

Report on the Kouga Construction Industry Indaba

By Trevor Watkins

Thyskor and Thyspunt Nuclear Development Forum (TNDF) organised a Kouga Construction Industry Indaba on 3rd May 2017 at The Clubhouse at Nico Malan School in Humansdorp. The indaba was attended by approximately 50 people from the local construction and related industries (See appendix 1 for a list of attendees). The meeting was facilitated by Trevor Watkins of Thyskor with a wrap up at the end by Phumzile Oliphant of TNDF. A complete recording of the proceedings is available [here](#).

The main purpose of the Indaba was to bring members of the construction community together and to raise awareness of the need to prepare for a possible nuclear build program at Thyspunt. These preparations might include the setting up of partnerships, joint ventures or a Consortium in the Kouga area to deal with expected major civil engineering contracts and tenders. Some of the topics raised during the Indaba are discussed in the paragraphs below.

Thyspunt

Court judgement

Following the Lee Bozalek judgement in the court case brought by Earthlink / SAFCEI there was much confusion in the audience as to the likelihood of the Thyspunt nuclear development going forward. In fact, several potential attendees to the Indaba cancelled their bookings following the verdict in the court case. Trevor Watkins pointed out that the judgement spoke only to the procedures followed in the nuclear procurement process and did not say anything about the actual advisability of the nuclear development or its location at Thyspunt. In addition the current ANC government would have little difficulty in satisfying the procedures recommended by the judge going forward.

Timing

Finney Jordaan of Kouga Business Forum (KBF) said that their research showed that at least R4 billion infrastructure upgrades would be required in Kouga to support the nuclear build. He estimated that the go-ahead would take 3 to 4 years. He said that the EIA was still not approved, and therefore a Record of Decision (ROD) had still not been compiled. He said that the DA is opposed to nuclear (15.18). Jannie Kruger of the KBF said that the Thyspunt development would not take place in his lifetime, in his opinion.

Trevor Watkins said that he believed the nuclear build was a huge opportunity for the Kouga district which should be supported by those who live here. Nevertheless, much of the opposition to Thyspunt also comes from residents in Kouga.

NIASA Representative

The Nuclear Industry Association of South Africa (NIASA) representative spoke in some detail on the proposed Nuclear1 development at Thyspunt. He said that after the completion of Koeberg in 1985 the plan had been to move immediately to the next nuclear construction program, but Chernobyl happened in April 1986 and that set the local program back significantly. The Thyspunt nuclear build programme kicked off in 2006 and was scheduled to go ahead in that time frame.

Eskom decided to look at economies of scale and suggested building 20 gigawatts of nuclear power. At that time there was barely a murmur from the public and meetings to put the program in place proceeded quite happily. Unfortunately the costs of building a nuclear power station doubled in just 2 years in 2007/2008 and Eskom was not following the procedures laid down by the Public Finance Management Act. Following the Fukushima incident in 2011 the nuclear Development Programme in South Africa was effectively put on hold until the current time. In 2017 we are now where we were in 2010. In 2017 the world has changed and there is much more sensitivity to the whole nuclear industry and the potential dangers associated with it.

He felt that a decision to proceed with the procurement process would be given by Eskom or the government in the next 3 to 6 months and within 2 years in the worst case. He said that energy production in South Africa in the future would be more or less equally divided between three sources, namely fossil fuels (clean coal and gas), sustainable and renewable energy (hydro, wind and solar), and nuclear energy. He said that there was currently no viable alternative to the use of nuclear to address South Africa's baseload energy requirements in the future. Coal fired power stations were expensive and seriously polluting. Renewable energy such as wind and solar would continue to play an important part in the future but would never provide a sustainable base load power supply. Approximately 90% of South Africa's energy is produced from highly polluting coal and this is going to have to change in the future. He stressed the need for better education to the public regarding the safety and cost of nuclear energy. The only form of energy generation that is cheaper than nuclear over the entire life cycle of the project is hydroelectric power. He estimated that 9600 mw will cost half a trillion rand, not the 1 trillion suggested currently. Building just 2 units to produce 4800 mw at Thyspunt will cost even less.

Thyspunt will provide a huge stimulus to the moribund South African and Kouga economy. Once tenders are issued this will immediately create 30,000 additional jobs in South Africa. The process can be restarted quickly, we could still see a decision by June 2017 (179), with a nuclear vendor selected by March 2018, and building starting in 2019-2020.

Thyspunt is very similar to Hinckley Point in the UK, where construction of a nuclear plant is proceeding close to a small rural village.. After the requests for information are publicly filed we will get a much more accurate estimate of the actual cost of the program. Eskom has this information but cannot release it yet.

Construction industry in Kouga

CIDB ratings

Johan Duvenhage raised the issue of CIDB ratings. It is estimated that 85 to 90% of all construction projects in SA go to companies with CIDB ratings of 8 or higher. In order to get a CIDB rating of 8 a company must have successfully completed a project worth R300 million. However, a company with a CIDB rating of 7 cannot tender for a project of R300 million. Johan asked how do we resolve this Catch-22 situation.

Most contractors in Kouga area are CIDB level 2 or 3.

BBBEEE ratings

All agreed that this entire construction process would require full BBBEEE accreditation from all parties involved. Only 6 companies at the Indaba are black-owned and fully certified for BBBEEE.

Jackie Joseph said that it is government's responsibility to implement black economic empowerment, by making accreditation a requirement to win government tenders. It is not the responsibility of private business, which can make its own decisions on their level of black ownership (130). Only 3 companies present actively tendered for government work at the local, provincial or national level. The reasons for this are

- Lack of financing
- Slow payment of outstanding liabilities (90 to 120 days)
- Onerous regulatory requirements (CIDB, BBEEE)
- Irregularities and favouritism in tender processes (for example, R41m St Francis bridge project not tendered) (134.20)

Jackie also suggested that more government bodies such as IDC, SETAS, relevant departments (Energy, transport, labour, public services) should be invited to future discussions.

Independent/Integrated/Industrial Development Zone (IDZ)

The question was asked "How do we attract business and investment to Kouga?" Trevor Watkins suggested that one way would be to set up an independent or Industrial Development Zone within Kouga, possibly in the Thyspunt area. He gave the example of Mauritius, a tiny island 50 miles long and 30 miles wide, which has become the third fastest growing country in the world and the fastest growing country in Africa. Mauritius has invested heavily in Independent Development zones, particularly in the information technology area. Other very successful examples include Shannon in Ireland, Singapore and Hong Kong.

An IDZ would be a specific demarcated area of land in which companies could do business. Within the Zone many of the onerous laws which currently restrict the ability to do business would be lifted in the interests of encouraging growth. Like in Shannon, tax reductions or a tax holiday for a period would be offered. Labour laws such as minimum wage or BBEEE requirements would be reduced or suspended. Restrictions on the movement of capital would be suspended. Companies must come to Kouga because they believe it is in their best interests, not because of some short-term incentive scheme which will soon end.

Challenges to Kouga Construction Business

1. **Scale** - Kouga construction businesses tend to be small. Only 1 company attending the indaba had an annual turnover greater than R100 million. Seven had a turnover around R10m. Only 12 companies employ more than 10 people. In order to compete for large tenders, local companies will have to come together in joint ventures.
2. **Finance** - Most companies complained of limited access to capital. They have neither the skills, collateral nor reputation to obtain large loans.
3. **Kouga Municipality readiness** - Questions were asked about the readiness of the local municipality for a large infrastructure development program. Slow and cumbersome building approval processes, slow and cumbersome supplier database approval, over staffed and underskilled, cash flow constraints, limited infrastructure budget, limited maintenance budget.
4. **Regulations and gradings** - CIDB and BBEEE and labour laws and a host of other regulations make it difficult to do business in Kouga, and in South Africa.

5. **Skills** - Experience on very large projects, project management, information technology skills, legal skills, financial skills, all are in short supply in Kouga.
6. **Cash flow due to slow payments.** The biggest culprit for slow payment appears to be government, often only paying 90 to 120 days after invoice. This puts an intolerable strain on the cash flow of SMME's. If the government is serious about black economic advancement and empowerment, it must get its payment systems in order. RET requires the state to pay its suppliers.
7. **Information** - There is currently no database of suppliers, labour, or professionals available in the Kouga area, that is known to the delegates to the indaba. Existing Thinklocal website (www.thinklocal.co.za) provides a well organised database of people and services, but is not widely known or supported. How do you find qualified and reliable black partners in Kouga? You can't be employed if you can't be found.
8. **Access to tenders** - Just 6 companies monitor tenders on a regular basis, mostly using the Leads2Business website (<http://www.l2b.co.za> (R1120/month)). There is no coordinated plan to make this tender information widely known, although some companies do share leads that they cannot follow.

Proposed solutions

1. Local companies should form joint ventures (JV) with each other, and with larger construction companies through their mentoring programs. More information on the technicalities of JV's must be acquired.
2. Setup an IDZ or SEZ, as described above.
3. Investigate and follow up on mentoring programs from large construction companies.
4. Make a plan to centralise and share access to tender information.
5. Register on and use the Thinklocal website and database, to advertise your business, and to find and rank other products and services.
6. Engage with , local, provincial, national government, investigate incentive schemes, share problems and challenges.
7. Improve local networking and communication using sites such as Thyskor email group and Facebook page, KBF facilities, TNDF. Setup construction industry specific groups.
8. Find and engage with local black businessmen and entrepreneurs with a view to local advancement.
9. Ask KM to reduce size of tenders to cater for local business - instead of issuing a tender for 1200 houses, issue 4 tenders for 300 houses.

10. Engage with KM and state bodies to reduce the complexity of doing business due to burdensome regulations.
11. Engage with government and KM to ensure that local content requirement for all local developments be set at least 40%. Then ensure we have capacity in Kouga to satisfy that level.
12. Improve local construction business efficiency using tools such as EJM software, Thyskor website, FB and googlegroup and Thinklocal.
- 13.

Appendix 1 - List of attendees

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