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Rusty economy undermines infrastructure plans
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The World Bank estimates that Africa will need US$93 billion* a year over the next decade to meet its current infrastructure shortfalls, if it is to create meaningful economic growth.

For us at GIBB, we believe we are part of the solution. What we do is an essential catalyst to change people’s lives. We do this every day by bringing communities together; developing landscapes and environments where opportunities evolve as a natural consequence of infrastructure growth.

As a leading multi-disciplinary black-owned engineering consultancy firm we are committed to our part in growing a continent.

* World Bank Group Infrastructure Strategy Update FY2012-2015 (Africa will need US$ 93 billion per annum for the next 15 years to fill infrastructure gaps, 2010 to 2025)
Government spending was expected to rise. But with the economy in tatters, it will look to the private sector to fund public projects.

From logistics service providers to design, build, operate and maintain an island container terminal in Tamsi Springs, east of Johannesburg. The concession will extend for 20 years and will be Transnet's biggest privately funded project. The rail, port and pipeline utility also announced plans to develop nine other projects with private involvement (see page 19).

Recommendations for how the private sector can participate in infrastructure projects (including projects administered by state-owned enterprises) have made their way to government, says national treasury deputy director general of economic policy, Monale Ratsoma.

The framework agreement oversees contracts that are replicated for a number of producers, making them easier, quicker and cheaper to roll out. And with each bidding round, the cost of procurement declines.

Strong political support has also been vital to the programme's success, Departments like national treasury, energy and public enterprises worked together successfully. Eskom, which signed power purchase agreements with the IPPs, also played an important role. Van Oudenhove believes the weak economy may drive greater partnerships. “It could push policy more towards the private procurement of infra-structure because departments cannot afford to put a large project on government’s balance sheet.”

The benefits go both ways. Infrastructure is built, even if government cannot afford to fund it. And the private sector benefits with work, which drives employment and growth.

The state of SA’s economy is on everyone’s minds. Government debt has climbed to 45% of GDP. Growth is weak, unemployment has increased and the costs of goods and services have shot up, putting pressure on consumers. SA may have narrowly averted a sovereign credit downgrade this month (which would have seen its credit rating into junk status), but the danger hasn’t passed. Van Oudenhove says local markets — equities, bonds and foreign exchange — had priced in a downgrade SA’s offshore debt market, in particular, in trading as if the country has already lost its investment grade status.

A downgrade drives up the cost of long-term funding, says Van Oudenhove. And the weak rand has already driven up capital costs because it has made imported components more expensive.

The economy weighs heavily on state-private partnerships. Government revenue is tight. National treasury is tightening its belt. But the clampdown in public spending may open the way for the private sector to finance more public sector projects. This has been one of the business community’s most important proposals at government-business talks arranged by the presidency and finance minister earlier this year.

Traditional resistance towards private participation in assets traditionally dominated by the state and its enterprises has limited its use. But recent developments may change that. Transnet this month invited proposals from logistics service providers to design, build, operate and maintain an island container terminal in Tamsi Springs, east of Johannesburg. The concession will extend for 20 years and will be Transnet's biggest privately funded project. The rail, port and pipeline utility also announced plans to develop nine other projects with private involvement (see page 19).

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owned enterprises. Demand has fallen below projections that the expansion projects of utilities such as Transnet relied upon.

The ability of state enterprises to raise funds is inextricably linked to the state of the economy, and the negative commodity cycle has hurt investment plans.

Mining companies have also been hard hit. Many companies failed to invest during the last resource sector boom, and found themselves unable to once prices slumped. But Van Oudenhove says compared with other emerging markets, the depth of SA's banking market, its track record of corporate governance, and the success of the IPP programme makes local infrastructure an attractive investment, even for foreign capital.

But investment rates are too low to drive greater growth. Gross fixed capital formation, a measure of investment activity, grew by 1.4% in 2015, following a contraction of 0.4% in 2014, according to the SA Reserve Bank. As a percentage of GDP, gross fixed capital formation is 20.6%.

The National Development Plan sets a target of 30% by 2030, a rate consistent in high-growth economies. It says public sector gross fixed capital formation should reach 10% from about 7% by then. Investec expects fixed capital formation to decline to 20% of GDP in 2016. But economist Annabel Bishop project modest increases from 2017. In a report, Bishop says growth in private sector fixed investment is likely to suffer in 2016, particularly as interest rates rise.

A good indication of future spending can be found in Nedbank’s capital expenditure project listing.

It provides the number and value of new projects (worth more than R2bn) announced during 2015. Projects with a value of R52.4bn were announced in 2015, a jump from R38.6bn in 2014.

Some projects may take a while to materialise, but the increase is good news. As in previous years, private projects dominated, with 56 new projects announced accounting for two-thirds of the total number. In value terms the projects amounted to R131,1bn or 86% of the total value.

This is despite the private sector sitting on a growing cash pile. Nonfinancial private companies held deposits of R725bn at the end of March, up from R670bn a year earlier, Bank data shows.

General government and state-owned companies announced 18 and 10 new projects respectively, worth just over R110bn each. But government facilitated R23bn worth of new renewable energy projects announced in 2015, as part of the third round of the IPP programme.

Large projects announced in 2015 include the R9.3bn investment to ramp up the Palabora copper mine in Limpopo and extend its life to 2033. Others are BMW’s R8bn upgrade of its Rosslyn plant and VWSA’s R4.5bn investment plan.

These projects are still likely to be too little to keep building contractors happy. SA’s construction companies have had to change their business models to stay in the game (see page 20).

Companies like Group Five have had to spread their wings. CEO Eric Vemer says 70% of Group Five’s order book still comprises SA-based work. But that is set to change. Within three years, he believes it could drop to 50%, or even 40%.

Civil engineering work has shown little to no growth. Where there is work — in road construction for example — projects are smaller, competition is high, and margins are low.

Engineering and construction provides 85% of Group Five’s revenue, with the rest split between investments and concessions; and manufacturing. But engineering and construction contributes just 13% of the company’s core operating profit.

Building work like shopping malls, office blocks and public sector health facilities has been a fairly stable source of income. But the engineering division’s growth has increasingly come from newer areas of expertise like energy. Group Five has been involved in some IPP projects.

It is bidding for energy projects across Africa, says Vemer. The US$410m Kpone Independent Power Project in Ghana, which reached financial close in the current year, is a good example of the type of project the company hopes to secure more of. The 350 MW power plant is an engineer, procure and construct (EPC) contract.

Its Eastern European concessions business is a strong driver of growth. It has established toll road concessions in Poland.
Sephaku Cement, powered by Dangote Cement, is CHANGING THE GENETIC CODE OF CEMENT IN SOUTH AFRICA. With the most high-tech plants in the country turning its turbines, it has injected fast, strong and confident DNA into an ageing sector. The roots of South Africa’s first new clinker producer since 1934 date back to 2006 when its hugely successful Greenfields project commenced.

Today, as a 36% associate company of Sephaku Holdings, we are immensely proud to stand side by side with Dangote Cement, which is AFRICA’S FASTEST GROWING INDUSTRIAL company.

Sephaku Cement is committed to being the sub-Saharan driver of Dangote Cement’s bold vision to build prosperity in Africa. As a 64%-owned subsidiary of the company, customers gain access to a range of benefits, which are unlocked as a direct result of being part of a truly pan-African manufacturer and distributor of cement, including:

- Proven success through efficient production facilities in strategic locations close to key growth markets;
- The operation of modern plants in exciting growth markets; and,
- High-quality products at affordable prices, backed by excellent customer service.

Sephaku’s operations include a 6,000-ton per day flagship clinker facility located near Lichtenburg in the North West Province, a cement milling plant in Delmas, Mpumalanga, and Sephaku Ash, producing close to 1.3 million tons of ash annually. Its plants run on the latest cement production technology equipment and, critically, do not emit more than 30mg per normal cubic metre.

With a positive impact on cost and environmental management efficiencies, its operations are in the region of 30-40% more efficient through, amongst other factors, installation of new vertical roller mill technology for all milling requirements. Embedded in these impressive plants, operational and process efficiency and customer-centric service, Sephaku Cement confidently stakes its claim as one of the continent’s most proficient producers of integrated cement and clinkers.

Pieter Fourie, Chief Executive Officer, Sephaku Cement
Call us on 0861 32 42 52 www.sephakucement.co.za
Inability to implement projects that have been in the pipeline for years. SA has superior regulatory access, to capital and better skills than other African countries. It also has an excellent record of payment, particularly for PPPs. But it frequently takes longer to reach financial close on a large public construction project in SA, compared with neighboring countries.

The establishment of the Presidential Infrastructure Co-ordinating Commission in 2012 was intended to address this problem, and provide a long-term pipeline of projects.

Eighteen strategic integrated projects, mapping infrastructure growth and economic development patterns around the country, were created.

But information about the commission’s progress has been difficult to get.

The newly created government business units may yield more progress.

But data centers and data flow will be one of the issues that is going to be addressed in the “infrastructure stream”.

Another priority is building trust. For the industry to move forward, there needs to be an open dialogue and a commitment to implementing the results.

It is important that the government and business work together to address these challenges.

Right now, the situation is dire. The government has not been able to break the impasse with the telecom sector, and there is a growing sense of frustration on both sides.

The government needs to take a more proactive role in addressing these issues, and work with the industry to find solutions.

One potential solution could be to establish a regulatory body that is independent of government, and has the authority to make decisions on these issues.

Another option could be to create a special task force that is mandated to find solutions to these challenges.

Whatever the solution, it is clear that the government needs to take action to address these issues, and create a more stable environment for the telecom sector to thrive.

This is crucial for the continued growth and development of the South African economy.
The local mining industry has never had it this bad.

After a commodities super cycle (2000-2014) when demand rocketed on the back of an insatiable appetite from China, the sector has buckled under the strain of the Asian nation’s changing economic fortunes.

The SA Reserve Bank noted the scale of the drop-off in global demand for metals in its first quarterly report when it said: “Non-gold mining exports to Africa and Europe in particular contracted sharply, declining by 18% and 19% respectively in the fourth quarter of the year.”

The declines in the demand for commodities also caused a collapse in prices and the valuations of mining companies. Mining bosses are now struggling to come to terms with an environment that has become extremely hostile.

Speaking at the recent Mining Indaba in Cape Town, Anglo American CEO Mark Cutifani, for example, pointed out that at the time, he had been in the job 33 months and “in those 33 months, I can remember only one month where prices went up”.

Cutifani said the scale of the downturn could be seen in the global mining sector losing US$1.4 trillion of its value since the beginning of 2013, which was “more than the combined value of Apple, Exxon Mobil and Google”.

When it decides where to invest, the sector is in a bind. It has to plan major projects years ahead, but still needs to take into account the low price environment and weak global economy.

The pressure on the industry can be seen with African Rainbow Minerals (ARM). Its Lubambe copper mine in Zambia cost it R1.4bn in impairments. And though its executive chairman Patrice Motsepe said the project was “under review” at ARM’s half-year results, the group was also playing the long game. “We are absolutely bullish about copper long-term. Copper is a commodity that will create significant value.”

The capital-heavy nature of mining also compounds the pressure as it means companies have to continually invest, regardless of the state of the market.

Gold Fields increased capital expenditure by 8%, from R243m to R262m only because of higher spending on its fleet and the upgrading of a shaft, for the quarter to end-March 2016. This is maintenance rather than spending on new infrastructure.

A Deloitte report tracking trends in the mining industry said the pressures on companies would force them to shift away from allocating capital in a fragmented manner, which makes it difficult to link capital spends to expected financial returns.

“Very soon we will see companies tie capital allocation to strategic priorities by emphasising only high-quality, long-life assets; shifting decision-making around sustaining capex; or focusing more on higher-grade brownfield exploration,” says Deloitte.

Companies might be taking a new approach to investment but this does not mean they will not be investing at all.

“Expansion projects generally have a long lead time to complete and we are therefore investing through the cycle, albeit at a lower rate than at the height of prior commodity cycles, and only in projects that meet the capital allocation criteria,” Anglo American said in a statement.

Though it said that cost reductions and productivity improvements were a priority, it pointed out that there were a number of projects either in development or under evaluation.

“The largest is the Venetia underground mine in Limpopo, which is a life extension of the current Venetia open-cast mine. This project, the capital investment for which is S2bn, was originally approved by the board in 2012,” said Anglo American.

This approach by Anglo American is in keeping with Deloitte’s advice.

“Just as, during the super cycle, people imagined prices would go up forever, people now imagine the market will never recover. Neither extreme represents the truth,” says Philip Hopwood, Deloitte’s global mining leader. “What is true, however, is that our cycle times are lengthening. That means it could take years to adjust to current market forces — but it’s still a cycle.”

Larry Claassen
**Get the house in order**

As partners, business requires government to start appreciating the value of every rand

Public private partnerships (PPPs) have been touted as the solution to SA’s onerous infrastructure development needs. However, the traditional PPP model has had only minimal success. PPPs can take years to complete, and are extremely cumbersome. A typical PPP has no less than six phases with approval gates at each stage.

Additionally, there is the likelihood that its investors could be foreign companies who may need to adhere to empowerment requirements and fulfill obligations such as establishing a local presence. At times one would be forgiven for thinking that successfully completed PPPs are nothing short of miraculous.

As we enter a new era of government and business collaboration — fuelled by a desire to redress the recent damage caused to our economy by poor political leadership — discussion has centred on the need for the private sector to partner government to develop an inclusive economy.

The initial, highly publicised talks between business and government have identified three priorities: avert a credit rating downgrade; accelerate growth of small business as a catalyst for job creation; and develop investment projects in key sectors.

All will require collaboration between business, government and labour to demonstrate to the investment community that SA remains a viable and attractive investment opportunity.

These initiatives are intended to assist in the implementation of the National Development Plan (NDP). But the NDP, like most of government’s long-term growth strategies, was drafted at a time when most of us expected GDP growth of 3%–6%.

We face the dire prospect of GDP growing by less than 1%, which leads us to ask whether the state is able to implement any of the infrastructure projects so integral to the success of the NDP.

This is where the private sector needs to step in.

Around the boardroom table and behind closed doors, business leaders have affirmed their commitment to the NDP. Countless strategies have been conceived which demonstrate the business case for private investment in public infrastructure.

The long-term risk nature of PPPs is, however, a concern for investors. A stable regulatory and political environment is non-negotiable when making long-term investments (often typified by low rates of return).

In addition, government will need more than financial support to avoid a ratings downgrade. It must be willing to allow private sector influence over state-owned enterprises (SOEs) to improve their efficiency and reduce their drain on the fiscus.

Government’s willingness to take guidance from business leaders remains to be seen as such intervention will inevitably lead to a severe tightening of the fiscal belt. It would dismantle the culture of graft and tenderpreneurship within SOEs.

An alarming trend over the past few months, following government’s commitment to reducing state expenditure, has been the relentless requests by government departments and agencies for private sector funding of government-led projects.

Rather than fully appreciating what these budget reductions require in terms of efficiency and smarter implementation, the tendency has been to arrogantly forge ahead with preconceived projects at the same cost, while pressuring business to fund the budgetary shortfall.

This is not partnership. It is exploitation, and it will not find favour among business leaders. All spheres of government need to take a hard look at how they conduct their affairs. As partners, we require government to appreciate the value of every rand. The corporate sector requires a compelling business case for every investment. The private sector is, and always should be, driven by profit.

Government must appreciate the fact that there are countless competing investment opportunities, and should start working harder to create a stable environment favourable to investors.

Ravens is CEO of Accelerate Cape Town
Taking a holistic view to funding has made the DBSA SA’s key infrastructure facilitator

Saying the concrete

From the Infrastructure Investment Programme for SA (IIPSA) which is designed to support the implementation of the National Development Plan as well as the Regional Infrastructure Development Master Plan of SADC. This fund was established with contributions from the European Union (EU) that has committed €100m for these projects, and is administered by the DBSA.

The project focuses on unlocking investment

With a strong pipeline of projects being prepared for implementation and completion within the next three years, the DBSA’s Project Preparation Unit (PPU) is central to the state’s development finance institutions mandate and objectives; technical, commercial, financial viability; strategic fit in the DBSA’s sectoral development priorities for the country; and the sustainability of the development projects.

The PPU general manager, Mohale Rakgate, says that the creation of this unit following the DBSA’s reorganisation in 2013 has been validated, committing R17.4bn (2014: R12.2bn) in loans and disbursing R13bn (2013: R12.7bn) in the 2014-15 financial year. The creation of the PPU is in line with the DBSA’s strategy of adopting a value chain approach to project finance. The unit is therefore the very first step in that value chain which engages with clients to assess and prepare their applications for financing. Factors that the PPU specialises in includes the development and evaluation of the financial viability; strategic fit in the DBSA’s sectoral development priorities for the country; and the sustainability of the development projects.

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 Accelerating delivery

Development banks, by their very nature, occupy a space that is considerably different from commercial banks. Different from the Development Bank of Southern Africa (DBSA) this differentiation is all the more evident in its Infrastructure Delivery Division (IDD).

Effectively a project management practice, the IDD has built up a team of experts to help conceptualise, pilot and supervise infrastructure projects across the country. We are excited that we are not going to be able to solve the problems in SA or the rest of the continent through finance solutions alone,” says IDD group executive manager Sinazo Sibisi. “Those problems are often institutional, related to infrastructure planning itself, so we assess whether we’re choosing the right projects and prioritising them to get the developmental outcomes that we need. And we are able to package those projects to get value for money.”

By taking a step outside of the pure financial conditions that the bank has traditionally had to make, the IDD has carved out a specific niche for itself that has helped to accelerate projects and ensure they meet urgent infrastructure needs.

The success of this approach is measured in the IDD’s R3bn funds under management and we aim to grow this to R4.5bn in the next financial year,” Sibisi says. “This is a key focus in the year ahead will be on continuing to develop the project preparation skills urgently required to progress projects from concept to reality. By so doing, we aim to move projects to the stage at which potential funders will consider lending to them.

“We plan to cultivate these skills (including necessary for scouting, pre-feasibility and feasibility works) with other development finance institutions (DFIs) to develop a strong pipeline of projects for not only the DBSA and other DFIs to fund, but where appropriate to co-invest in private sector funders through syndication.”

The reason for this decision is that DBSA has managed to secure R2 trillion (from R1.9 trillion in 2014) from our partners such as the RETPA, SADC, PFDE and others” says Rakgathe. “We always look at the nature of the project and evaluate the best way to finance the project preparation work, and if we can raise that from third parties, we will utilise that first,” Sibisi says.

On the role of the PPU, DBSA CEO Patrick Flaminio says: “A key focus of the division’s revenue is generated from clients — primarily in the public sector — and that it receives no funding or income from the DBSA. She adds that the ID’s staff complement of 135 should grow to 185 by the end of 2016, and eventually to as many as 100. These professionals will certainly be needed to help the unit achieve its aim of contributing across the entire infrastructure project and delivery value chain.

“Our one key focus areas are on delivery innovation and technological innovation,” she says, “so what we are working on with clients is to say what extent can we adopt programmatically approaches to delivery through asset optimisation, for instance.”

She cites the example of a recent fast-tracked project for the Limpopo department of health that reviewed mechanical and electrical equipment in the province’s major hospitals. After evaluating the equipment’s criticality to the ability of those hospitals to function, such as chillers, boilers, laundry systems and generators, those were replaced or refurbished.

“If you start out working on those things, you’re able to have a major impact on the quality of health care in those hospitals,” Sibisi says. “We had situations where CEOs of some hospitals had been waiting for their previous implementing agents to deliver generators for five years, and the DBSA was able to get them in five weeks.”

By demonstrating the positive impact of such maintenance programmes, the IDD is hoping to improve the quality of ending care that will help institutions to achieve savings that can then be directed to health care services.

The division’s programmes that adopting a long term view on effective infrastructure delivery is behind the IDD’s overarching theme of energy efficiency. This approach is founded on lowering costs while reducing environmental impact by the public sector. This is being pursued in conjunction with the department of public works and includes updating the green building guidelines and how green finance can be leveraged to start greening government facilities over the long term, which also provides a valuable function in practice in the country,” Sibisi says. “It is really about how we identify them and scale up that they’ve got a larger impact.”

Examples of how division has implemented this vision of scaling up solutions include work done with the Eastern Cape department of education to build skills and capacity within local communities to ensure that new or refurbished infrastructure is maintained. Young members of the community, for example, are partnered with development finance institutions (DFIs), to operate these facilities.

“As a government entity we are part of the broader state family, so we drive public-to-public partnerships first and then enables public-private partnerships, with us acting as the intermediary,” Sibisi says. “This concept is one of the most innovative things we have created under this programme since 2013.

Again demonstrating the catalytic role it plays beyond physical infrastructure delivery, the IDD helped source and supply the equipment for the Elliotdale project which is part of the Enhanced People’s Housing Process – which actively involves beneficiaries in the decision-making process over housing — and makes a contribution towards the building of their own homes. In total, the Elliotdale project delivered 600 houses to the community in rural Eastern Cape.

The project also presented the opportunity to use this as a pilot programme for providing an innovative development solution to an issue facing many communities subject to numerous failures. In an innovative approach to the completion of the project, the department allocated a further 4.010 units to the DBSA in the next two years.”

DBSA

The Development Bank of SA (DBSA) Infrastructure Delivery Division has been central to the Accelerated Schools Infrastructure Delivery Initiative (ASIDI) which extended 166 new schools since the programme’s inception. In the 2015 school year, 9,682 pupils enrolled at these new schools.

In 2014 the division completed, with another 48 at various stages of completion, and a further nine at procurement or foundation stages. Apart from the direct benefit to the country’s educational capabilities, 9.5% employment opportunities have been created from the delivery of these schools, with R70m out of R2.8bn in expenditure allocated to labour.

Health care:

The DBSA has been behind much of the promise include technology innovation, first.，“ Sibisi says. “Innovation is at the centre of everything we do.”

The IDD’s influence is also felt outside SA, with the division rolling out programmes in neighbourhoods across Eastern Cape.

Sibisi says the efficient delivery of water is one of the key focus areas, given the region’s scarce water resources.

This becomes particularly troublesome where water sources cross borders and the lack of funding or feeding in one country may affect a neighbour’s ability to provide access to water.

“Next to energy, water is a critical issue from a development point of view. The idea behind the SADC water programme is to encourage cross-border interventions and bring together the two relevant countries with the support of external funding to enable access to water on the continent,” Sibisi says. “We have been working on the feasibility of feeding opportunities for the youth on an ongoing basis.”

Human settlements: Human settlements is one of the key focus areas for the DBSA given the enormity of SA’s citizens with decent, affordable housing.

The bank has therefore been involved in numerous initiatives, including SA’s citizens with decent, affordable housing.

A real pressure point is the lack of affordable housing.”

This is a model that it intends extending to other regions, mandating by the provincial department of human settlements, the DBSA’s Housing Process — which actively involves beneficiaries in the decision-making process over housing — and makes a contribution towards the building of their own homes. In total, the Elliotdale project delivered 600 houses to the community in rural Eastern Cape.

The project also presented the opportunity to use this as a pilot programme for providing an innovative development solution to an issue facing many communities subject to numerous failures. In an innovative approach to the completion of the project, the department allocated a further 4.010 units to the DBSA in the next two years.”

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SA's giant leap into green

There was a time when investing in renewable energy was something only eccentrics and die-hard eco-warriors considered with seriousness. Back then, using the sun, wind and waves to power a country seemed as fanciful as perpetual motion machines. Fortunately energy derived from renewable sources is as important in global energy planning today as electricity from coal and nuclear power plants.

This change in attitude is particularly evident when considering the heavyweight funders that renewable energy projects have attracted. Cape Town-based Merger

Eberhard says the programme shows that it is possible to have "much greater bankability. Finance and infrastructure services that help to bring projects to bankability. Finance and infrastructure services that help to bring projects to

Any observer of the Development Bank of South Africa (DBSA) over the past number of years will have recognised that regional integration has become central to the bank's programme of action.

"The economics and growth of the region depend on countries' ability to integrate into each other in order to exploit the value and synergies created through such a market," says DBSA CEO Patrick Dlamini.

"In this regard the DBSA, as an infra-

This external reach that the DBSA has developed over the years has contributed to the bank investing R200bn in regional projects approved for support under the Development Master Plan of SADC. The PPF is geared towards financing the preparation of infrastructure projects in the energy, transport, water, and ICT sectors. By date we've had regional infrastructure projects approved for support under the Facility in Angola, Botswana, Mozambique, Tanzania, Zimbabwe, Zambia, the DRC and SA, Dlamini says.

"As a developmental bank we have been building up on the basis of project finance awards. The DBSA's international finance division has also been recognised on more than one occasion — most notably in this instance at the Global Awards — for our participation in a 300 MW coal-fired thermal power plant in Maamba, Zambia.

Another highlight is our participation in the development and construction of a 225 MW power ship that will deliver electricity to Ghana.

An area in which the bank is gaining an even stronger foothold is in project preparation services that help to bring projects to bankability. Finance and infrastructure experts assist applicants by assessing and preparing their projects through the pre-feasibility stages in order to accelerate the financing process and thereby bring projects on line more rapidly.

The DBSA has been appointed as fund manager and implementing agency for the likes of the SADC Project Preparation and Development Facility (PPFD) and Infrastructure Investment Programme for SA (IIPPSA) that also encompasses projects that form part of the Regional Infrastructure Development Master Plan of SADC.

"The PPFD is geared towards financing the preparation of infrastructure projects in the energy, transport, water, and ICT sectors. To date we've had regional infrastructure projects approved for support under the Facility in Angola, Botswana, Mozambique, Tanzania, Zimbabwe, Zambia, the DRC and SA, Dlamini says.

This external reach that the DBSA has developed up has also resulted in the bank deploying staff within SADC to expand the scope and depth of its operations in the region. The aim is to enhance relationships in strategic markets and improve operational collaboration with counterparts at development institutions on the continent. As these relations are cemented and infrastructure continues to grow across the continent, SA will undoubtedly benefit from the diversified and distributed renewable energy resources, a competitive international market of project developers and equipment suppliers, as well as competition to finance them.

SA's investment in renewables has had a noticeable impact. A study by the Council for Scientific & Industrial Research found that since several of them came online, wind and solar photovoltaic projects "saved the power system R3.6bn in coal and diesel fuel costs" between January and June 2015.

The costs savings to the economy are R6.2bn-R8.6bn in so-called "unserved energy" otherwise known as rolling blackouts or load-shedding.

Taking away the fetishes they charged in electricity tariffs, these projects generated a similar amount in benefits for the economy. The impact of the investment in renewable energy projects can also be seen in the broader economy. The SA Reserve Bank pointed out in its first quarterly report that "real gross fixed capital formation by private business enter-

Larry Claasen
The problem is not going to go away. China and India, around two thirds of the payload it trans-ships, which is commodities, accounts for commodity price collapse and the resulting optimism.

But as its name implies, MDS is demand side. “Without a modern, reliable rail infrastructure, backed its MDS with orders it grasped the crucial importance of having a modern, efficient railway network. And logistics infrastructure are not going to go away. There is also new iron ore supply that will hit the market in the second half of this year.”

Iron ore exports play a big role in the MDS forecast, which had projected that rail volumes would reach 350 Mt in Transnet’s fiscal year-to-March 2019, up from about 215 Mt at the present. The forecast calls for iron ore exports to reach 83 Mt in 2019, 20 Mt more than in 2015. Right now figures are looking grim. Rail is still overproducing steel and that can’t go on forever. Transnet’s infrastructure spending is intended to bring Transnet’s general freight services up to scratch. “It will require huge investment,” he says. “There is an urgent need to look to private sector involvement either as a partner or even as an owner of certain operations. The private sector is willing and able to assist.”

Time delays and security problems, he says, lie at the intermodal stage where cargo is transferred from truck to train and then from train to truck at the end of the journey. Krygsman believes drastic action is needed to bring Transnet’s general freight services up to scratch. “It will require huge investment,” he says. “There is an urgent need to look to private sector involvement either as a partner or even as an owner of certain operations. The private sector is willing and able to assist.”

The point of hands-on private sector involvement may not be far off. It is set to involve KPMG, a BEI project management and engineering company.

KPMG’s goal is to set up a business solution, named Rail-flusher, onto rail and road in SA. It is a solution Transnet says has a “disruptive technology”. Used successfully in the US for decades, it enables a trailer to be converted rapidly from road wheels to rail wheels to form part of a locomotive-hauled train. At the end of the journey the process is reversed. It is an ingenious concept that should help level the playing field between road and rail.

It is hoped that it will be the start of far greater co-operation between state entities and the private sector. SA needs it urgently.

Stafford Thomas
Everyone knew that building stadia and support infrastructure for the 2010 soccer World Cup was a high point in the post-apartheid construction industry. After the soccer showcase, the sector expected to reduce its capacity as the pace of new work slowed down. But few anticipated the length and intensity of the downturn that followed.

Construction has experienced one of the most severe downturns on record, and what little momentum there was in the industry was crushed by a competition commission investigation that found widespread collusion, even on lucrative 2010 projects. The sector was forced to cough up R1.1bn in fines, in 65 bid rigging cases. The investigation implicated over 70 projects in the value of R28bn. The fines were devastating. Construction companies found themselves out of pocket and out of work.

The weak economy also caused private sector work to decline. Government committed in 2013 to spend R827bn on infrastructure, but this money has for the most part been caught up in bureaucratic red tape. Construction companies are also not indicating new projects.

The challenges have forced companies to diversify and specialise. A few firms are forced to diversify and specialise.

The changing conditions have also forced private sector institutions to diversify and specialise.

Construction slump has hurt local employment

Construction companies are also not indicating new projects. However, the problem the industry has faced, total revenue for the sector fell 6% to R144.0bn compared with revenue for 2014 and net profit crashed 34% to R8.8bn. PwC says capital expenditure by public sector institutions rose 13% in the 2014 public financial year, with total expenditure in the year amounting to R253.8bn. But the scale of this increase is misleading. New construction work contracted increased by 3% to R122.0bn, while plant, machinery and equipment purchased increased by 40% to R98.9bn. This indicates that the public sector spent less on new construction works, the report says. It is not that state institutions were not spending at all. PwC points to how the SA National Roads Agency (Sanral) and Eskom have been reliable sources of work for a number of years.

The impact of the downturn has been devastating even for some of the largest construction companies. Not only has work dried up, but they have seen their valuations plummet. At close to R14.4bn, Aveng was the largest company by market cap in June 2012. That now stands at R1.7bn, making it the biggest loser.

Wilson Early Holmes-Ovcon (WBHO) and Murray & Roberts haven’t been as badly affected. But their valuations have still plummeted from R8.4bn to R7.4bn, and from R12.2bn to R8.4bn respectively over the same period.

No construction companies feature in the S&P’s top 40 index any longer. In its first quarter report the SA Reserve Bank said the slump in the industry has had a devastating impact on employment.

“Construction sector employment contracted at an accelerated pace in the third quarter of 2015, weighed down by disappointing government infrastructure spending on large projects and sluggish private sector capital investment by the mining sector in particular. In fact, the construction sector has shed a cumulative 27,400 job opportunities in the five quarters up to the third quarter of 2015,” the Bank said.

It was not confident of a quick recovery. Despite improving somewhat in the fourth quarter of 2015, confidence levels in the sector’s more traditional business.

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But there are bright spots. PwC says news of mining and energy will form a big part of its focus areas.

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Aveng Grinkevich LEP recently won a contract to supply and install electrical and instrumentation equipment at the Debswana diamond mines in Botswana.

And though Murray & Roberts is becoming an EPC company it still managed to secure an R830m road contract with Sanral in Bophuthatswana. It is also the co-developer on two residential buildings projects which have a combined value of R1.5bn.

Some companies have also managed to find profitable niches. Residential property developer Calgro M3, for example, has made a habit over the past few years of producing robust growth figures. In the year to end February, 2016, revenue was up to R2.8bn from R2.3bn and operating profit had nearly doubled from R30m to R60m.

There is a similar story at civil and civil engineering group Raxcounter. Revenue was up 9.7% to R753m and operating profit rose 14.2% to R736m for the same period.

One of the stand-out performers is Afrimat, headed by Andries van Heerden. He says diversification is the reason for Afrimat’s double digit growth. Despite a market cap of just R3.8bn, Afrimat is up made of 10 businesses.

The business model has worked, says Van Heerden, even amid global volatility. Still, prospects for the sector at a whole look gloomy.

The First National Bank (FNB) Property Barometer found that the number of residential building plans passed for the first quarter of the year was little different from the previous quarter.

‘Building plans data for the first quarter is certainly not pointing to economic strength in the residential building sector. It seems to have entered a short-term ‘reprise’ from the multiyear economic downturn that we have seen in SA since 2012. But the numbers are far from bleak’, FNB property economist John Loos says.

The company has a combined value of R1.5bn.

The construction companies are still tapping into new projects.

The changing conditions have also forced firms to specialise. Laas says: ‘The group is going through a change from being pre-dominantly an SA construction company to an international engineering, procurement and construction (EPC) company that’s focused on the natural resource sectors.’

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The construction companies are still tapping into new projects.
Demand for student housing far outstrips supply, and the shortfall has created a widening window of opportunity for the private sector. In South Africa, student housing has produced income yields far greater than office, retail and industrial space. A government report confirms that less than 10% of first-year students are accommodated in university residences. And a survey of all infrastructures, fixtures, fittings and dining hall facilities assessed by the universities are in an unsatisfactory or poor condition.

It was medium-sized student housing service providers like CampusKey, Respublica and South Point that stepped up to the plate. Though none of the companies has large balance sheets like their listed property counterparts, they are not lacking in fund-raising, and have shown phenomenal growth in the number of beds they’ve been able to offer.

The growing popularity of student housing as an investment is not an exclusively SA phenomenon. Real estate marketing agent Landcorp International says student housing is one of the world’s fastest growing asset classes, already boasting a market value of around US$200bn.

A report from London-listed Savills, a global real estate service provider, says demand will outstrip supply for some time as global prosperity and a larger middle class drive growth in student populations. In SA, student housing has shown particular resilience. It hasn’t been as vulnerable to the ups and downs of economic growth rates as much as traditional real estate sectors

“Property companies specialising in student accommodation have created a new asset class for investors,” says CampusKey MD Leon Howell.

CampusKey Student Living has accommodation in Pretoria, Johannesburg, Bloemfontein, Port Elizabeth and Durban. By the end of the year, it will add Cape Town to that list. But Howell says the way the buildings that they live in are managed is what will differentiate student accommodation companies from each other. “We want the students to say that they are happy,” he says.

Providing student accommodation has also gone far beyond provision of just bricks and mortar. Companies began to sell a lifestyle.

“We offer secure prime locations; fully furnished rooms; gym and laundry facilities; secure storage; a allows Wi-Fi access; and facilities at an all-inclusive price,” Howell says. CampusKey wants to list on the JSE within three years and also hopes to explore opportunities abroad. Its ideal growth rate is 1000 new beds a year.

Redefine Properties is the first listed property company to enter this space. It bought a majority share in Respublica last year. Respublica plans to have 20,000 beds available by 2020.

Redefine is counted as an early adopter of this emerging asset class among established property companies. But analysts say others may soon follow.

Last year, Indluplace became the first real estate investment trust to list on the stock exchange and soon after announced its intention to invest in affordable student housing.

Respublica CEO Craig McMurray says the private sector is best placed to provide student housing, since academic institutions and government departments don’t have the resources.

“The key is in developing housing which is of a good standard. But accommodation has a high correlation with students failing at university, especially in their first year of study.”

Ezra Letagon, MD of Integrated Solutions, a project construction management company, adds that well-managed dwellings in the vicinity of universities could lower the drop-out rate.

Up-and-comer South Point is also finding success in the lifestyle recipe. It owns more than 30 buildings in Johannesburg’s Braamfontein alone.

Head of precinct development Josef Talotta says: “My key strategy for the area was to develop it from a convenience store in a lifestyle stay. So we have a hotel, three office blocks and the balance is student accommodation. The hotel has been upgraded and retail ISopon has been revitalised.”

Savills says greater funding for higher education will drive demand for student housing.

“With this funding having grown from R441m in 1999 to R8.5bn in 2013, student letting is set to be very big business.” It says Government will also invest. In his budget speech higher education minister Blade Nqinlala announced a R500m allocation to student housing and other refurbishments at 24 universities.

But FNB commercial property finance head Nico de Beer says the pressure on government to make attendance at tertiary institutions more affordable will increase student numbers.
Private sector investment could be the answer to government’s challenges

The SA government has budgeted to spend R850bn on infrastructure development over the next three years in an attempt to stimulate much needed economic growth. State-owned companies account for the bulk of the capital investment.

There are two main drivers to developing infrastructure: government-led investment and private sector-led investment. The majority of government-led investment is in areas of energy, rail, transport, housing, and, to a smaller extent, bulk infrastructure.

In his 2016 budget speech, finance minister Pravin Gordhan said there are numerous opportunities for joint public and private investment and facilities management in the areas of energy, transport, telecommunications and urban development.

Though a number of public private partnership (PPP) projects have been completed in the health, energy, transport, information communication and urban development, the potential for PPPs to provide an overall slow-down in the past few years — with the overall number of new projects declining. “We are continuing to see private sector finance involved in renewable energy and health but there has been an overall slow-down in execution and rollout of PPP projects,” says Standard Bank global head for power and infrastructure David Humphrey. “Among other things, this speaks to government’s increasing lack of capacity on its balance sheet to fund as much infrastructure as it wants, and particularly if it wants to maintain its investment grade credit rating.”

That said, successful projects selected during round 4 of the Renewable Energy Independent Power Producer Procurement (REIPPP) programme are still expected to close this year. Some ongoing hospital development programmes and government building programmes are a sign that the PPP side is not dead.

The construction industry has been hit hard by the decline in commodity prices and the consequent decline within the mining sector. Big firms, says Humphrey, are facing a sideways or declining market and have been hit by the lack of civil type projects, with the result that they are increasingly relying on smaller pieces of work and private sector led projects. “Increasingly what we’re seeing is a trend by government, particularly in roads, towards putting a large project up for tender in smaller lots, which should help its transformation policy,” says Humphrey. These smaller lots can then be bid for by medium-sized companies, and if black economically empowered companies are successful, that is helpful in this regard.”

SA is grappling with an oversupply of electricity due to a two power plants that have been delayed for more than 20 years. Historically, Ghana has subsidised energy tariffs, but the consequences are now coming through. The country has lacked a US$3bn worth of debt in the energy sector by failing to collect sufficient revenue from its energy users, and the government is now considering issuing a US$2bn eurobond to stabilise the situation.

“Without a consistent and sustainable energy policy, investors are not going to have confidence in the country’s economy. The potential eurobond shows the government is taking the issue seriously and if they have the option to partially privatise some utilities, they want to see a clear delineation on their social priorities.”

SA, he says, needs to keep an open mind. There are numerous examples globally of private ownership of utilities where it is working successfully.

“Having the right set of policies in place is imperative to attract private sector investment,” says Humphrey. “The government’s balance sheet has little room to grow; so any future infrastructure development programmes need to be financed by the private sector. The infrastructure sector in SA needs the wider hand of government to let it go.

Future ownership of big public enterprises will be driven as much by economic reality as government principles. “There comes a stage in most countries’ social development when they have to grapple with the issue of how to deliver utilities to their populations,” says Humphrey. “Ultimately it comes down to a question of priorities: most governments simply can’t have everything on their balance sheet. So at some point there will be choices, including the option to partially privatise some utilities.”

Despite macroeconomic challenges in sub-Saharan Africa, there are several good opportunities for infrastructure projects, including Namibia, Botswana, Uganda, Kenya and Tanzania, says Standard Bank global head for power and infrastructure David Humphrey.

Government-funded infrastructure investment has been significantly curtailed in countries such as Zambia, the DRC, Mozambique, Ghana and Nigeria as all these markets are facing huge difficulties caused by the commodity price crash of the past 18 months — and the fact that all these governments were not able to reduce their borrowings during the boom years.

Ghana, says Humphrey, is battling with its International Monetary Fund (IMF) estimated 75% debt to GDP ratio, which is having a detrimental impact on its ability to finance new infrastructure projects. Historically, Ghana has subsidised energy tariffs, but the consequences are now coming through. The country has lacked a US$3bn worth of debt in the energy sector by failing to collect sufficient revenue from its energy users, and the government is now considering issuing a US$2bn eurobond to stabilize the situation.

AFRICA

Opportunities abound
are seen to react in the right way, economic growth will follow,” says Humphrey.

Nigeria, which has been without an approved budget for the past six months, is in a similar situation.

The Nigerian economy has been hard-hit by plummeting crude oil prices and high inflation, which have combined to create a huge slowdown in the country’s economy and infrastructure investment. Humphrey says Nigeria’s prospects for greater infrastructure development investment could be improved if there is an improvement in the oil price.

Angola, an economy which also relies on oil exports, has similarly been hit by the falling oil price and has consequently suffered a huge reduction in infrastructure spend. In Zambia, falling copper prices, coupled with a crippling drought and power shortages which forced the country to import power in order to keep the lights on, has had a slowdown in infrastructure spend. Mozambique is also facing serious economic problems. Earlier this year the Mozambican government admitted to $1.35bn of undeclared sovereign borrowing — a bond that seems likely to have tipped the country into an unsustainable debt trap. Rating agency Standard & Poor’s has subsequently cut its credit rating of Mozambican debt to selective default status and the IMF has stopped all donor aid.

This, coupled with a currency depreciation and a collapse in the price of coal, has led to foreign earnings from exports being significantly reduced and delayed the start to Mozambique’s natural gas project. “Things are going to be very tough in Mozambique for a while,” says Humphrey.

He says while infrastructure opportunities in Africa will continue to grow, it will not be at such a rapid rate in the short or medium term as was witnessed in the past five years.

On the upside, however, urbanisation will continue to be a major trend throughout the sub-Saharan Africa region. “Projections are that by 2050 Africa will have a lot more people living in cities than in rural areas and this will result in infrastructure development in major centres,” says Humphrey.

He says Chinese construction firms are taking a long-term view on infrastructure investment decisions and they will be prepared to bank Africa through the cycle.

At the same time, credit agencies are trying to sustain credit at a time when commercial investment is difficult. “We’re going back to the institutional type of funding which was evident in the late 1990s.”

Another trend is the growing acknowledgement that local infrastructure needs to be funded out of local currency. Africa will continue to need dollar funding, says Humphrey, but it needs to discipline itself and limit the number of infrastructure projects that are dollar-funded.

He admits that this is easier said than done: “Dollar debt leaves an economy vulnerable if the local currency weakens. It tends to suck the oxygen out of the rest of the economy — as we’re seeing with Mozambique.”

African governments need to become more fiscally mature and, by implication, more rigorous in how and what they procure, says Humphrey. They need to have consistent and sustainable economic policies in order to attract infrastructure development investment.

“Political leaders need to have the political will to do the right thing. Governments are becoming far more competent, capable and fiscally aware and we need more of that to attract investment.

“It’s a challenging economic climate right now, with the exception of East Africa, where we are seeing good economic growth and good investment opportunities. Elsewhere, I’m afraid the reality is that there are far fewer commercial projects available for commercial banks to fund, given the current economic situation,” he says.

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