

## **Progressive Business Forum, Construction Sector Summit, 30 March 2017**

### **Background and objective of the Summit**

On 30 March 2017, the Progressive Business Forum (PBF) hosted the second Construction Sector Summit at Gallagher Estate, Midrand.

The PBF, under the auspices of the Treasurer-General of the ANC, Dr Zweli Mkhize, is the business programme of the African National Congress with the objective of promoting honest, frank and open dialogue between the business community of South Africa and the movement, as the primary policy developer of South Africa. The Summit was facilitated by Daryl Swanepoel, PBF convenor.

The focus of the 2017 Construction Sector Summit was threefold: the Voluntary Rebuilding Programme (VRP); Sustainable Building; and Government Infrastructure Spend and the enhancement of Public Private Partnerships. The discussion focussed on making the construction sector successful to enhance South Africa's need for radical economic growth and transformation.

The Summit was attended by Dr Zweli Mkhize, the Treasurer-General of the ANC; Hon. Ebrahim Patel, Minister of Economic Development; Hon. Nomvula Mokonyane, Minister of Water and Sanitation; Hon. Dipuo Peters, Minister of Transport; Mbulelo Tshangana, Director-General of Human Settlements; Albino Mocha, Director of the Department of Veterans in Mozambique; representatives from the construction sector, including Bafikile Bonke Simelane, President of Master Builders South Africa (MBSA); Roy Mnisi, Executive Director of MBSA; Thembinkosi Nzimande, President of the South African Forum of Civil Engineering Contractors (SAFCEC); Gregory Mofokeng, Secretary-General of the Black Business Council in the Built Environment (BBCBE); Kelikile Kwinana, President of South African Women in Construction (SAWIC); Martin Kingston, Vice-President of Business Unity South Africa (BUSA); Ntebo Ngozwana of the Construction Industry Development Board (CIDB); Chuene Ramphela, Business Development Manager, Development Bank of South Africa (DBSA); Talib Sadik, CFO of Basil Read; Mike Wylie, Chairperson of WBHO; Dr Thandi Ndlovu, CEO of Motheo Construction; Pierre Blaauw, Director of ASLA; Tebogo Nkosi, CEO of Boffin & Fundi; Calvin Yan, General Manager of Dongguan Africa Industrial and Investment Company; representatives of sponsors, including Lindo Sithole of Lumacon and Jubulani Mkwazi, MK Elektro Projects; and members of the PBF.

### **Summary of the Treasurer-General's opening address**

The ANC is currently going through discussions around policy that will guide government over the next five years. One area of policy focus is the South African economy, which has been on a downturn since 2008, with growth reaching less than 0.5% in 2016. An industry that has continued to sustain growth and job creation, however, is the construction industry, particularly in terms of the infrastructure for the 2010 FIFA World Cup. This is why government has made a commitment of almost R3 trillion's worth of investment in infrastructure until 2030.

This investment is central to the ANC's policy of radical economic transformation, which focuses on how to help the South African economy to recover; in the construction industry, this also means challenging inequality in economic access to financial services, and in ownership through the integration of big and small, black and white business; broadening the black industrialist core;

contributing financially and materially to transferring skills and technological innovation; growth of the SMME sector, and creation of jobs.

The Voluntary Rebuilding Programme (VRP) offers a structured approach to radical economic transformation in the construction industry. However, radical economic transformation also requires collaboration, dialogue and trust between government, the private sector, and labour. This is a challenging process. It requires a realisation of and commitment to not only building business in South Africa, but also building a nation which belongs to all who live in it, and creating hope for the future of all.

## **SESSION 1: The Voluntary Rebuilding Programme (VRP)**

The VRP, an agreement signed in November 2016 between government and seven of the largest construction companies in South Africa, aims to build a more inclusive construction industry. One aspect is an integrity commitment; a second is an investment of R1.5 billion by the seven companies (and others in future) to facilitate and accelerate the entrance and development of black South Africans into the construction industry. A third aspect is the transformation of said companies into black-owned and managed entities. As such, the VRP is a ground-breaking model of effective and massive transformation as per government's vision.

### **1.1 Summary of the Minister of Economic Development, Hon. Ebrahim Patel's input**

The context in which this summit is taking place is both global and domestic. The global economy has been characterised by low growth since 2008, despite Chinese investment in infrastructure which provided a short-term boost. The European Union is facing the challenge of Brexit, with the loss of one of the largest European economies. In the United States of America, economic policy is moving towards economic nationalism, rather than international development.

The impact on the domestic economy has been harsh, particularly in terms of a downward curve in the price and sales of iron ore, platinum and manganese, amongst others commodities. Furthermore, South Africa is in the throes of a devastating drought. Furthermore, despite successes such as the electrification of 10 million houses between 1996 and 2016, and the growth of jobs by 77%, South Africa's population grew by 38% which translates into greater demand for resources and employment. This has meant sluggish economic growth.

A radical economic transformation is needed, with two foci: first, growing the economy, and, second, redistribution of the wealth in the economy. The current economic structure does not allow for the kind of growth necessary to sustain South Africa – challenges such as collusion between large companies, a skills backlog, and the reality of being a supplier of raw materials, not value added products.

As the most balanced of Africa's economies, South Africa has the strength and capability to transform: the economy is based on stable companies and industry (including construction, metal, mining and tourism); the constitution and rule of law are in place to resolve issues; and the financial markets remain strong. The ANC's National Development Plan (NDP) sets out a nine-point plan for growth and development, particularly in terms of job creation: development of infrastructure, with the concomitant increase in investment by government; agriculture and aqua processing; manufacturing; mining; the oceans economy; tourism; business services; the knowledge-based sector; the green economy; the social economy; the public sector; and African regional integration.

In the context of the construction sector, a particular challenge has been collusion and price manipulation, which was tackled as early as 2010, with the Competition Commission, government and the construction industry reaching an agreement in 2013 with a settlement of R1.4 billion. This

partnership between government and seven of the largest construction companies in South Africa formed the basis of an agreement focussing on reparation called the Voluntary Rebuilding Programme (VRP), which aims towards building a more inclusive construction industry. One aspect is a signed integrity commitment, to change corporate culture from one of collusion, corruption and intolerance. In terms of financial reparation, the signatories have committed to investing R1.5 billion in the Tirisano Trust over the next 12 years to empower previously marginalised communities, amongst others, by facilitating the entrance and development of black South Africans into the construction industry via a series of socially defined projects. Funds are also allocated to the training of black artisans, entrepreneurs and engineers to increase South Africa's technical capability at various levels. Through targeted education and experiential learning. At school level, funds will be allocated to the teaching of maths and science, and to infrastructure development.

Another crucial aspect of the agreement is that of transformation, which can be applied via two models. A first model is via equity transformation, through selling a minimum of 40% of shares to black ownership, with the expectation of changes not only at board level, but also in executive and operational management. A second model focuses on finding black partners in the construction industry and boosting their turnover to 25% of the original company's turnover. As part of the principle of creating as broad a beneficiary base as possible, these primary beneficiaries in turn have secondary beneficiaries (possibly subcontractors) whose turnover will also be boosted. Properly implemented, within seven years, black firms or equity owners will have control of turnover of between R24 billion and R31 billion annually, with profits of R700 million to R900 million annually. The challenge of fronting is also dealt with in the agreement, with independent checks, including by the BBCBE, built into the process.

Currently, the construction sector employs 1.4 million South Africans, providing 9% of the total employment in the South African economy. With the transformation outlined above, the urbanisation of South Africa, the funding gap of R1.1 trillion per year for infrastructure in Africa as a whole, and with government's commitment to infrastructure spend through the Inter-Ministerial Committee on Construction, much greater growth can be achieved in the construction industry.

## **1.2 Summary of industry input**

Industry leaders paid tribute to all those involved in the process leading to the VRP, including government, leaders in the construction sector, the Black Business Council (BBC) and other agencies, dating back to 1997. They commended the government for the VRP initiative and reiterated their commitment to the aims of the agreement, to grow an inclusive and sustainable construction industry moving towards the long-term interest of all South Africans.

The roles major companies are playing in the VRP were highlighted: Basil Read, a level 3 BBBEEE company, has contributed to the R1.5 billion fund. Their approach to radical transformation is in terms of equity, with 51% of Basil Read's equity to be owned by black shareholders within the timelines set in the agreement. Murray and Roberts are going the equity route, planning to become 100% black owned, while Aveng are selling 51% of equity. Group Five are also following this route. WBHO have chosen the turnover route, working with three black partners, including Motheo, Fikile, and Edwin Construction. Other industry leaders choosing this route are Stefanutti Stocks and Raubex.

Both MBSA and SAFCEC highlighted their support for the VRP and the progress made. The President of MBSA shared their role in the VRP, including representing the interests of members by promoting high standards of quality in delivery of construction, best practices and structural compliance, and dialogue and engagement with government. Another role is advocacy with reference to national policies through rapid policy impact assessment, as well in terms of regulations and procurement codes. The President of SAFCEC highlighted their role of providing mediation and

guidance on resolving disputes in the industry. The activities of the VRP are particularly vulnerable to contractual disputes and SAFCEC appealed to the companies and the partnerships involved to stay true to the intent of creating legitimate black listed entities.

Despite these positive steps, it was agreed that the VRP agreement is not yet a perfect document, and that discussion and negotiation are still taking place. The BBCBE highlighted the need for further construction companies to sign the agreement and for black business, particularly black players in the construction industry, to play a central role in the implementation of the programme. The development of a broad beneficiary base is a central principle of the BBCBE: there is a clear need for emerging black construction leaders along the entire construction value chain, including core and non-core services, to be given the opportunity, both via financial support and practical work, to enter into and transform the industry. Other representatives of emerging industry expressed their frustration at their exclusion from the VRP and their lack of access to the beneficiary base; however, the BBCBE is planning a road show to introduce the VRP and how to interface with this programme.

Further practical issues faced by the construction industry, in particular by emerging contractors, are occupational health and safety, and challenges in terms of regulations, procurement codes, processes and tenders, and contractual and legal matters. Half of all (government) tenders are not awarded, some of which are cancelled, other withdrawn, or closed because of budgetary constraints. Where tenders are awarded, issues of non-payment and delayed payments arise, which impact on all involved in a project.

Another challenge is the imbalance in gender representation, to the extent of exclusion of women, from the construction industry: however, South African Women in Construction (SAWIC) are active in assisting women to gain access to building opportunities, to finance, and to education and training for women. This body aims to create at least 20 women industrialists in the sector by 2020, as part of radical economic transformation.

The CIBD highlighted the role of the construction industry as a supplier of significant employment and added support to the need for skills development, education and training to allow for emerging and small builders, including women, to grow in a sustainable way. Possible interventions include targeted training through focussed curricula at the TVET colleges; development of skills both in colleges and university courses and in the workplace; and development of competency standards. Importantly, trained experts in construction need to be available to the private sector, yet also to government in terms of running projects from both ends.

The VRP is one of the tools or vehicles through which these challenges can be tackled.

## **SESSION 2: Sustainable Building**

By 2025, approximately 2.4 billion people worldwide will be suffering from water scarcity and by 2070, as many as 700 million people will be displaced as a result of lack of access to water. South Africa is 30<sup>th</sup> in the world's ranking of driest countries, with 98% of water supply being in a critical state. The energy sector faces similar sustainability questions. The construction industry has a role to play in developing sustainable infrastructure to meet these challenges.

### **2.1 Summary of the Minister of Water and Sanitation, Hon. Nomvula Mokonyane's input**

The Department of Water and Sanitation is the custodian of water in South Africa. Part of that means responsibility for equitable and sustainable water and sanitation infrastructure, which has a major socioeconomic impact on South Africa as well as neighbouring countries. Issues of environmental

impact are also essential in terms of contributing to best practice of dealing with adaptation and resilience to climate change.

Water infrastructure projects focus on increasing water capacity and security in South Africa, increasing existing water and sanitation infrastructure, and creating new infrastructure to reach those who have never had access to water and sanitation facilities.

Currently, the Department is involved in a series of megaprojects for infrastructure development, including the Lesotho Highlands project, which is being extended via 300 km of pipeline to the Northern Cape as Vaal Gamagara to develop mining and industry in that area, with further benefits to Botswana. Similarly, the Umzimvubu project is being part-funded by Chinese investment and draws on Chinese experience of arresting urban migration by building infrastructure in rural areas and small towns and cities to form new nodes of development. Another project aimed at breaking barriers is the Clanwilliam Dam, which will provide water not only to established wine farmers, but also emerging farmers on land restitution programmes. A flagship infrastructure project is the Richards Bay Desalination plant, which was developed in response to the crippling drought, and will desalinate 10 megalitres of water per day, and facilitate a raw salt industry in the community. A similar plant is being planned for Lamberts Bay.

Grants are also provided at provincial and municipal level to develop bulk infrastructure for water treatment. New projects include the replacement of asbestos piping with bulk infrastructure in Polokwane, as well as the Nooitgedacht Kouga scheme, and developments in Gauteng to form the basis of new housing projects and industries as new economic nodes. Dam safety rehabilitation, including the development of water canals, is a further infrastructure input, which has particular impact on the lives of women who spend hours fetching water and is being handled by women engineers. On a municipal level, R1 billion is being invested in a programme called War on Leaks, focussing on maintenance of existing infrastructure. Fifteen thousand young people are receiving training as artisans, project managers and water ambassadors.

Although these projects are ongoing, a challenge faced by the water sector is the lack of transformation in those providing services as well as infrastructure. The Department is working with the BBC, hence the projects involving women and youth, while black owned companies are making inroads.

## **2.2 Summary of Co-ordinator of the PBF energy desk, Sisa Njikelana's input**

Power generation in the built environment is required for residential, commercial and public properties. Sustainable or green energy is an alternative to traditionally powered energy generation, and comes from sustainable sources. One example of green energy sources is solar, another is bioenergy, while new technologies for storage of green power are also being developed.

In terms of the construction industry, green energy has several applications: lighting, heating, cooling, and electronics. It can be applied to new builds, as well as retrofitting in older buildings. Energy provision is based on the entire value chain which begins with manufacturing, and continues through architects and engineers in design and construction, to energy data management (which ensures energy efficiency), as well as consulting and legal services focussing on energy.

Challenges in the green power sector include the need for transformation, as well as the need for government to lead by example, requiring green energy in all public builds. The Department of Public Works has already retrofitted about 50 buildings to be more energy efficient, but more work remains in requirements for the private sector as well.

## **2.3 Industry Response**

A proposed solution by industry is the construction of smart cities that focus on varied and collaborative approaches towards water management. These innovative structures will incorporate, for example, drainage and water collection systems integrated with biodiverse green spaces and allotments. One possible structure would be atrium-style, with an external surface that can capture sunlight (for light and heat) and rainfall, while an internal atrium will provide space for irrigation and growth of plants. Other structures could have drainage, sanitation, heating and cooling systems below the surface.

The success of such an innovation will rely heavily on a combination of appropriate technology and public private social sector planning and collaboration.

## **SESSION 3: Government infrastructure spend (3 to 5 year view) and the enhancement of Public Private Partnerships**

### **3.1 Summary of Minister of Transport, Dipuo Peters' input**

The Ministry of Transport focuses on four main modes, the most relevant to the construction industry being airports, road and rail projects.

In the aviation sector, the Airports Company of South Africa (ACSA) currently manages nine airports in South Africa, as well as having equity investments in India and Brazil, and offering advisory services in Ghana, Benin, Sudan and the DRC. South Africa is part of the Single African Air Transport Market Ministerial Group, where 14 African countries have agreed to open the skies within the continent. Africa will be the growth point for aviation over the next 20 years, and open skies and concomitant travel within Africa will create an additional R1.3 billion investment and 155 000 jobs.

Major growth and development projects are being rolled out over the next five years as per the National Airports Development Plan and the National Civil Aviation Policy, totalling R21 billion. Major infrastructure projects are planned for OR Tambo (totalling R647 million alone) and Cape Town International Airports, while at Kimberley, Upington, George, Mahikeng and Port Elizabeth, green energy retrofits are taking place. A challenge in Cape Town is finding land for development and work is in conjunction with the Department of Human Settlements. Such projects aim to generate construction and related job opportunities which will impact the surrounding communities.

In the road sector, managed by SANRAL, projects totalling R128 billion are planned, with funds also being sought from Chinese investment. A first project is the RCM Routine Roads Maintenance roll out (R15.5 billion), with additional provincial road maintenance grants for the Pothole Eradication project to be subsidised by provincial funds. Urgent upgrades need to be made to existing roads (such as the so-called killer Moloto Road, requiring upgrades worth R3.7 billion), while the construction of new highways and bridges, including the N2 Wild Coast (about R2 billion) and the Gauteng Freeway Improvement Initiative Project (GFIIIP) are planned. The latter is part of a greenhouse reduction strategy, by decongesting highways via a toll system in order to reduce the number of cars on the road. These road projects aim to transform the transport sector by using black industrialists and black construction companies.

An ongoing project is the BRT (Bus Rapid Transport) system, which has been rolled out in 13 metros with four already operational, and R40 billion set aside for the rest. Bus contracts totalling R5.4 billion are also available for private sector participation.

However, further road projects and investment are necessary, as there is a backlog of R197 billion needed to improve paved and gravel roads. The issue of road safety is paramount and subscription to the Road Traffic Safety Management System is necessary for industries using trucks and equipment, especially in terms of when construction trucks may use roads and how well trained drivers are. Another road safety issue is the transportation of scholars, which is under the purview of both the Departments of Transport and Basic Education. For example, Gauteng has undertaken a project as part of the Shova Kalula project where scholars are provided with bicycles. Another aspect is the Road Accident Fund, where a new Road Accident Benefit Scheme has been approved by Cabinet, and aims to streamline claims more effectively, for example, by allocating families a certain amount for funerals, rather than government paying undertakers directly.

A total of R172 billion will be spent on rail projects over the next 20 years, with R59 billion in the next 10 years, particularly for rolling stock. Furthermore, South Africa is to become the hub for rail rolling stock in Africa, with a factory opening in July. General overhauls and refurbishments will cost R4.5 billion over the next three years, while R13.2 billion is allocated for signalling and interlocking communication infrastructure. Up to 200 stations are earmarked for upgrades, totalling R5.9 billion, with youth and women contractors being targeted. SANRAL is committed to training SMMEs and emerging contractors, and giving them opportunities to win contracts, including by sharing information on projects and providing platforms to deal with challenges.

To achieve these infrastructure plans, private sector participation is essential, particularly as a commitment to growing small towns and railway ghost towns which often serve agricultural areas. However, government commitment is also essential to provide resources for infrastructure development.

### **3.2 Summary of Director-General of Human Settlements, Mbuleo Tshangana's input**

Together, the built environment departments, including Human Settlements, Energy, Water and Sanitation, Cooperative Governance and Traditional Affairs, manage a capital budget of R500 billion, much of which is earmarked for provinces and municipalities. Human Settlements alone administers a budget of R25 billion per annum (R18 billion by provincial and R12 billion by municipal government). Over the medium term to 2019, this will increase to R670 billion.

This combined view needs to be taken, particularly when looking at the catalytic megaprojects, because the entire construction value chain is impacted. For instance, government may appoint emerging contractors, without considering the source of the material supplies, which may mean up to 70% of the budget is going to a supplier who has not get undertaken transformation. Instead, a decision could be taken to set aside 30% for women or emerging suppliers. Similarly, questions of funding supply and finance should be scrutinised in terms of transformation.

An important tool for transformation in the R7.6 trillion property industry is the Property Practitioner's Bill, which aims to replace the Estate Affairs Agency Board.

Other areas of transformation in the Human Settlements sector is the amalgamation of the National Housing Finance Corporation, the Rural Housing Loan Finance Institution, and NURCHA, which funds SMMEs, into a Human Settlements Development Bank, along the lines of the Development Bank.

Currently, the Department of Human Settlements is managing 12 000 active projects countrywide and a series of projects planned over the next 15 years across national, provincial and metropolitan levels.

### **3.3 Industry Response**

#### **3.3.1 Public Private Partnerships (PPPs)**

One solution to harnessing these challenges to implement infrastructure programmes is the Public Private Partnership (PPP), which demands an effective partnership model between the private sector, government and other stakeholders.

PPPs have been successfully implemented across transport, health, prison, and renewable energy projects, with particular success in the Independent Power Producer's programme (IPP) since its establishment in 2010. In terms of the IPP, there are 55 current renewable energy projects, adding 3000 megawatts to the grid: 19 for wind energy, 24 for solar, and two hydroelectric plants. Almost R200 billion has been invested by the private sector thus far, with R58 billion being direct foreign investment, directly contributing to the stabilisation of electricity supply in South Africa. Benefits were accrued by SMMEs, in both urban and rural areas, with R100 billion in total value of goods and services procured from BBBEE suppliers and more than 110 000 jobs created. A further requirement for successful tenders was that up to 3% of the firm's turnover has to be directed towards community development projects. Twelve new industrial facilities have been established as a result of the programme. Other countries have been inspired to implement similar models.

Another way in which the private sector can assist municipalities, in particular, to achieve their infrastructure budgets and spend them wisely is through turnkey contracting. This process entails a procurement process after which a single service provider is appointed to implement the project, while the financial risk is with the private enterprise and not with the municipality. These can take the form of a PPP.

The Development Bank of Southern Africa (DBSA) highlighted their role in PPPs, by providing funding for infrastructure, particularly at a municipal level. They also assist in the whole value chain around planning, preparation, financing, building and maintenance of infrastructure projects.

The success of PPPs is an invaluable lesson in terms of radical economic empowerment, particularly the need for regulatory certainty, reducing demand on the fiscus, and directly benefiting communities.

#### **4. Conclusion**

Several areas of growth and opportunities for the construction industry in private and government infrastructure projects have been discussed. According to BMI research, the construction industry in South Africa is projected to grow by 2.8 % per annum between 2017 and 2025, with South Africa remaining one of the largest construction markets in South Africa, contributing about 3.7% to GDP. Government has set aside billions of rand for infrastructure investment.

However, despite these positive indicators, the growth rate remains low and the construction industry continues to face challenges of weak investor and business confidence, funding pressure on projects, a lack of clear and consistent regulation and policies especially in procurement, and inadequate progress in transformation.

Policy changes and new approaches are solutions to these challenges. The VRRP is central to growth, development and change in the industry, as part of the ANC government's radical economic transformation plans, and progress is already being made. Sustainable building is a feature of the construction landscape, while PPPs are becoming a common vehicle for infrastructure projects. Furthermore, the South Africa government has created opportunities for international partnerships and funding, particularly with China.

