The commercial question of mega projects?

Prepared by Colin Mashikinya ... : 2018-09-14

If you know the Three Towers Precinct and Lanseria City Catalytic Mega Projects of which the Lanseria City was the most well placed in the Gauteng Department of Human Settlement's (GDHS) Project Memorandum Information bid, and citing the successful Zanemvula 13 500 units at the Nelson Mandela Bay in the Eastern Cape – then much of what i will say, will strike your interest.

At the Gordon Institute of Business Science, March 2015 the Premier of Gauteng was equivocal on quote, "decisively moving away from small scale, low impact and sporadic as well as unsustainable housing development" unquote. With this, he meant the creation of new industries, new economic nodes and housing complex as mega-cities. The focus primarily on green and blue economy initiatives, tourism, agro-processing and logistics with Lanseria airport and Maropeng World Heritage site as main anchors of the Western-Gauteng new cities. Inclusion of previously excluded communities with functional linking lines to growth-centres aim to assist to consolidate settlement structures and allow cost effective and sustainable provision of infrastructure.

Mega Human Settlements although a new property development typography, it's potential to impact local GDP has been understated. For a Mega Strategic Project like Montrose, Lanseria City, The Three Towers, Dan Tloome to name but a few to take-off in our current depressed economic environment, will mean a boost of between 3%-4% economic growth to the Ekhurhuleni Metro and a 0.5%-1.5% contribution to the Gauteng GDP.

If we undertake the housing backlog of approximately 1.5 million despite the 2 million houses that have been delivered since 1994, the Rand West economic bloc, carrying a median household income of R21 860 (2017 annual CPI adjustment) and a housing demand index of 7929 annually, remits positive outcome of implementation for some of the prioritised mega-project-potential to inject much needed gearing for Local Economic Development (LED).

This positive story is however loaded with bureaucratic process pros-N-cons of which some of the itineraries require capital-interest to take form by enquiring on their progress. One major technical aspect of development has been that although high private sector involvement is sort for, bulk infrastructure establishment extends the complexity of inclusiveness to the model over and above macro-economic factors. Economic activity and job creation opportunity through urbanisation remains the *de facto* to developing and managing identified strategic projects that enable raising additional revenue and improve existing settlements.

There are currently 148 Strategic Mega Projects earmarked nation-wide, with 48 of those belonging to Gauteng, of which 31 have a green-light status and 10 prioritised by the Gauteng Department of Human Settlement. Gauteng represents 35% - 37% of South African GDP. The Gauteng economy continues to outpace the country GDP and is currently growing at 2%. Whilst mining and quarrying (3%) is declining, construction at (5%) on the other-hand, and manufacturing (16%) are set to take lead spurred by Mega Project Development. My predictions are Construction will contribute (10.5%) at its peak, manufacturing will jump to (19%), Financial, Real Estate and Business Service from its current (23%) to (27%) and General Government Services from (16%) to a stable (19%) ... were others 24.5%.

All this however can only be achieved through a collaborative effort, consistency and inclusiveness. The Development Bank South Africa (DBSA) through its Project Vumela ("Project Allow" or "Project Agree" – if you may) underpinned by National Treasury secular 51 has augmented the Municipal Infrastructure Grant (MIG), Gauteng Partnership Fund (GPF), Urban Settlement Development Grant (USDG) and INEP (Integrated National Electrification Programme) via front-loading conditional grants over the mid-term revenue expenditure (next coming 2-3 years) by R1 billion. The vehicle styled InfraFin requires the private sector (in this case turnkey-developers) to take the short end of the project whilst the DBSA takes the tail end (DBSA, 2018). It aims to increase the implementation speed for bulk services required prior construction phase. The balance however comes in mitigating factors proposed for the risk associated with Construction risk, Operational and Maintenance risk, the municipality retaining its credit rating, absence of Political will and sporadic Service Delivery strikes.

Of the risk/impairment stated by the DBSA, i would say the most idiosyncratic risk is political will – which has the most adverse effect (i.e. service delivery strikes) and high opportunity cost. Whilst the mitigating factor for O&M and credit rating is cash based. The Rand West District private sector debt is 4.65% of municipal GDP with a credit rating of 80% (B-), debt collection ratio and liquidity ratio of 95.6% and 1.1 respectively (Annual report 2016/2017).

The collaborative effort will thus need to go beyond institutional capacity by engaging leaders to "Allow and Agree" for priority projects to take form, not only for economic growth but provision of housing. Because certainty is that the Gauteng Mega Project initiative is not in conflict with, and is complimentary to the National Catalytic Priority Projects such as Phakisa, SKA, IDZ, Digital Development Pillar attributed to The Presidential Infrastructure Coordinating Commission.

The commercial question remain elusive in its nature because it is directed at a rubicon moment for some of the Head of Departments, of which quote "the first step towards getting somewhere, is deciding not to remain where you are" unquote. All we should ask for is to let the mega projects take form as this will bring the much needed boost for economic growth holistically .

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