KZN Northern Growth Corridor

Kick starting infrastructure development in KwaZulu-Natal

Just over a month ago, the KZN Economic Development, Tourism and Environmental Affairs MEC Mike Mabuyakhulu told the KZN Growth Coalition that 452 outstanding development projects valued at R1.7 trillion were still awaiting environmental impact assessment approval in KwaZulu-Natal. It also emerged that complications associated with zoning legislation were holding up a number of greenfields developments, including six major commercial and industrial parks.

One of the key objectives of government in the KwaZulu-Natal province is economic growth and job creation. In order to achieve this, as much development as possible needs to take place, but many of these developments are currently being delayed for various reasons.

Deloitte called for action from both government and business leaders for closer collaboration to address administrative backlogs as well as the shortage of funding for bulk infrastructure and services. These obstacles are delaying approval for much needed developments and causing costly delays.

Understanding the development gap

In the first week of December 2014, Deloitte hosted a Bulk Infrastructure Funding Workshop for a variety of stakeholders in both the public and private sectors, providing a valuable opportunity to put key issues on the table and to identify possible solutions.

Given that Durban is one of the fastest growing cities in Africa with a population of around 4 million (which is expected to grow by 30 percent by 2020 according to STATS SA), there exists an urgent need to speed up development to create jobs and fast track economic growth.

Developers and investors need to understand the complexities of the approval process in order to better understand why, in many instances, authorities are not as excited as the developers and investors are about development proposals. Conversely, public sector stakeholders need to better understand the frustrations experienced by the private sector. Traditionally, it takes up to three years for local authorities to approve developments in KwaZulu-Natal, whereas the average approval time in countries like Dubai and Mauritius are granted in just three months. Developers warn that protracted approval periods make international investors very nervous due to what appears to be a lack of commitment from regulatory/government bodies. For their part, international funders are reluctant to finance projects until approvals are in place. Municipalities, however, will not approve the installation of bulk services until the funding is approved.

When it comes to bulk infrastructure funding, there exists a clear “chicken and egg” scenario relating to funding and market risk. The municipalities want to see the market take-up before approving a project, but private developers take a “build it and they will come” approach believing that an iconic development creates the market.

Utilities providers suggest that developers needed to look at a far wider picture, establish available capacity and clearly identify their needs in relation to this.

The many servicing the few

Dealing with a large number of different stakeholders – including, amongst others, municipal departments, Eskom, water providers and roads departments – as well as a disjointed approval structure, poses a formidable challenge for developers. In addition, national, provincial, and local government frequently have different priorities and modus operandi.

Taking this into account, developers need to try to fit in with authorities’ long-term, planning cycles whenever possible. However, these cycles differ in both timing and duration, making it extremely difficult to synchronise them with private developers’ plans.

Developers are requesting that government departments begin to collaborate and possibly even set up a “one-stop approval shop”.

Grappling with capacity constraints

Both available capacity and the ability to fund the infrastructure needed to augment these, are major development stumbling blocks.

Developments are frequently held up because local government cannot provide the bulk services needed. This is despite the fact that the responsibility to provide services to site rests with the municipality, while the developer accepts responsibility for the distribution of services on-site.

Up until now, bulk infrastructure was funded from Municipal Infrastructure Grants. However, the need to provide basic services to unserviced areas takes precedence, leaving little budget for commercial development.

It is therefore important for both the public and private sector to look at ways to unlock funds to facilitate the delivery of bulk services and to proactively investigate alternative funding mechanisms.

One approach hinges on existing business attraction and retention strategies used by most municipalities to attract investment through the provision of water, electricity and rates payment discounts or holidays.

This suggests that, when a development is in the city’s priority areas, the municipality accepts responsibility for providing bulk services. Outside of the city’s priority areas, rebates could be used to offset the developer paying for the necessary bulk services.

It is proposed that municipalities develop an abatement package equivalent to the interest cost plus capital repayments. The municipality would then still own the asset but the developer would borrow the funds for construction. However, this does raise considerable debate. A key to this success would be for the province to adopt a test case with a mandate body in place to drive the process.

Looking at location

Globally, municipalities have mechanisms in place to direct development in priority zones. These are usually those with services in place rather than in new areas requiring considerable investment in bulk infrastructure. The same applies locally.

It makes sense for provincial and local government to prioritise key development areas including Cornubia, the Dube TradePort and Bridge City within the KwaZulu-Natal Northern Growth Corridor. This facilitates the allocation and concentration of scarce resources, expertise and planning.

Developers need to consider approaching the municipality to identify land available for development that could be easily serviced, rather than the developer choosing land and requesting the city to service it.

Moving closer to a solution

The province has been looking at many stalled projects with a view to expediting them and dealing with blockages and backlogs.

Already some progress is being made in eThekwini Municipality, which has assigned project managers to individual developments and has also appointed a city planning commission to look at the approval process and incentive packages. The objective of this commission is to make Durban more attractive and accessible to investors.

In addition, the province has also created sectoral working groups that meet monthly to address the needs of individual industries. The participants of the workshop observed that all of this was evidence that the silo mentality from prior years was starting to change and that sharing information and integrating plans was starting to happen.

Although there was not necessarily outright consensus, the Bulk Infrastructure Funding Workshop definitely provided a clearer perspective on how the city viewed infrastructure development. A follow up workshop has been scheduled for the new year.

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