

Transparency and Integrity System for the South African Construction Industry

1. Introduction

The construction industry is the broad conglomeration of industries and sectors which add value in the creation and maintenance of much needed economic infrastructure (fixed capital investment) which is fundamental to economic growth and job creation in South Africa. Investment in economic infrastructure occurs in expectation of demand or in reaction to demand for capacity. The number of people directly employed per R1 million spent in the construction sector per annum is around 4 persons. This is the third highest of all sectors and is only surpassed by the agriculture and mining sectors. In some construction activities, employment intensive practices can, without necessarily sacrificing quality or at a cost premium, increase the quantum of work generated per R 1 million spent and provide temporary job opportunities to unskilled workers. A total infrastructure spend of R811 billion is projected over the MTEF period 2011 to 2014, of which 40 per cent will be in energy, 26 per cent in transport and 11 per cent in water supply. However, fraud and corruption, mismanagement and inefficiency in construction projects have the ability to undermine the expected economic and social benefits.

There are very strong indications that corruption is increasing rapidly in South Africa – and one such view is that “South Africa is reaching a tipping point beyond which it may be very difficult to reverse corruption in the public sector”. Amongst others, corruption in the construction industry is being highlighted as an area of particular concern. Government has identified corruption as an area that needs to be tackled by regulatory bodies such as the cidb.

A key finding of the cidb report *Construction Quality in SA – A Client Perspective (2010)* is that one of the major contributors to poor quality in construction is procurement related barriers such as:

- a) Institutional barriers which relate to the poor skills and lack of competence of those involved in construction procurement resulting in the weak application of standards, processes and procedures and poor procurement outcomes
- b) The evaluation of tenders based on price and preference only (lowest price) and not on price preference and quality (best value)
- c) The procurement and delivery model which rarely embraces collaborative relationships between government clients and its contractors and consultants, including the early involvement of contractors in integrated supply teams
- d) Fraud and corruption – including political interference, cronyism and nepotism

Specifically, it was noted that corruption, political interference and institutional barriers are becoming increasingly more dominant in South Africa. A key recommendation of the cidb report proposed that strong consideration be given by the cidb to introducing requirements for integrity and transparency in construction procurement.

2. Curbing corruption in construction

Corruption does not necessarily result in the paying of financial bribes, but also often takes the form of political interference in the tender process, or cronyism, nepotism, etc. Such political interference is also of growing concern in the construction industry, and frequently results in the appointment of contractors that do not have the necessary abilities to deliver the required quality.

The cidb construction procurement prescripts are designed as an effective tool to introduce uniform standards for better and improved procurement practices. However, there is acknowledgement that government does not get full value from public sector construction and that it has failed to exploit the potential for public procurement of construction and infrastructure projects to drive growth. Inconsistent procurement practices by poor-performing public sector departments have highlighted the need to develop and promote further efficiencies and increase the level of standardisation of practices and with an effective tool to prevent corrupt behaviour, and to encourage integrity.

The Organisation for Economic Co-operation and Development (OECD) and Transparency International found that mismanagement, inefficiency and corruption can account for 10 - 30% of a construction project's value. Promotion of transparency and accountability in publicly financed construction projects can reduce this amount. Public disclosure and assurance of relevant information encourages informed reaction which leads to greater accountability for efficiency and quality.

In order to introduce Transparency and Integrity Systems for construction projects in South Africa, the cidb recently embarked on a process to introduce the **Construction Sector Transparency Initiative (CoST)**. CoST is an international multi-stakeholder initiative designed to increase transparency and accountability in the construction sector. CoST's aim is to enhance the accountability of procuring bodies for the cost and quality of public-sector construction projects by promoting transparency of information on construction projects, in an effort to reduce mismanagement, waste, and corruption that are common in the sector.

3. Introduction of a SA CoST Model

On 19 May 2011, the cidb hosted a summit to introduce the CoST Model to the South African Construction Industry.

Speakers from the CoST Delegation provided great insight to participants of the Summit on the merits of the CoST Programme, and the lessons learned from the pilot phase. Mr Mahesh Fakir, a representative from the Presidency, viewed the CoST initiative as "...another tool in our arsenal to mitigate corrupt activities in construction projects..". Mr. Christiaan Poortman, the Chairman of the International Advisory Group (IAG) of CoST, stated '...it is important to be clean, it is equally important to be seen as clean; and CoST can assist procuring bodies and their countries to achieve this pivotal credibility".

The Summit granted approval to the cidb and CoST Secretariat to establish a Working Committee to focus on a CoST Programme for South Africa.

4. How does CoST work?

CoST provides for the disclosure of material project information on a selection of construction projects. 'Material' in this context is intended to indicate that sufficient information be provided to enable stakeholders to make informed judgements about the cost and quality of the infrastructure concerned. The disclosures include, for example, a description of the project; its purpose and location and, at the implementation stage, summary details of the original and final: project specification, project cost, contractor and completion dates.

The disclosures also include justification for any significant differences between the original and final information, as well as project evaluation and completion reports. Disclosure of raw information on its own is unlikely to be sufficient to achieve greater accountability due to its complexity. The disclosures need to be reviewed and analysed to ensure that they are comprehensible to all stakeholders. CoST introduces a structure to meet this need.

A key feature of CoST is the establishment of a Multi-Stakeholder Group (MSG) to oversee the implementation of CoST. A collaborative MSG can play an important oversight and interpretative role in ensuring greater transparency and public understanding of information disclosed on projects.

5. The SA CoST Model

The CoST global programme will be launched between June and September 2012 and will programme the implementation of the following phases:

- Engagement phase
- Preparation phase
- Implementation phase
- Validation phase

Work has already commenced on the engagement and preparation phases. The following activities will be undertaken prior to implementing the SA CoST programme:

- A public statement by the South African Government that it intends to implement CoST;

- The appointment of champion within government with responsibility for ensuring that CoST is implemented;
- Establishment of a multi stakeholder group (SA-MSG) to oversee the implementation of CoST and represent stakeholder's interest;
- A country work plan is produced for implementing CoST, with a budget, timetable and an assessment of capacity constraints (Baseline document);
- Project thresholds will be established to ensure that the process is manageable and practicable;
- Project information templates will be produced to define the nature and extent of information to be disclosed by procuring bodies on all CoST projects;
- An assurance team is appointed, responsible for assessing the adequacy and reliability of project information disclosures.

6. Way forward

The cidb will coordinate the activities that will lead to the adoption of CoST principles in South Africa and the establishment of South African Multi Stakeholder Group (SA-MSG) by September 2012.