Hats Off

Issued by the Construction Industries Federation of Namibia

Building Namibia's Future **November/December 2023**

CONSTRUCTION NEWSLETTER

NAMIBIANISATION IN CONSTRUCTION NEEDED TO EFFECTIVELY REALISE OPPORTUNITIES

As far as construction is concerned, the prerequisite for realising enormous opportunities in the interests of the Namibian people is that there are strategic and targeted efforts to maximise the Namibianisation of our sector and that foreign investors are actually willing to work with our own contractors. Here we are talking about infrastructure-related projects in the area of green hydrogen or renewable energy sources, in the oil and gas sector or also about the diverse opportunities in the mining sector.

It is important that procurement is scaled so that local, majority Namibian-owned contractors can meet the financial requirements. It is also important that the technical requirements are based on Namibian realities and material availability. Namibian contractors should not be excluded based on arbitrary technical requirements.

We had asked the government to cancel and re-advertise a number of projects that were undermining local industries and had also asked our Head of State, Dr. Hage Geingob, to address this directly. Unfortunately this was unsuccessful. The reasons given were that the President could not simply decide to cancel tenders, that Namibia was bound to conditions set by international donors, and that, as a matter of emergency, state-owned companies were hired to build urgently needed classrooms and ablution facilities at existing schools in our country.

We are currently talking about at least five major projects that automatically led to the exclusion of our local contractors. Two of these projects are financed by KfW. One of these projects is the 30 km long road expansion between Karibib and Usakos. The project was awarded to Zhong Mei Engineering despite alleged problems with NAMRA (our tax authority). The second project concerns solar parks in the south of Namibia, in Rosh Pinah.

THE CIF OFFICES WILL REOPEN ON 16 JANUARY 2024

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...NAMIBIANISATION IN CONSTRUCTION NEEDED TO EFFECTIVELY REALISE OPPORTUNITIES

Although the CIF had approached the AfDB earlier this year to form delegates about the actual performance of the Namibian contractors, the AfDB is now still financing a huge water infrastructure project at three locations in the north of our country - an Oshakati water treatment plant, a Rundu water treatment plant , and the Ohangwena plant and water supply system. This in turn leaves Namibian contractors at the mercy of foreign contractors.

We have the NAMFISA head office project worth over N$250 million, which is so large that very few Namibian companies were able to bid. Then also the emergency classroom and ablution facility project worth N$255 million implemented by August 26 Construction. Most of these projects would have been great opportunities for the private sector, i.e. local Namibian contractors.

Essentially, this involves financing that is sought externally, i.e. financing in the form of grants or loans.

Basically, appropriate conditions should support the maintenance of capacities and further development of Namibian companies. If this were not the case, any corresponding development would certainly not be sustainable. We can also better exploit opportunities in the development of Namibia's infrastructure if our sector is better regulated. We therefore continue to call for the establishment of a Construction Board that will help regulate our sector, as every contractor in our industry must be registered and classified. This allows that the size of a project and the size of a contractor to be appropriately matched. This ensures high-quality workmanship and timely completion.

We do not anticipate that the government will cancel any of these five projects as some are already at an advanced stage.

However, we continue to raise awareness of the need to support our own contractors. We must indeed be very careful with the precedence created here.

First of all, infrastructure needs must be well planned and not require emergency procurement to justify the exclusion of the private sector. We must be careful when the private sector has to compete with the public sector for work.

All of the projects mentioned could have been processed and implemented using Namibia's own capacities, provided the selection criteria are relevant, appropriate and realistic.

The basic idea behind procurement should indeed be sustainable development, which not only creates jobs in the short term, but also contributes to the maintenance and development of capacities, but also reduces poverty and inequality overall. For this reason, it is still the CIF's concern that the following happens:

1. A conscious effort must be made to engage local Namibian contractors in all infrastructure and construction projects and projects must be sized accordingly;

2. The government should also do its part to create an environment for decent work in the construction sector. i.e. to ensure that maximum employment opportunities are created for Namibian workers;

3. That our government supports the “optimal development” of the construction sector in which there is room for contractors of all sizes: majority Namibian-owned SMEs, medium-sized contractors, large-scale contractors, and only then foreign contractors or contractors who are not majority in are Namibian owned;

4. that joint ventures between majority Namibian-owned contractors must be given preference;

5. that “tenderpreneurs” will no longer be permitted. These are so-called intermediaries who receive an order but give it away because they don't have the capacity themselves, and

6. Our government should commit to setting up a construction council as soon as possible as this is in the interest of both the private and public sectors.

Source: Construction Industries Federation pf Namibia

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Source: Construction Industries Federation of Namibia

CORNERSTONE OF N$3,5B GREEN HYDROGEN PLANT LAID IN WALVIS BAY

The minister of finance and public enterprises, Iipumbu Shiimi, on the 28th of September 2023 laid the first brick for the N$3,5-billion Cleanergy Solutions Namibia state-of-the-art green hydrogen plant, refuelling station, and hydrogen academy at Walvis Bay.

This marked a watershed moment in Namibia's journey towards sustainable development and green industrialisation.
This will be the continent's first green hydrogen plant, and is expected to start production by mid-2024.

In 2021, the Namibian government issued a challenge to foster clean industries within the nation, and Namibia's Ohlthaver & List (O&L) Group and Belgium's CMBTech formed a joint venture to answer the call.

"Today we witnessed the beginning of an exciting journey for the town of Walvis Bay, the Erongo region, and Namibia", Shiimi said during his keynote address.

He pointed out that Namibia boasts ample renewable energy sources, such as sun and wind, particularly along its coastal regions. These natural assets provide not only the potential for Namibia to meet its energy needs, but also to become a major exporter of clean energy, particularly to the (EU).

"Namibia's green hydrogen strategy focuses on using renewable energy to split water into hydrogen and oxygen, aligning with its commitment to reducing carbon emissions and fostering economic growth. "This strategy positions Namibia as a key player in the emerging global green hydrogen market", Shiimi said.

A memorandum of understanding with the EU aims to level the playing field for industries in Europe and Africa, especially those in countries with fewer environmental regulations.

By aligning its industrial practices with global standards, Namibia can avoid carbon tariffs and solidify its reputation as a reliable trading partner to the EU", Shiimi said.

Industries like manufacturing, mining, and agriculture – key pillars of the Namibian economy – are expected to adapt to sustainable practices to avoid carbon-related tariffs.

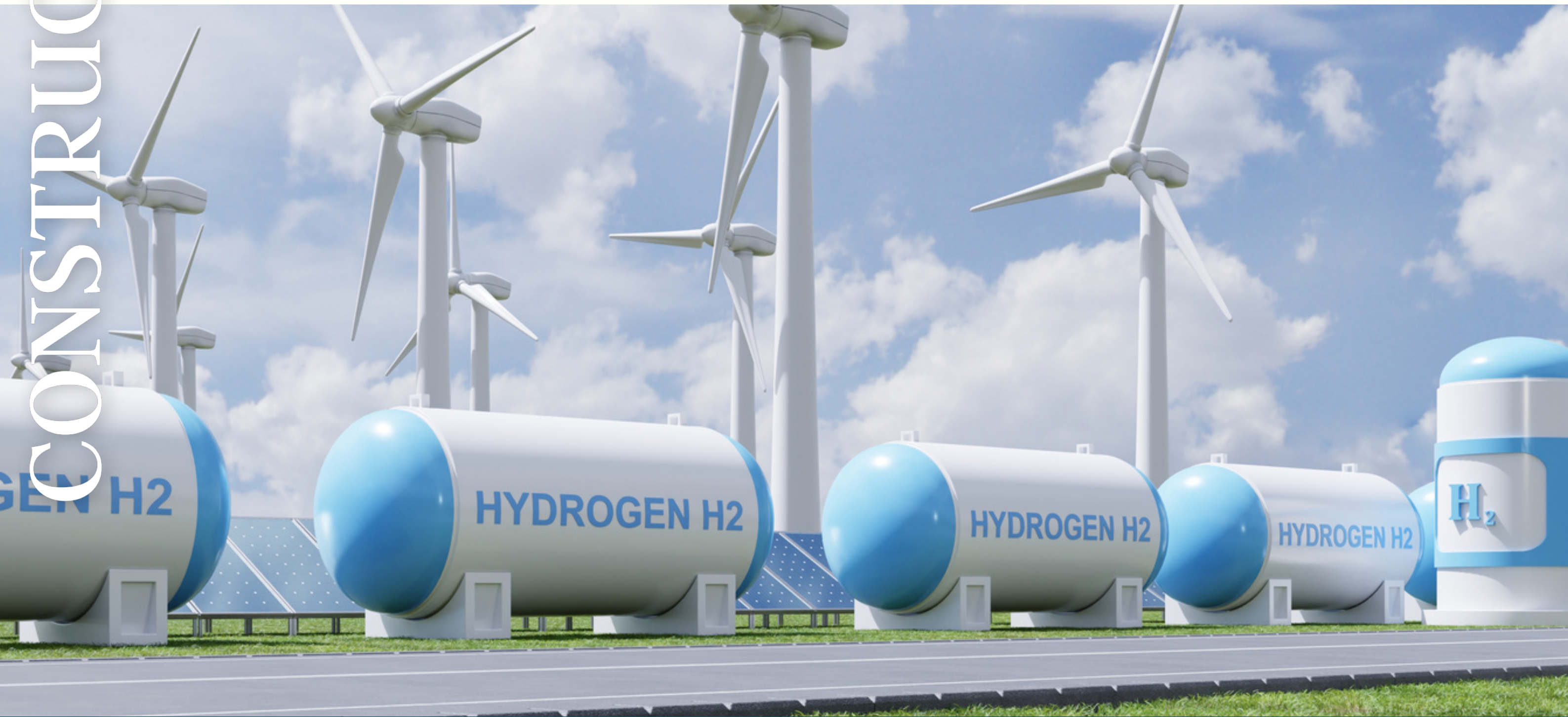
This shift will contribute to multifaceted sustainability and numerous job opportunities. The minister emphasised the significance of collaborative efforts between the government and the private sector in achieving global financial sustainability goals.

"Namibia has a golden opportunity to become a sustainable clean energy powerhouse", he said. According to Shiimi, yesterday's event not only represents an investment in the future of Namibia, but also contributes to addressing global challenges like climate change and environmental sustainability.
"We are kick-starting a green industrial revolution, not just for Namibia, but for the world", he said.

O&L boss Sven Thieme said at the heart of Cleanergy's venture lies a solar park spanning 10 hectares, accompanied by a hydrogen production facility equipped with a 5MW electrolyser and 5MWh battery.

"This plant establishes the first hydrogen production facility of its kind in Africa, directly harnessing solar energy from the park to produce hydrogen, which is then made available at a public refuelling station.
"Through this initiative we aim to train and educate future professionals in all aspects of hydrogen production and its application.
"This is the first step to show green hydrogen is feasible", Thieme said.

Source:
https://www.namibian.com.na/cornerstone-of-n35b-green-hydrogen-plant-laid-at-walvis/



COMMERCIAL COLLABORATION WELCOMED IN ORANGE BASIN, WITH GAS-TO-POWER PRODUCTION EXPECTED TO COMMENCE IN 2027

The mines and energy ministry believes it prudent to maximise Namibia's gas production to support domestic industrialisation.

In this regard, government is working hand-in-hand with the BW Kudu and the National Petroleum Corporation of Namibia (Namcor) joint venture to advance the development of the Kudu Gas Field, with the operator annually submitting a work programme and budget for review, input and final approval.

This is according to former acting executive director in the ministry, Bryan Eiseb, who in response to queries from New Era stated:

"We encourage the creation of synergies, open dialogue and the possibility of shared infrastructure for gas production, where it is feasible. The Kudu project is a priority for Namibia, and we welcome any commercial collaboration between companies operating in the Orange Basin".

He added that government receives quarterly progress updates on the Kudu Gas project's five components, namely drilling production wells, conversion of an existing semi-submersible drilling rig into a floating production facility, gas pipeline construction, power plant development, and transmission line installation.

All of these components are being advanced simultaneously. As such, government anticipates production to commence during 2027, considering a 36-month lead time from project sanction to power- generation.

"Developing a gas-to-power project is complex, and we're in the process of building the necessary skills with the help of the Petrofund. While most benefits will come after completion, we emphasise the importance of Namibian participation as early as possible through placing emphasis on local content. Operators are actively sourcing good and services from Namibia, even before project production," Eiseb added.

Source*:* *https://neweralive.na/posts/commercial-collaboration-welcomed-in-orange-basin*

THE NAMIBIAN JONKER OIL DISCOVERY DEFINES AFRICA'S 2023 VOLUMES

The Jonker oil discovery, run by Shell Plc in the productive block in the Orange Basin, offshore Namibia, is believed to be the major contributor to discovered volumes in Africa during 2023. According to the African Energy Chamber (AEC), the Jonker discovery represents 57% of total volumes discovered on the continent so far in 2023.

This is according to estimates of Jonker's recoverable reserves, which total roughly 285 million barrels.

"Jonker resulted in one of the biggest oil discoveries in Africa for the year so far and further cemented offshore Namibia as an exploration hub.

"On the eastern side of the continent, Invictus Energy drilled the much-anticipated Mukuyu-1 wildcat in Zimbabwe, and the well resulted in close to 60 MMboe of natural gas. HIW–Osprey is expected to be drilled soon on Cooper license, offshore Namibia, operated by Eco Atlantic Oil & Gas", stated AEC in its second quarter publication.

The South African-based group focuses on legal issues relating to oil and gas in Africa and aims to improve the African energy landscape to explore the continent's full potential.

AEC noted that the Jonker well is the only significant offshore discovery with all the other 2023 discoveries in Africa being onshore.

The chamber added that Algeria saw a string of small finds, with the total volume accounting for 20% of the overall discovered volumes. Zimbabwe also saw a discovery, with the Mukuyi-1 well drilled in the frontier area, resulting in a 65 million barrels of oil equivalent discovery (90% gas).

Source: *https://neweralive.na/posts/namibian-discoveries-define-africas-2023-volumes*

NBWPF: UNDERSTAND THE POWER OF COMPOUND INTEREST FOR A BETTER RETIREMENT

The Namibian Building Workers Pension (NBWPF), an umbrella fund for the construction sector, recognises the challenges faced by the construction sector and its impact on employers and employees.

With the sector experiencing a significant downturn in recent years, many workers have faced job insecurity and a lack of social protection. This has led to the withdrawal of accumulated savings for immediate needs or business ventures.

Despite these challenges, the NBWPF is committed to empowering individuals with the knowledge and tools to secure a financially stable future. One key aspects they emphasise is the power of compound interest in building a solid retirement plan, regardless of the individual's current financial situation.

Compound interest is a powerful tool that can work in the employee's or fund member's favour when planning for retirement. It is the interest earned on both the initial investment as well as the accumulated interest from previous periods.

As a consequence, over time, this can significantly grow the retirement savings and will provide the member of the fund more than they had initially invested.

The NBPWF believes it is crucial that individuals, especially those with lower incomes, to start contributing to a pension fund, very early in their lives, practically as soon as they start earning an income.

Even small contributions made consistently over a long period, can make a very big difference. By taking advantage of compound interest, individuals can benefit from the growth of their investments over time. While it is mandatory for construction sector employers to register their workers with a pension fund, and that both make a contribution of minimum 4% based on the employee's salary to the fund, the importance of pension funds and starting early extends to employees in other sectors as well.

Enwich Kazondu, principal officer of the NWBPF: "For everyone that wants to ensure a comfortable retirement, it is critical that they understand the advantage of making compound interest work for their retirement plans.

"Imagine you plant a seed and the seed grows into a tree, producing more seeds that can be planted for further trees and growth. Each seed, if planted, will produce more trees.

"Similarly, pension fund contributions accumulate and grow exponentially over time, reducing the burden at the point of retirement. By understanding the power of compound interest, individuals can ensure a more comfortable retirement and provide financial security for themselves and their loved ones".

The NBWPF encourages everyone to start making contributions to their pension fund as early as possible as even small contributions can have a significant impact when compounded over time.

DEPOSIT REPRIEVE TO BOOST CONSTRUCTION SECTOR

The recent adjustment by the cenral bank to the loan-to-value (LTV) ratio regulations, effective as of 31 October 2023, has been welcomed as a significant boom in the construction sector.

It addresses a key impediment for second-time home buyers and contributes to the provision of much-needed housing for Namibians. The changes mean second-time home buyers now enjoy a reprieve from the obligation to pay deposits.

This is according to stock brokerage, Simonis Storm (SS), who in their latest building sector report noted that the Bank of Namibia's move is anticipated to attract investments in the housing sector, fostering a positive impact on the property market and potentially stimulating increased demand.

Central bank spokesperson Kazembire Zemburuka recently stated; "A mortgage loan for a second residential property no longer requires any deposit, while mortgage loans for third and subsequent residential properties only require a 10% deposit". However, SS noted that despite the positive outlook, it is prudent to exercise caution; "The relaxation of these ratios may indeed spur further demand in the sector, adding momentum to an already recovering market. However, a noteworthy consideration is the potential consequence of increased demand on property prices. It should be acknowledged that while these changes aim to facilitate access to housing, the affordability challenge persists, particularly given the prevailing relatively high interest rates".

SS added that the immediate impact of LTV relaxation on affordability may be limited but noted that as stakeholders navigate these developments, a balanced approach is crucial to sustaining positive momentum while mitigating potential challenges associated with heightened demand and affordability constraints.

https://neweralive.na/posts/deposit-reprieve-to-boost-constructionsector#:~:text=The%20recent%20adjustment%20by%20the,much%2Dneeded%20housing%20for%20Namibians.

LOW CREDIT UPTAKE WORRISOME FOR INVESTMENT - AS HIGH REPO RATE ENVIRONMENT DECREASES DEMAND

Low credit levels being extended to businesses is worrisome for investment purposes. This, local stock brokerage Simonis Storm explained, is because businesses are rather concentrating on paying off existing debt than taking out new debt to invest in better infrastructure.

In its latest report on Public Sector Credit Extension (PSCE), SS noted that GDP during the second quarter of 2023 posted a growth of 3.7% year-on-year (y/y), which they noted will be at risk of remaining at these low levels if businesses continue this trend of being net repayers.

The high repo rate does not help the situation, as businesses and households have less appetite for credit and will rather dive into their savings. Although households' credit figures remain strong and they make up most of the private sector loan portfolio, these loans tend to be small and short-term, often used to cover essential expenses," the SS report reads.

The latest central bank figures indicate that PSCE increased by a weak 2.2% year on year (y/y) in August 2023, lower than July's growth of 2.6% y/y.

SS pointed out that this brings the year-to-date average to 2.7%, lower than all than previous years, except 2021.

"Credit extended to the private sector has remained below 5% since January 2021, and for the current year, it has never reached 4%. The high repo rate has decreased the demand for credit, specifically driven by businesses", SS noted.

Bank of Namiba (BoN) figures indicated that businesses in the transport, fishing, services and wholesale and retail sectors have made large net repayments to lower their credit uptake.

https://neweralive.na/posts/low-credit-uptake-worrisome-for-investment-ss

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CONSTRUCTION NEWSLETTER

SOUTH AFRICAN CONSTRUCTION SECTOR – CHALLENGING AT PRESENT BUT HOPE REMAINS

Amid the slow release of standardised bidding criteria by public sector entities, the South African civil engineering and construction sector is described as being on a "hiatus", with it being almost impossible for companies to respond to vastly differing bid evaluation criteria, says industry body Consulting Engineers South Africa (Cesa) chief executive officer (CEO) Chris Campbell.

He contends that the 2022 preferential procurement regulations do not provide sufficient guidelines to inform public sector entities on how to shape criteria and avoid legal challenges as was recently experienced by the South African National Roads Agency.

"We have appealed to National Treasury to, in the interim, put out a guideline document for the preferential procurement criteria to avoid unintended consequences pending the promulgation of the regulations, which may only happen in the next 12 to 18 months", he adds.

Meanwhile, the local infrastructure sector is currently facing several challenges, including ongoing non-payment by public sector client bodies, in excess of 30 days, which contravenes the National Treasury 30-day payment prescript.

Other challenges include a lack of skilled and experienced resources – exacerbated by emigration at a time when this shortage is a global challenge – and, amid the increasing work-from-home trend, the industry is also experiencing a lag in the previously "on-tap" mentoring that was always possible prior to the Covid-19 pandemic.

Additionally, there are also challenges pertaining to crime, theft and vandalism of infrastructure, particularly related to local rail, water and energy infrastructure.

"It is worth noting that professionalisation is as relevant to the private sector, as what it is to the public sector, if we are going to become world-class in all of our infrastructure development efforts. The political will for a constructive partnership between the public and private sector must be ongoing and all encompassing – a holistic partnership needs to be embraced".

Meanwhile, to increase the awareness of the importance of topics related to future-proofing in infrastructure development, Campbell says global conferences, such as the International Federation of Consulting Engineers' Global Infrastructure Conference, held in Singapore earlier this year, are important. He explains that global conferences "dig deep" into topics that provide key insights and best practice related to procurement, climate change, decarbonisation in infrastructure development, managing integrity and corruption, and contract management, all aimed at creating a healthy balance between the actors in infrastructure development, globally.

Source:
https://www.engineeringnews.co.za/article/south-african-construction-sector-challenging-at-present-but-hope-remains-2023-11-17

NEW REPORT HIGHLIGHTS HOW IMPORTED CEMENT DESTABILISES THE ECONOMY

The negative impact on the South African economy caused by substituting local cement production with imported cement was highlighted in a report released by cement manufacturer PPC in conjunction with the Centre for African Management and Markets (CAMM) at the Gordon Institute of Business Science (GIBS), in Johannesburg, on 13 September 2023.

The report, titled 'The socioeconomic impact of substituting local cement production with cement imports' was based on a report commissioned by PPC and independently conducted by CAMM.

The report provides an overview of PPC's contribution to the South African economy and forecasts the potential social and economic impacts of a significant displacement of local cement production in favour of imported cement.

"The report tangibly demonstrates the serious and complex threats that cement imports pose to our industry, society, and country's development", PPC South Africa and Botswana MD Njombo Lekula said, noting that the report was aimed at consolidating these dimensions into the impact analysis.

Based on the scenario modelled in the report, some of the more sobering estimations on the impact across the entire PPC value chain include more than 2 200 jobs potentially being at risk, primarily across marginalised communities.

In addition, the report shows a potential R2.6-billion-a-year loss in economic value in an already-strained economic environment.

The report shows that PPC was a major economic contributor in South Africa, with the business' operations adding about R8.8-billion to the national gross domestic product (GDP) last year through its value chain – equivalent to 0.13% of the country's total GDP.

Source:
https://www.engineeringnews.co.za/article/new-report-highlights-how-imported-cement-destabilises-the-economy-2023-09-13

SA ECONOMY MAY HAVE DODGED A CONTRACTION EVEN AS KEY SECTORS SHRINK

South Africa's economy probably skirted a contraction in the third quarter, even as sectors that make up more than a fifth of total gross domestic product shrank.

Despite a 1.6% slump in mining and 1.2% in manufacturing in the three months through September, analysts expect meager quarter-on-quarter economic growth because of less severe power cuts and the increased use of self-generation by businesses and homeowners.

"The power situation is way better than what it was in the second quarter" said Wayne McCurrie, portfolio manager at FNB Wealth and Investments, who is forecasting marginal growth.

Senior economist at Oxford Economics Africa, Jee-A van der Linde, who sees the economy growing by 0.1% in the third quarter, said South Africa remains in recovery mode.

"The supply side of the economy is proving more resilient than initially thought and indicating that the wheels continue to turn, albeit at a sluggish pace," Van der Linde said. "Increased private sector investment in electricity generation capacity is supporting the demand side, but households are experiencing strain due to elevated prices and high interest rates".

Source:
https://www.news24.com/fin24/economy/sa-economy-may-have-dodged-a-contraction-even-as-key-sectors-shrink-20231110

CONSTRUCTION NEWSLETTER

GERMANY TO STOP REGULATIONS FOR CONSTRUCTION SECTOR REVIVAL

The German government has recently announced its decision to leave aside proposed building regulations. This move happens to be part of a relief package worth €45 billion aimed at supporting the struggling construction industry in Germany.

It is well to be noted that construction firms in Germany have been facing challenges due to inflation and increased interest rates. Berlin has already committed to providing €18 billion for affordable housing until 2027, while extra funds will be contributed by federal states as well as municipalities. Chancellor Olaf Scholz has expressed the need for a significant increase in housing construction activities in Germany during a press conference before his meeting with industry leaders. The purpose of the meeting was to tackle the housing crisis prevailing in Europe’s largest economy.

The Chancellor reaffirmed that they are in need of an increased affordable housing.

The government has opted to indefinitely postpone strategies to implement stricter building insulation standards. This decision has been aimed at supporting the struggling industry. It is well to be noted that the industry has been advocating for the elimination of these initiatives, disputing that they are excessively costly.

Additionally, the government has also voiced its opposition to newly suggested European Union legislation that could potentially mandate the upgrading of millions of buildings through measures such as insulation or the implementation of effective heating systems. Opponents of the law are concerned that it places an excessive burden on both the government as well as homeowners.

Source: *https://www.worldconstructiontoday.com/news/germany-to-stop-regulations-for-construction-sector-revival/#:~:text=The%20German%20government%20has%20recently,struggling%20construction%20industry%20in%20Germany.*

INFLATION SLAMS BRAKES ON CONSTRUCTION SECTOR IN UGANDA

The rising costs of construction and building materials in Uganda have forced Ugandans to stretch their budgets significantly in order to rent or buy a home. Data from the Uganda Bureau of Statistics (Ubos) shows that the rate at which costs increase in the construction sector rose by 0.2 percent in August compared to 0.1 percent the month prior.

“Specifically, demolition and site preparation inflation increased by 0.5 percent in August compared to 0.1 percent decrease registered in July,” Ubos noted in a statement.Additionally, the high cost of civil engineering structure establishments exacerbated the monthly change in building material prices, affecting primarily the construction of residential buildings. Most notable were the increments in the price of diesel, iron, steel or aluminium plates, adhesives and seals and nails, bolts, and screws.However, electrical, plumbing and other construction activities inflation decreased by 0.3 percent in August compared to 0.7 percent decrease registered in July.“Supply chain disruptions caused by the Ukraine war, which delayed delivery of inputs to local industries, combined with an increase in fuel prices, which has exacerbated logistic expenses for our local manufacturing companies, have largely affected the price of these construction input materials”, said Mr Martin Kyeyune, a Ugandan construction economist.

The situation has gotten worse due to the construction industry’s declining investment returns, which have made it even less appealing to financial institutions for credit.

The Covid-19 pandemic’s impact on economic activity was largely responsible for the outcome in 2020 as consumer spending and business output were both hampered by lockdowns. Data from the Bank of Uganda (BoU) reveals that the construction sector has experienced low revenue growth for the last four years in a row, going from about $1 billion to $500 million in 2021.

A number of commercial banks are consequently reluctant to lend to an industry whose returns are long-term.

“The tightening in the building, mortgage and real estate sector was mainly attributed to the low property rates and decreasing occupancy levels,” BoU noted in the fourth quarter of the 2022/2023 financial year Bank Lending Survey Report“Returns in the real estate sector are long-term, whereas banks rely on short-term deposits”, Mr Kyeyune said.

Source: https://www.msn.com/en-xl/africa/top-stories/inflation-slams-brakes-on-construction-sector/ar-AA1hS5Yg