Developments in the Infrastructure Sectors – April 2016

1. Housing

Fidelity targets to generate about US$ 55 million in profit from its Southview housing project. The project was reported to be 84% percent complete and all stands were sold with only 1% default rate. It was reported that POSB engaged local councils and the Local Government Ministry to secure land, as it rolls out its mortgage financing business and US$ 10 million has been budgeted to kick-start the project. A building society wholly owned by the National Social Security Authority (NSSA) is likely to open its doors to the public very soon as it was poised to launch towards the end of the first quarter of 2016.

There is going to be increased competition in the housing sector development and uptake might be hindered by lack of effective demand as incomes remain subdued.

Housing Markets, Financial Stability and the Economy (Min Zhu, 2014, IMF)

The following issues were highlighted about housing markets impact on Markets and Financial Stability:

- Housing is an important element in economic development as it is one of the basic needs and a form of investment in many economies;
- Mortgage markets are important in the transmission of the monetary policy;
- Collapse in the housing market has potential to destabilise the whole financial system for instance the busting of the real estate bubble of the United States. IMF research shows that of the nearly 50 systemic banking crises in recent decades, more than two thirds were preceded by boom-bust patterns in house prices. There is abundant evidence that housing cycles can be a threat to financial and macroeconomic stability. Such recessions also tend to be much deeper and generate more unemployment than normal recessions;
- A rapid growth in credit and a housing boom is usually a precursor to a crisis.
- There is need to limit exposures of households and limit them to prudential debt – income ratios. This should be complemented by increasing the level of down payment.

1. *Energy*

Africa has more than 7% world's gas about 30 trillion cubic metres of potential and proven reserves which offers a cheap alternative to power generation. Mozambique and Tanzania has potential to supply half of Africa's gas and become leading suppliers together with Angola and Nigeria. There is renewed focus on wind, solar, biomass and hydro projects in line with green energy initiatives in Africa. Southern Africa Power Pool (SAPP)'s electricity demand is forecast to increase from 53.7GW to 77.7GW by 2018.

Studies have shown that there is still need to double the number of new connections to modern energy services per year to reach universal access to energy by 2030 (World Bank, 2016). The current discourse argue that off-grid solutions are key to the achievement of these goals. Experts agree that development banks, foundations and other concessional sources of finance must become major players in the energy access space for the challenge to be mate. Approaches to energy funding should include supporting more holistic enterprises that explicitly aim to deliver not only connections and kilowatts, but community jobs, community services and productive technologies. These services will directly impact communities' ability to pay for more energy and more services, which in turn, improves companies' bottom lines and banks' balance sheets. In Zimbabwe, in rural areas the proportion of households with access to electricity was about 45 percent while in urban areas was about 86.1 percent in 2014[1]. The proportion of households without access to electricity was about 88 percent in rural areas compared to about 12 percent in urban areas 2014. Nationally, about 39% of households do not have access to electricity.

Active participation in the funding of clean energy projects include the following financial institutions:

- African Development Bank (AfDB);
- Asian Development Bank (ADB);
- European Bank for Reconstruction and Development (EBRD);
- European Investment Bank (EIB);
- Nordic Environment Finance Corporation (NEFCO);
- World Bank; and
- Inter-American Development Bank (IDB).

[1] Source: http://www.zimstat.co.zw/sites/default/files/img/publications/Transport/ICT_Report_2014.pdf

Developments in other countries include the following[2]:

Senegal - the Government has signed an agreement with IFC to develop up to 200 megawatts (MW) of utility-scale solar PV power. The initiative seeks to increase private investment in solar power in Africa, helping countries to procure renewable energy quickly and affordably by offering advice, project documents, risk management products, finance and insurance.

Seychelles- the 2016-2020 Country Strategy Paper (CSP) was approved by the AfDB Board, signalling the Bank's plans to invest US$39 million in the country.

Indonesia- ADB intends to increase lending to the country to approximately US$2 billion annually for the next five years. The increased financing will support the country's development priorities, including loans for clean energy in 2016.

Tanzania- the AfDB Board approved a concessional resource assistance package valued at more than US$1.1 billion over five years as part of the 2016-2020 Country Strategy Paper (CSP). Together, transport and energy make up one of two pillars underpinning the CSP, with funding directed at improving access to reliable, affordable and sustainable electricity.

Moroco- the World Bank and AfDB reported on the opening of the first phase of the Noor-Ouarzazate concentrated solar plant (CSP) in Morocco, which is the largest such project in the world. Upon completion of the remaining two phases by 2018, the plant will have over 500 MW of installed capacity. Financing for the project included over US$3 billion from AfDB, the Climate Investment Funds (CIF), European financing institutions and other financing channels at the World Bank.

Egypt- the Kuwait Fund signed a US$108 million loan for Egypt's South Helwan power project loan with the Kuwait Fund for Arab Economic Development (KFAED). The loan is of 2.5% interest per year, with a five-year grace period to be paid over 20 years. The project is expected to add around 1,950 megawatts to Egypt's national grid. The cost of the South Helwan station is US$1.7 billion, co-financed by the World Bank with a loan of about US$503.8 million, the Islamic Development Bank with US$450 million, the Arab Fund with

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[2] **Source** : http://foreignaffairs.co.nz/2016/03/02/february-2016-sustainable-energy-finance-update/#sthash.v4MuxjKU.dpuf

55 million Kuwaiti dinars, the KFAED with 30 million Kuwaiti dinars, and the African Development Bank with US$90 million (Sayed Badr, 2016).

Ethiopia- the Italian export credit firm, Servizi Assicuative del Commerce Estero (SACE) has agreed to finance the construction of a 2,000MW Koysha hydro dam in Ethiopia. The total project costs are estimated at US$ 1.7 billion.

3. Transport

Mozambican state-owned airport management company Aeroportos de Moçambique (AdM) expects this year to spend US$60 million improving airport infrastructure in the country, which will have the support of France.

4.4. Water and Sanitation

The funding gap for water infrastructure in sub-Saharan Africa is estimated over US$11 billion (Swedish International Water Institute, 2016)[3]. In Zimbabwe, for 2016 alone about US$ 188 706 096 is required for water and sanitation of which only US$ 31 550 000 was allocated in the budget and US$ 45 721 200 will be provided by development partners. Private sector is expected to contribute the balance which is in excess of US$ 100 million. *However, private sector participation in the water sector is constrained by lack of financial viability of projects and lack of conducive legislative environment.*

4.4. ICTs

The information technology industry contributes to nearly 9.5% of India's GDP and is the largest private sector employer, generating some 3.5 million direct jobs, and over 10 million indirect jobs. This shows the importance of this sector for promotion of sustainable economic development.

5. Resource Mobilisation for Infrastructure Development

China has offered Nigeria a loan worth US$6 billion to fund infrastructure projects. There is now an agreement that the yuan is in free flow in Nigeria and Nigerian firm can access yuan loans at favourable rates. Nigeria is reported to have already converted up to a tenth of its

[3] http://www.newvision.co.ug/new_vision/news/1418491/developing-countries-look-private-investors-solve-water-crisis#sthash.uilXMHT6.dpuf

reserves to yuan five years ago. A Nigerian company was reported to have accessed a US$ 2 billion loan from China. Nigeria is already considering pada bonds (yuan denominated bonds) which are regarded as cheaper than the Euro bonds.

Other Resource mobilisation activities

- The African Import Bank (Afreximbank) guaranteed interbank facility now has $136 million after local banks contributed a further $16 million as confidence in the system which has the function to distribute liquidity grows.
- Steward Bank raised $15 million loan facility which was contributed by the USAID, SNV and FAO for SMEs.
- The African Export and Import Bank (Afreximbank) is set to avail a $100 million facility to Government for the recapitalisation of the Agricultural Rural Development Authority (ARDA).
- Afreximbank announced a US$120 million financing package for the construction of a 120MW power plant in Mutare. Local electrical equipment manufacturer, Helcraw Electrical (Pvt) Limited, secured the funding for the construction of an emergency power plant in Mutare. The electrical equipment firm, whose technical partner is Italian company Ansaldo Energia, in 2015 won the tender for the project which is expected to generate 120 megawatts.
- Zimbabwe is closer to becoming a member of the African Trade Insurance Agency (ATIA) by July1, 2016 after managing to raise the required registration fee of US$15 million with the assistance of the African Development Bank. ATIA, Africa’s export credit agency (ECA), provides political and trade credit risk insurance products with the objective of reducing business risk and cost of doing business on the continent.

These developments are positive to the country as they put the country in good light and provide positive signals to other investors.

6.0 Conclusion

The threats posed by rapid growth in housing credit should be adequately factored in when developing housing projects. Resource mobilisation for infrastructure should focus on all markets taking into consideration their appetite.