CIF

Hats Off

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CONSTRUCTION NEWSLETTER

CIF CHALLENGES ROAD AUTHORITY'S SELECTION OF CONTRACTORS

The Construction Industries Federation of Namibia (CIF) bemoans the fact that local majority Namibia- owned contractors have been side-lined on a road project under the auspices of the Roads Authority of Namibia (RA). In December 2022, the RA had received bids for the prequalification to rehabilitate the 32 km road between Karibib and Usakos. This rehabilitation project (TR7/1) is financed by a loan by the German government through the Kreditanstalt für Wiederaufbau (KfW).

The shortlist of successful bidders has been published by the RA; which clearly shows that no majority Namibian-owned contractors were selected. The RA justifies the skewed selection by stating that only three Namibian-owned contractors had submitted a bid, one of which tendered in joint venture with a foreign company.

The fact that only three Namibian-owned companies had participated in the tender process should have been expected by the RA and the KfW. At least a month before the tender submission date, the CIF had approached the authority and requested a meeting so that the prequalification requirements would be reviewed. The RA only entertained the request for a meeting less than one week before the submission date.

Whilst indeed some of the requirements for the tender had been altered, the alterations that were introduced by the RA upon the request by the CIF, were insignificant and did not take into the consideration the requested changes of the CIF.

The implications of that were very well known by the RA; i.e. that Namibian-owned contractors would still be restricted to participate. The financial prequalification requirements were too steep, as well as the technical requirements, which included certain volumes of works and a certain material; i.e. the use of 60 000 cubic metre of stabilised recycled subbase.

There is not a single *bona fide* Namibian contractor that has covered the prescribed amount of square meters/cubic metres per year. This is a very unrealistic demand, because there has never been a demand of this magnitude in Namibia, not even from the Roads Authority as client. This was effectively, the reason why Namibian-owned contractors did not participate.

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The other excuse provided by the RA, that the prequalification requirements were in line with the the procurement policies of the KfW, which could not have been altered. However, the CIF claims that both the KfW conditions and the local realities could have been taken into considerations. All that was required was to change the size of the project by breaking into smaller lots. In this way, majority Namibian-owned contractors would have been able to participate.

The RA, further justifies their decision by stating that final selected contractor will have to subcontract 25% of the work to local contractors. The CIF is justifiably annoyed, as what is 25% local when it could have been a 100% local: "What is there left to say? We have engaged the authorities. Both the KfW and the RA – and for that matter, Conrad Lutombi – were exactly aware of the implications. But they chose not to make any significant changes to the requirements.

"I*t is a sad state of affairs. We all know that no effort was made to effectively and deliberately create work for Namibian-owned contractors and their Namibian employees. As we speak, our businesses are busy with retrenchments again. Anyone that states 25% of the work will be subcontracted to local contractors and sells this as an achievement, is holding us for fools, not only the contractors but everyone that has a genuine interest in Namibia's progress.*

"Our own contractors are being undermined and ridiculed by our own government, the Roads Authority. The question is how our own authorities can let our people down, who desperately need to be engaged and create jobs. We are talking about the eradication of poverty and the creation of employment. This action is in direct contradiction with these policies. Our authorities know full well what is going on and are just taking the Mickey out of every truthful Namibian. To say that these were the conditions of the financiers, is like washing one's hand and effectively shifting the blame. That makes our decision makers victims and not leaders.

"As this really does not make any sense, one ought to have a serious investigation into these procurement practices". The CIF has been lobbying the Namibian Government for many years so that locally-owned businesses would be supported. This is in order to main capacities in the sector, and to further build on them. It would also have meant that construction can play a meaningful role in Namibia's economy, and become an effective catalyst to stimulate other sectors and essentially uplift the economy."

NAMPOWER IS GRANTED 8.97% TARIFF INCREASE

Struggling Namibian consumers barely dealing with rising debt levels, inflationary pressure and dwindling disposable income now have to deal with another price hike that will certainly fuel an increased cost of most other goods. This latest price hike, which was announced by the Electricity Control Board (ECB) last Thursday, comes as businesses and consumers are still trying to recover from Covid-19 that hit the domestic economy while in a recession, thus exacerbating a precarious situation even further.

The ECB heaped more pain when they announced an increase in bulk electricity tariffs by 8.97% from N$1.8222 to N$1.9856 per kilowatt-hour (kWh) for the 2023/24 period as of 1 July 2023.

This increase was granted after the Namibia Power Corporation (NamPower) requested a 16.87% increase in electricity tariffs for the 2023/24 year, which would have resulted in an increase from an average of N$1.8222 per kWh to N$2.1296 per kWh. The ECB increase approval means regional electricity distributors (REDs), local authorities and large power users like mines which buy electricity directly from NamPower pay more for electricity, which indirectly affects local consumers.

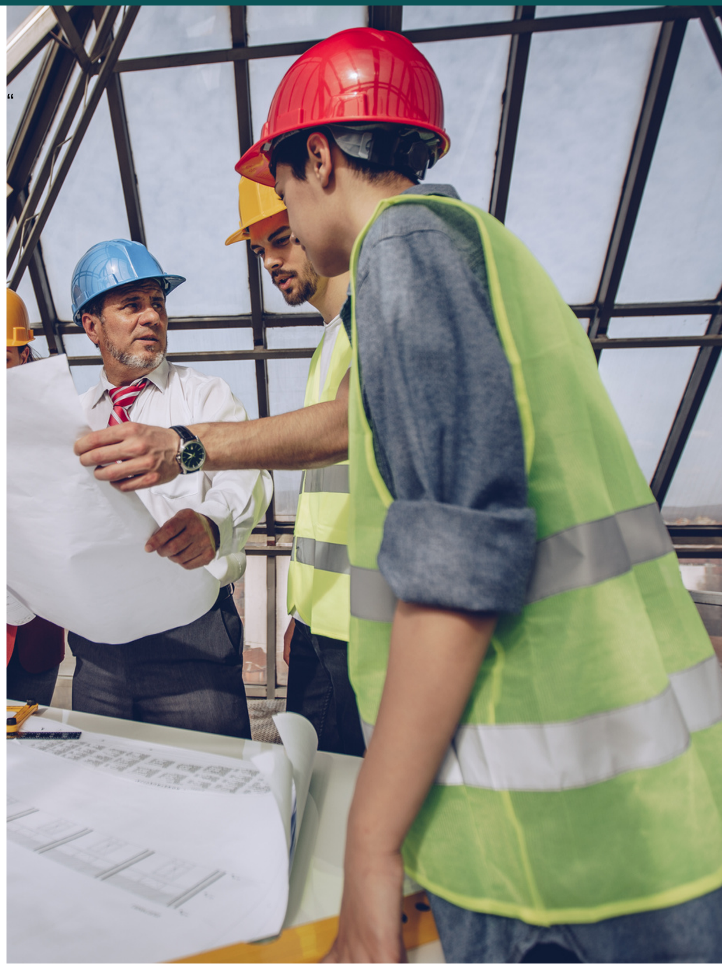
Announcing the increase, ECB CEO Robert Kahimise said the electricity regulator considered several factors, including the impact of the tariffs on the electricity supply industry, consumers, and the economy at large.

In its inflation report for March 2023, local stock brokerage Simonis Storm (SS) said depending on what the ECB approves, they projected higher electricity tariffs as a risk to inflation. This is due to the fact that the housing and utilities category has the largest weight in the consumer price basket (28.36%).

Over the last number of years, the electricity tariff has also included an amount to cater for the long-run marginal cost, which is intended to ensure a smooth tariff path for the future.

Source: *https://neweralive.na/posts/ecbs-increase-to-further-fuel-inflation-fire*

CONSTRUCTION ACTIVITIES DECLINE - DROP OF NUMBER OF PLANS



Elevated living costs are expected to weigh on consumer demand, which in turn will impact the affordability for new building loans resulting in a further contraction of the construction industry. This is according to Simonis Storm (SS) stock brokerage which noted that post the pandemic, corporate mortgage loan growth trended down while household mortgage loan growth recovered steadily.

SS also noted that a 25bps rate hike is anticipated when the Bank of Namibia convenes on 14 June 2023. This would increase the repo rate to 7.50% and the prime rate to 11.25%. As a result, the average home loan interest rate will increase to about 12.25% (prime plus one).

The latest SS report shows that construction activities in Windhoek and Swakopmund experienced an approval contraction of 33.6% year-on-year (y/y) in April 2023. For the year-to-date (YTD), from January to April 2023, an average of 151 plans were approved per month, whereas for the same period last year, 214 plans were approved per month.

Construction is usually an excellent barometer of the strength of an economy and the latest report from Simonis Storm indicates a decrease in building plan approvals.

This is partly explained by City of Windhoek receiving less plans as it received 191 plans on average per month, compared to 222 plans received on average per month for the same period last year. Building plan approvals have decreased by 33.6% y/y, from 283 plans in April 2022 to 188 plans in April 2023 for Windhoek and Swakopmund combined.

The driver of this decrease is Swakopmund, decreasing by 53.7% y/y. Meanwhile, Windhoek experienced 23.4% less approvals in April 2023 compared to April 2022, with approvals decreasing from 188 to 144.

However, on a monthly basis, Windhoek and Swakopmund's approvals in building plans experienced a decline of 26.2% m/m and 32% m/m respectively, resulting in an overall decrease of 27.7% m/m", the SS report reads. The report also noted that building completions also remain on a downward trend. Completions decreased by 27.4% y/y in April 2023 compared to April 2022. Only 90 projects were completed, which is the lowest since July 2021 when only 43 buildings were completed across Swakopmund and Windhoek. These completions were concentrated in the residential segment of the market.

According to the report, the majority of building plan approvals in both Windhoek and Swakopmund were concentrated within the additions segment of the market, however, only composed 26% of the total value of plans approved. Notably, SS pointed out, 10 commercial and 70 residential plans were approved with the largest value of N$62 million and N$60 million respectively. The approvals amongst these three categories account for 97% of the total value of plans approved.

"In April 2023, there was a significant increase in the value of completed projects compared to March 2023, with a 48% m/m increase, albeit with only 90 projects completed (in both Windhoek and Swakopmund combined). It is uncertain whether this increase was due large or value adding projects being completed, or if it was influenced by inflationary pressures. Of the N$94 million worth of completed projects in April 2023, N$75 million were residential, N$14 million were commercial, and N$5 million were additions. Lastly, the value of projects completed in April 2023 decreased by 19% y/y."

Source: https://neweralive.na/posts/construction-activities-decline

NAMIBIA CONSUMER PRICE INDEX BULLETIN - APRIL 2023

The inflation rate is vital for purposes of economic policymaking, especially the conduct of monetary policy and to consumers in general.

During the month of April 2023, the year-on-year inflation rate stood at 6.1 percent compared to 5.6 percent recorded in April 2022. On month-on-month basis, the inflation rate slowed to 0.4 percent down from 0.6 percent registered during the preceding month.

Based on the price movements at the zonal level for April 2023, Zone 1 (Kavango East, Kavango West, Kunene, Ohangwena, Omusati, Oshana, Oshikoto, Otjozondjupa, and Zambezi) recorded the highest annual inflation rate of 6.3 percent, followed by Zone 3 (||Kharas, Erongo, Hardap, Omaheke) recording an inflation rate of 6.0 percent while Zone 2 (Khomas) recorded the lowest annual inflation rate of 5.9 percent. On a monthly basis, Zone 2 and 1 recorded the highest monthly price changes of 0.6 percent and 0.3 percent and Zone 3 recorded the slightest monthly change of 0.2 percent.

Source:
https://nsa.nsa.org.na/new_publications/namibia-cpi-bulletin-april-2023/

NAMIBIA'S PERFORMANCE IN THE 2022 FRASER REPORT FAIRLY GOOD SAYS CHAMBER OF MINES PRESIDENT

Namibia's performance in the 2022 Fraser report is fairly good, although could have been better considering that the government has greatly improved legislation that encourages exploration, according to the Chamber of Mines President, Zebra Kasete.

The 2022 Fraser Institute Survey of Mining Companies showed that Namibia improved on the overall Investment Attractiveness Index (IAI) by 7 points from 52 in 2021 to 59 in 2022.

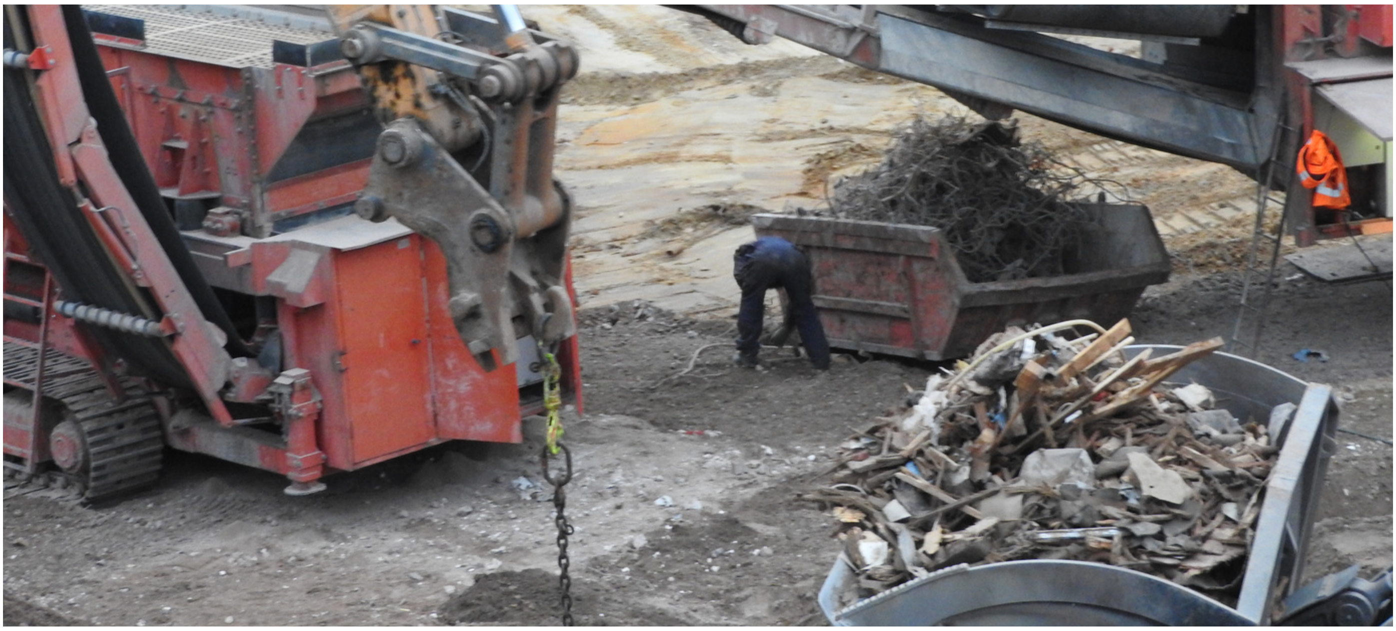
On this index, Namibia was ranked 38th out of 62 jurisdictions surveyed, compared to 59 out of 84 jurisdictions in 2021. Namibia ranked 6th out of 16 African jurisdictions surveyed on overall investment attractiveness.

The IAI measures a country's overall competitiveness and combines the Policy Perception Index (PPI) and the Best Practices Mineral Potential Index. The PPI carries a weighting of 40% and the Best Practices Mineral Index carries a weighting of 60%.

According to Kasete, the absolute increase in Namibia's IAI score was a result of an improvement in the best practices mineral potential index which increased by 12 points from 37 in 2021 to 53 in 2022.
The Best Practices Minerals Potential measures a country's mineral attractiveness which is rated assuming a perfect regulatory and policy environment.
In 2022, Namibia recorded a 12% increase in exploration expenditure in real terms according to figures captured by the Namibia Statistics Agency.

Source:
https://economist.com.na/79139/mining-energy/namibias-performance-in-the-2022-fraser-report-fairly-good

FORWARD-LOOKING CONTRACTORS INTERESTED IN CIRCULAR ECONOMY PRACTICES



With an ever-growing global demand for structures in the built environment, it will become increasingly pertinent to look at more sustainable building practices and materials with a lesser impact on finite resources, and to reduce their impact on global carbon emissions. This is where a shift from the current (linear) economic model (extract, make, use, throw away) to an increasingly regenerative (circular) economic model comes into play.

For Namibia such a shift is likely to become very applicable, due consistently higher levels of urbanisation and related demands on infrastructure, and an ever-growing unpredictability of weather patterns. As such, the Construction Industries Federation of Namibia (CIF) has engaged technical assistance from EU Africa RISE (Reform of Investment and Sustainable Economies) to create greater understanding of alternative practices. An interactive 2.5 hour workshop took place on 24 May 2023, , which was attended on line by 43 members of the CIF.

European Union's Africa RISE (Reform of Investment and Sustainable Economies), is providing relevant technical assistance to members of the CIF, which is funded by the European Union. The ultimate aim is to help the construction sector to build new knowledge and improve practice on circularity and to explore more resilient and greener business practices.

The project was initiated in 2022 by the CIF, approached the Africa RISE facility to enquire how a learning experience on circular economy could be supported by Africa RISE. Later in the year, similar interests were received from Zimbabwe Building Contractors Association [ZBCA] and two organisations working in partnership in Botswana: Business Botswana (BB) - Construction Sector & Built Environment, and Botswana Green Building Council. Following approval for this request, the project was launched in early 2023.

The objective of this project is to increase knowledge in the construction sector on 'circular economy' opportunities and models that could be implemented by the private sector in the three project countries.

Bärbel Kirchner, chief executive officer of the CIF says: "Although in a sense, some of our contractors are already applying some circular economic thinking and practices, we feel that it may become increasingly important to strategically start applying circular economic models.

"With many opportunities in the pipe-line, that could impact our sector, we need to become even more ready to embrace new thinking and methods - that are likely to be required by future investors - that are more aligned with the global circular economic thinking.

"It would also be great if we can start looking where we can substitute costly imports of building material through the production of our own with natural and renewable bio-based material. In the long run, it would also be an efficient use of not only our natural resources, but also limited financial resources. We might have to focus on upgrading, maintaining, renovating instead of replacing it with new structures".

By adopting appropriate technologies, implementing resource efficiency and embracing circular economic models, the country's construction sector would be able to create economic and social value in the country whilst impacting positively on the environment.

It is expected that learnings from this project will be shared through SWITCH to Green Facility, SADC Secretariat and the SADC Business Council, in order for good practices to reach organisations beyond the three countries.

By encouraging collaboration and partnerships between those three different countries, Africa RISE is pursuing different long-term objectives:

- Increase knowledge on 'circular economy' opportunities and models that could be implemented in Botswana, Namibia, Zimbabwe and other SADC member countries.
- Create the opportunity to identify possible pilot initiatives within SADC for demonstration of the value that the circular economy can bring.
- Ensure the future competitiveness of the Botswana, Namibian and Zimbabwe construction and built environment sector.
- Increase the sustainability of the built environment's business practices.

CONTINUED WEAK GROWTH FORECAST FOR CONSTRUCTION INDUSTRY IN 2023 - GLOBALDATA

Growth in the global construction industry is forecast to remain sluggish in 2023, expanding by just 0.8%, according to GlobalData's latest report, Construction market size, trends and growth forecasts by key regions and countries, 2023-2027.

Excluding China, the industry will contract by 0.1% due to the weak economic backdrop and additional challenges specific to the global construction industry, notably high construction material costs and labour shortages.

The report reveals that the global construction industry expanded by 2.1% in real (constant prices) terms in 2022, with the pace slowing from the 3.8% growth recorded in 2021. The deceleration reflects the challenging conditions in most markets around the world in the form of high inflation and a tightening in monetary policy that dampened investment.

Sharp decline in US activity

Excluding China, which posted an expansion of 5.5% last year, the global construction industry edged up by just 0.6% in 2022. A sharp decline in US construction activity in real terms was a key factor in the weak global outturn last year, along with a slowdown in Europe, where major markets have been grappling with an energy crisis.

Danny Richards, construction analyst at GlobalData, comments: “The anticipated poor performance in 2023 reflects the downturns across advanced economies, with Europe as a whole expected to shrink by 2.8%, North America to fall by 0.9%, and Australasia to contract by 1.5%. Growth in emerging markets will be positive, but the pace of growth will slow to 2.4% from 4.6% in 2022. GlobalData forecasts that the global construction industry is expected to regain some growth momentum from 2024, assuming an improvement in global economic stability, with output expanding by 3.0% in 2024 and recording an annual average of 4.2% during 2025–2027”.

Western Europe outlook gloomy

The outlook for construction in Western Europe is gloomy, with activity being hit by a decline in investor confidence amid a looming economic recession and high inflation. Some markets outperformed in 2022, with Greece and Italy recording high rates of growth, with activity bolstered by EU funding, while others were notably weak, such as Germany, which contracted by 2.2%. Most markets will suffer a downturn in 2023, with growth prospects hampered by weak investment growth and high prices for key construction materials and energy costs, a trend that has been exacerbated by the impact of the Ukraine war given the importance of commodity supplies from Russia and Ukraine.

Richards concludes: “Underlying macroeconomic instability has pushed down growth in North America, and in particular, the residential sector has suffered heavily as a result".

Source: *https://www.bizcommunity.com/Article/1/494/238262.html*

CAPE TOWN’S SOLAR PV APPLICATIONS REACH RECORD LEVELS

The appetite for rooftop solar photovoltaic (PV) installations has reached record levels in Cape Town, with March 2023 now the best month on record for new applications to install solar energy, says Cape Town Mayor Geordin Hill-Lewis, on Monday 29th May 2023.

This comes as residents look to capitalise on incentive programmes to help end load-shedding over time.

“February may have shattered all records for solar PV installation applications to the city, but March and April have both already surpassed this”, says Hill-Lewis.

“The city has already received 2 333 solar PV installation applications so far this year, with close to 700 in March alone, making it the biggest month to date. Just the first four months of 2023 account for 21% of all solar PV applications received since records began”, notes Hill-Lewis.

“Most of Cape Town’s installed solar PV capacity is commercial, but residential applications are what’s driving record-breaking interest levels. This clearly shows the effect of our policy shift to expand how we are actively supporting the uptake of safe and legal solar installations",he adds.

To make solar installations more attractive, the city has decided to raise its residential small-scale embedded generation tariff by 10.15% for 2023/24, with an added 25c a kWh incentive.

Cape Town offers households and businesses cash for their excess rooftop solar power. The city is set to start paying businesses under its Cash-for-Power programme in June, while residents will be able to start selling power for cash later this year.

Source: *https://m.engineeringnews.co.za/article/cape-towns-solar-pv-applications-reach-record-levels-2023*

PROUDLY SA LAUNCHES SECOND HALF CAMPAIGN TO ENCOURAGE LOCAL CONSUMPTION

Membership-based organisation Proudly South African (SA) says it is determined to be part of the solution to the country's high unemployment rate and, through its new second half campaign, show ordinary people that they can be part of the solution to this and the poor state of South Africa's economy.

The organisation reiterates that South Africa has one of the highest unemployment rates in the world, recorded at 32.9% in the first quarter of this year.

Moreover, data published by Statistics South Africa showed that 179 000 jobs had been lost between the fourth quarter of 2022 and the first quarter of 2023. The total number of persons unemployed was 7.9-million in the first quarter. Proudly SA's new campaign is an analogy of a sports match and is titled "Second Half".

Through this analogy, Proudly SA views the years leading up to the Covid-19 pandemic as the first half of the "game" of job creation and poverty alleviation, showcased in its previous consumer campaign known as the First Half, narrated by South African actor Dr John Kani.

As the title suggests, "Second Half" represents the time when the country needs to regroup, recover, revisit the game plan, rethink its loyalty to South African products and services, as well as collectively push forward for a win in "economic restoration for South Africa and its people", the organisation states.

As part of its ongoing campaign, Proudly SA has also launched a "Second Half" television commercial which puts the country's future labour force in the spotlight.

This demonstrates the direct impact that consumers can have on the future of South Africa's children if they buy and support homegrown products and services, it highlights.

"Second Half" depicts eight labour-intensive industries that are within government's sectoral masterplans. These sectors are agro-processing; furniture; clothing, textile, footwear and leather; steel and construction; manufacturing; aviation; automotive; and food and beverages.

"Every rand spent on local products helps to rebuild the South African economy and contributes to retaining and creating jobs. Proudly SA's message is clear – buying locally manufactured goods and services helps to create a demand for local jobs which has a direct impact on today's youth and future generations. Many countries, such as China, are thriving because of the strength in localisation and export powers. This compels us as South Africans to be more intentional and robust about localising the goods that we consume or use", Proudly SA states.

Source: *https://www.engineeringnews.co.za/print-version/proudly-sa-launches-second-half-campaign-to-encourage-local-consumption*

AFRICA SET TO BE THE SECOND-FASTEST GROWING REGION AFTER ASIA, BUT HEADWINDS REMAIN, SAYS AFDB'S AFRICAN ECONOMIC OUTLOOK REPORT

Africa is set to be the second-fastest growing region in the world after Asia in 2023-24, demonstrating the resilience of its economy despite dealing with multiple global shocks. But the projected growth will depend on global conditions and the continent's ability to bolster its economic resilience, the African Development Bank's 2023 African Economic Outlook report has found.

The report, launched on 24 May 2023, forecasts that Africa will consolidate its post-Covid-19 pandemic recovery to 4.3% GDP growth in 2024 from 3.8% in 2022. Some 22 countries will record growth rates above 5%, it says.

It recommends robust policy actions, including incentivising green industries and providing guarantees at scale to de-risk private sector investments in managing natural capital across the continent.
The launch, attended by African leaders, experts and development partners, was one of the highlights of the Bank Group's Annual Meetings in Sharm El Sheikh, Egypt. It was under the theme, mobilizing private sector financing for climate and green growth.

Source: *https://www.afdb.org/en/news-and-events/press-releases/africa-set-be-second-fastest-growing-region-after-asia-headwinds-remain-says-afdbs-african-economic-outlook-report-61422*