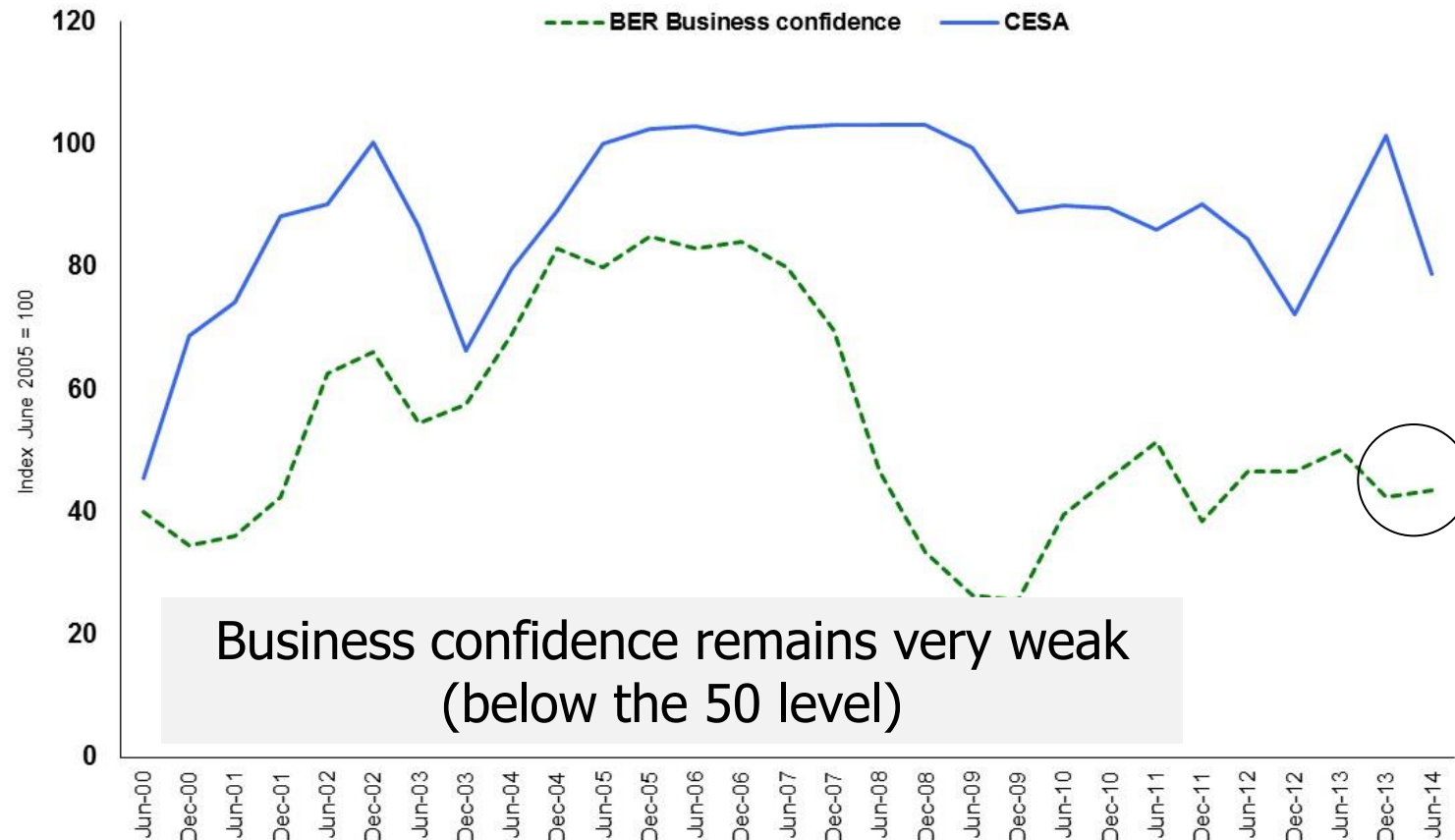
- ✓ Sustainable interventions to include:
  - **Employment of technical people in technical positions**
  - Using appropriate procurement approaches
  - High levels of prosecutions needed



# Increased Infrastructure Investments

## Address Business Confidence

BER Business Confidence vs CESA Confidence



#### Address Business Confidence

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

#### 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 threatening downgrade

## 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
- ✓ Require targeted programmes

### Basic Education Challenges:

- ✓ Poor Quality of basic education especially Maths & Science
- ✓ Shortage of Maths and Science teachers
- ✓ 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

## Higher Education Challenges:

- ✓ Diminished financial aid –  
Higher education
- ✓ Poor academic salary
- ✓ Limited facilities
- ✓ Plight of Youth with  
qualifications but without  
experience





## 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**”.

## 4. Human Capital Development

- ✓ CESA & its member initiatives:
  - Job Shadow Initiative;
  - Young Professionals Forum;
  - Saturday schools;
  - adopt-a-university;
  - Bursaries, etc.
- ✓ Consolidate initiatives
- ✓ Continue to contribute to the education crisis debate

Failure to increase infrastructure funding and tackle these educational 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** is committed 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!

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## Presidential Message 2015

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