SOUTH AFRICA
Infrastructure

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World Cup spending opens faster growth plan

The investment protected the economy from the worst of recession and is set to help economic expansion, explains **Richard Lapper**

A close shave: the economy escaped the worst of the global crisis because of state expenditure on stadia, such as the Moses Mabhida stadium in Durban Reuters

Looking out over the sweeping arches and elegant lines of the Moses Mabhida stadium, Obed Mlaba is beaming. The mayor of Durban – South Africa's third largest city and Africa's busiest port – has orchestrated an important chunk of the country's World Cup-related infrastructure build-up and is more than satisfied with the result.

"The World Cup gave us an opportunity to do things that we have always wanted to do," he says. "A lot of infrastructure is needed to create jobs for our people."

Critics may argue that Durban's two most controversial projects – the new $450m arena that sits alongside the Shark Bowl rugby ground and the sparkling $900m-plus King Shaka airport – are both unjustified extravagances, but Mr Mlaba is unapologetic, arguing that his detractors are "longing for the old system, but we are just not going to go back. We are already looking beyond 2010."

And the mayor's optimism mirrors that of South African leaders more generally. Against the background of international scepticism, the government is completing its preparations on time.

Overall, more than R33bn has been spent on roads, public transport, five totally new stadiums and upgrades to four more – including the almost complete renovation of Soccer City, the Soweto-based ground that next month will host the final of the competition.

An additional R25bn-plus has been found to build the Gautrain, a commuter railway that links the commercial hub of Johannesburg, with Pretoria, South Africa's political capital.

The system, which was commissioned even before South Africa won its bid to stage the tournament, will not be fully operational until next year, but the line linking the international airport with Sandton – a Johanneburg shopping and hotel centre – will be ready in time.

All this spending has helped shield South Africa from the international financial storms that followed the collapse of Lehman Brothers, the US investment bank, in September 2008. South Africa's economy was certainly hard hit by the fall in commodity prices and downturn in European export markets.

But with the construction sector buoyed by continued work on the stadiums and the transport projects, the economy contracted by less than 2 per cent in 2009 and was starting to grow again by the end of the year.

More importantly, the World Cup spend has highlighted a broader shift in government priorities, in which public investment in infrastructure has been given much more emphasis.

Including spending by state-companies such as Transnet and Eskom, last year public sector fixed capital formation amounted to more than 9 per cent of gross domestic product compared with between 3 and 4 per cent in the early part of the decade.

"The World Cup has lit a fire under infrastructure spending," says Jeff Gable, head of fixed income and macro-economics research at Absa Capital in Johannesburg. "This is to be welcomed. It means the government is giving the economy the tools to grow."

That trend look set to continue, even after the World Cup ends. Transnet, which operates railways and ports recently acknowledged that there has been an "historic underinvestment in rail", hobbling South Africa's ability to take advantage of surging international demand for raw materials such as coal and iron ore.

But the company is now beginning to move. Last year, it completed a R1.2bn expansion at the Richards Bay coal terminal and has pledged to invest R93.4bn over the next five years with a large part of the money going to fund purchases of rolling stock. If all goes according to plan, South Africa should be increasing the amount of cargo it shifts by rail by 7 per cent a year until 2015, easing pressure on its road network.

Eskom, the state electricity company is also moving radically to boost its investments after a long period of neglect. Two years ago, business confidence was shattered when Eskom was forced temporarily to cut power supplies to both commercial and individual customers.

An ambitious investment plan – including the construction of two 4,000MW coal-fired power stations, and significant wind and solar plants – is now under way, as part of a five-year R400bn-plus spending programme.

Price increases which will eventually increase the price of electricity fivefold will provide a large chunk of the funds, but South Africa is being forced to borrow money as well.

The World Bank, which agreed a controversial $3.75bn loan facility in April, is helping, although according to Cornelis Van Der Waal, energy analyst at Frost & Sullivan in Cape Town, Eskom will need to find R40bn a year from elsewhere, with the most probable source of finance being the international capital market.

All this should help the economy grow and is putting into perspective criticisms about the long-term value of some World Cup-related spending.

Some dissenters argue that rather than plough money into the high-profile Gautrain, the country could have more cheaply restored the province's bus system, which has been allowed to decay.

Others insist the new stadiums will be expensive to maintain and almost impossible to fill on a regular basis, especially those in smaller urban centres such as Nelspruit in Mpumalanga province, which do not – as yet at least – have professional sports teams.

Ann Bernstein, the director of the Centre for Development and Enterprise, in Johannesburg, says there is a danger that the stadia could become "white elephants".

Yet she and other critics recognise the World Cup has also had a very positive effect, catalysing and accelerating road and airport developments that might otherwise have happened more slowly or not even occurred at all.

The tournament will also publicise internationally the relatively high standard of South Africa's infrastructure, potentially serving to attract private investment.

And more importantly, the broader infrastructure build-up could serve to increase the rate of economic growth, with Mr Gable forecasting an annual rate of expansion of between 4 and 5 per cent, compared with the more typical recent rate of 3 per cent.

Investment could become an even bigger motor of growth, if South Africa were able to attract more private funding that of late has remained static at about 13 per cent of GDP.

Peter Attard Montalto, emerging market economist at Nomura in London, welcomes the fact that the government is now moving to address supply constraints. But he says that in order to attract more foreign capital, especially job-creating small and medium-sized investment, to the extent achieved by other emerging markets such as Turkey, South Africa must do more to improve the quality of its human capital. Better health care and education – both government priorities – are essential.

In a similar vein, Ms Bernstein warns that the government must move to capitalise on the good publicity a successful tournament could bring. "It is vitally important we have a successful World Cup, but equally important is how our leaders surf the wave afterwards."

Inside this issue

Blessed with great fecundity but cursed by vast distances

Farms and the cold chain

Robert Wright finds the efficiency of ports needs improving urgently

South Africa's fruit shippers are blessed with land of almost miraculous fertility but cursed by long distances from consumers.

An example is the apples sitting in racks in Colors Fruit's cold store in Paarl, the product of an abundantly fertile region. In the southern hemisphere autumn, the gentle hills north of Cape Town produce vast quantities of apples, pears and other deciduous fruits then out of season in northern hemisphere markets. At other times, other regions nearby produce plentiful lemons, oranges and grapefruit.

All are kept at the right temperature by the cold store's steady blast of cold air, neither freezing nor rotting.

It is one of the most complex challenges facing South Africa's logistics system to ensure that such delicate items are kept at the same, even temperature throughout what should be a swift, efficient journey to the coast and on to a ship.

Producers know if they cannot deliver, rivals in Israel or South America are happy to stock supermarket shelves in Europe, North America and Asia.

The tendency of ports to seize up at the peak of the fruit export season, combined with the relatively high costs of using them, leads many in the industry to question their efficiency. Many would like to see the proportion of fruit reaching ports by rail rise.

However, no one underestimates the challenges of organising the trade.

Jonathan Horn, Africa region executive for Safmarine, a container shipping line owned by Denmark's AP Møller-Maersk, says other cargoes' flow is far more easily foreseen.

"There's a lack of predictability in terms of when the fruit will ripen. There is little time: you have to bring it down to the right temperature and pack it and get it to the vessel," Mr Horn says. "Chrome, by contrast, is not as time-sensitive."

The fruit at Colors Fruit in Paarl will almost certainly cross the sea in a refrigerated container plugged into a ship's electricity supply. Containers have increased their share of the trade in recent years from specialist refrigerated ships, where fruit is put on pallets in a refrigerated hold. Colors Fruit estimates 95 per cent of its shipments move in containers.

However, while containerisation offers shippers a wider choice of departures for export markets, volume growth has put pressure on the busiest container terminals – at Durban and Cape Town. Both have become congested at peak fruit export times in some recent years.

Willem Bestbier, Colors' director of operations, says he hopes last year's unprecedented worldwide fall in container volumes may give Transnet, the state-owned port operator, an opportunity to improve capacity before the next big spike in volumes.

"We would not be surprised to see ourselves as a country in a little bit of a predicament come the next upturn in our economy and our exports," Mr Bestbier says.

Chris Wells, acting chief executive of Transnet, the publicly-owned transport company, accepts that big productivity improvements are needed to make the most of recent significant spending on improved cranes and other investments. Managers and workers have been incentivised to achieve them.

Mr Horn would prefer Transnet to go further and lease out the container terminals' operation to international specialist container terminal

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South Africa: Infrastructure

Road race: the Allandale slip road in Johannesburg just six weeks before the World Cup was due to start. Crews worked through the night to finish before the event Getty

Tolls provide a route through the jams

Roads

Robert Wright analyses progress by public-private partnerships

The motorways between Johannesburg and Pretoria have seen unprecedented traffic hold-ups, as South Africa prepares for the football World Cup.

Traffic cones and lane closures have proliferated amid 24-hour-a-day work to complete parts of a huge upgrade scheme before the tournament.

The new capacity, however, is set to pay for itself. In a sign of its sophisticated approach to road development, the South African National Roads Agency is preparing to introduce one of the world's largest electronic road-tolling systems.

Installation of the system – which relies on electronic beams to charge suitably equipped cars as they drive past – is part of a mixture of approaches to paying for road expansion taken by the agency. Other projects have been funded by government grants, while some have been built entirely by the private sector.

The agency is one of the few South African public bodies widely praised for its creative co-operation with the private sector.

Koos Smit, the roads agency's engineering director, says that, in many cases, if the agency had relied on straightforward government grants to fund its work, money would not have been available.

"If you don't have the money to relieve congestion and tolling is the only way to do it, it's better for the economy to do it through tolls," Mr Smit says.

Yet Mr Smit, like many others, would like faster, more widespread progress. The provinces that manage the vast majority of South Africa's road network have shown little inclination to work with outside investors and are barred from borrowing against future toll revenues to improve their sometimes battered roads.

The process for vetting and approving private sector road proposals is long and complex.

Andrew Johnstone, director of Macquarie Capital Funds in South Africa, points out that no new projects have been given final go-ahead since an initial rash of projects about a decade ago.

"The toll road programme slowed down quite a lot; it almost entirely halted," Mr Johnstone says.

The area has nevertheless seen fruitful collaboration.

"It's fair to say that it's one of the programmes that the public and private sectors have engaged on – to very good effect," Mr Johnstone says.

The poor state of most commuter and long-distance passenger rail lines means that road traffic – whether erratically driven minibus taxis or luxury private cars – accounts for an unusually high proportion of passenger journeys.

Many lighter freight movements are also by road, as the rail system concentrates on the largest, long-haul movements.

Because of the importance of roads, the drift towards tolling has been controversial.

> 'In the end, there must be a compromise between development and, obviously, looking after nature'

Poor people commuting from townships will be among those paying tolls.

Mr Smit stresses that charges are mostly held at the minimum level necessary to pay for the facility, even though charges could eventually be raised around Johannesburg at the busiest times to improve traffic flow.

"Affordability is obviously a big issue," Mr Smit says. "We try to keep the tolls as low as possible for the users. But we believe that the user-pays principle is a fair one."

While the roads agency maintains and collects tolls for the most straightforward projects itself, private investors have been able to apply to build roads through an "unsolicited bid process", advocating projects not currently in the roads agency's programme.

The process requires the roads agency to test whether any proposal conflicts with its own plans, refine it, test how easily it can be funded and seek environmental and other planning permission.

Where deals have gone through, they have cut the risks for the roads agency, according to Mr Smit.

"A lot of risk has been transferred from us to them in doing public-private partnerships," Mr Smit says.

However, the agency has spent years working on three PPP projects – the 540km Wild Coast toll road from Port Elizabeth to Durban; the 175km Winelands toll road north of Cape Town and the 68km R300 Cape Town ring road.

"We really struggle to overcome some of the obstacles quite often and it's a very strict process," Mr Smit says. "But, in the end, there must be a compromise between development and, obviously, looking after nature."

Progress is still slower on roads overseen by provincial and municipal governments. Since 1998, the roads agency has more than doubled the size of its network – now 16,170km – largely by taking over important roads from provinces.

Many were being poorly managed and maintained. On the remaining provincial and municipal roads, few of the imaginative policies being implemented at a national level are being pursued.

The only provincial-level PPP project so far has been the handing of responsibility for reconstructing the short, scenic Chapman's Peak road near Cape Town to the private Entilini consortium.

Mr Smit insists that provinces are developing legislation to permit public-private partnerships, in the hope of implementing further schemes.

But Mr Johnstone believes there is still significant work to be done to develop provinces' and cities' ability to handle the complex legal and regulatory questions involved in setting up a PPP.

Without that, there remains a risk that nationally controlled roads such as Johannesburg area motorways will become models of modernity, while others clog up for lack of investment.

"The needs of the country are not all national needs," Mr Johnstone says.

Water Shortage is a taste of things to come

Nearly a year after the government declared most of the province an official disaster area, the Eastern Cape has seen no end to the crippling drought that threatens to devastate its agricultural sector.

"We haven't had run-off rain since October 2007," says Wilfred Henderson, who runs a cattle farm near the town of Kenton-on-Sea. "If we don't have significant rainfall this spring, my business won't survive."

The shortage could be a taste of things to come in one of the world's 30 driest countries. The Water Resources Group recently predicted South Africa's water supply would fall short of demand by more than 17 per cent in 2030, with industrial centres such as Johannesburg seeing a shortfall as high as 40 per cent, thanks to demand from manufacturing and increasingly prosperous residents.

South Africa will need significant investment in water infrastructure to avert a crisis, the report concluded.

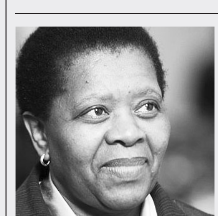
But water scientists fret that the issue is low on the government's priorities – a concern reinforced by grumbles over insufficient funding from the Department of Water Affairs (DWA). Its chief financial officer Onesmus Ayaya said last month an annual R1bn was needed over 10 years to maintain bulk water infrastructure, but only R350m was available.

The funding problem is exacerbated by the low prices charged for water – a legacy of apartheid-era attempts to maintain competitiveness amid international sanctions. The 13 regional water boards last month called for tariff increases of between 6 per cent and 43 per cent, but Mr Ayaya suggested a revision was unlikely before 2013.

Economic stability concerns mean the country cannot afford to increase prices quickly, explains Nick Segal, a consultant commissioned by business leaders to conduct a water study last year. He believes the seeds of current problems were sown in the mid-1990s.

South Africa can be proud of its achievement in extending free potable water to millions of blacks after the fall of apartheid, he says: the proportion of households with access to clean water rose from 60 per cent in 1995 to 95 per cent in 2008.

But that drive to improve access distracted attention from large-scale infrastructure development, says Mr Segal, and a wave of institutional reform fell flat after an exodus of experienced staff from the DWA. Twelve years after legislation set up 19 "catchment management agencies" to manage regional water resources, none is yet operational.



Buyelwa Sonjica (left), water affairs minister, described the situation as a 'ticking bomb' and R7m would be spent on a plant

Progress has been further constrained by weaknesses at local government level.

Municipalities have been charged with providing local water services since 2000 – but almost a third are currently without a single professional water engineer, leading to "massive problems in the operation of water and sewage systems", according to Mr Segal.

South Africa's water supply will increasingly rely on the efficient recycling of waste water, experts agree. But that crucial segment of the country's water infrastructure received a damning indictment in April, when a government report found only 45 per cent of waste-water treatment plants processed effluent to an acceptable standard, with just 7 per cent meeting international benchmark levels.

The resultant pollution of the country's rivers has caused concern among farmers worried their produce will not meet EU import standards. More seriously, it threatens the quality of drinking water, particularly in rural areas. Contaminated tap water led to a 2008 outbreak of diarrhoea that killed 140 children in a single district of the Eastern Cape province.

A failure to deal with polluted water could also threaten the economic hub of Johannesburg.

In March, media reports said that toxic water accumulating in disused mines near the city could overflow into rivers and low-lying areas at a rate of up to 70 megalitres a day.

Buyelwa Sonjica, the water affairs minister, described the situation as a "ticking bomb" and said that R7m would be spent on a treatment plant.

But that investment is a "band-aid approach" says Antony Turton, a water scientist at the University of the Free State, who says that the acidic water could begin flowing into the city as early as January 2012.

"The first warning of this was given in 2002 – we could have had a decade of preparation. But nothing is happening in the department – it's just denial and finger-pointing."

Simon Mundy

Blessed . . . but cursed

Continued from Page 1

operators, to capitalise on widespread experience of operating in different countries. Most large economies follow such a system.

"They know what works," Mr Horn says of international terminal operators such as Dubai's DP World.

Mr Wells attacks such an analysis as "simplistic", however. "The experience from the rest of Africa has not been that it has been a panacea for all ills," he says of the introduction of international terminal operators.

The high cost and poor quality of Transnet's rail service cause similar frustration. While trains are a less obvious means of moving refrigerated containers than bulk goods such as coal and iron ore, large volumes of fruit undertake long journeys. Many should easily justify the costs of organising a train.

At present, with the exception of Mpumalanga's seasonal avocado harvest, nearly all fruit reaches ports on trucks that damage road surfaces and clog port cities.

"We're over-reliant on road transport because of the inadequacy of our rail transport," Mr Bestbier says. "Rail is very slow at this stage and it's not cost-effective. It may be better for the country in the overall picture but that doesn't reflect itself in the price of the transport."

Mr Wells says the problem is partly that fruit-producing areas are often on lightly-used rail lines difficult for Transnet to serve. It plans to lease the operation of some lines to other operators.

"The key drive for Transnet in freight rail is to move heavy-haul and long-haul goods," Mr Wells says.

Some fruit exporters in the north-eastern provinces of Mpumalanga and Limpopo have started turning to one of the few export routes not dependent on Transnet, via the Mozambiquan port of Maputo.

Mr Wells insists, nevertheless, the programme of efficiency improvements will improve things further, making its ports "world class", he promises.

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Gautrain provides fast track to future

Urban rail

Robert Wright looks at a mass-transit system that is breaking new ground


Ticket to ride: the Gautrain high-speed rail link – a contrast both technically and organisationally with every previous railway built in South Africa Getty

To the tens of thousands of commuters who use them every day on the UK's crowded railways, it might seem strange to think of a British commuter train design playing a part in a transport revolution.

But, in a depot outside Johannesburg, British-designed Bombardier Electrostar trains scarcely distinguishable from those used on many commuter lines around London are being readied to transform journeys between Pretoria, Johannesburg and the region's OR Tambo international airport.

The 80km Gautrain line – which takes its name from the Gauteng province, whose government commissioned it – is deliberately a contrast both technically and organisationally with every previous railway built in South Africa.

It is the first built to the international standard 1,435mm track gauge, meaning its trains are incompatible with the country's existing rail network, where tracks are narrower.

It has also been designed and built entirely by the private sector. For the first time, a leading South African public transport network will be run by a non-state operator – albeit that the new operating company is mainly owned by RATP, the Paris public transport operator.

The question is whether the R25bn project can achieve its aim of improving public transport's share of journeys in a region where car use has been sent spiralling by rapid economic growth, distaste for existing public transport and fear of crime.

The first section – between OR Tambo Airport and Sandton in Johannesburg – was due to open on June 8, brought forward from June 27 because of the World Cup. The remainder of the system should open next year.

Dave Barry, vice-president of Gautrain for Bombardier's South African division, says that, given South Africa's rate of growth in the past 15 years, there is no alternative to developing a fast, mass-transit system.

"You cannot possibly build enough freeways to keep up with that sort of growth," he says. "You need some sort of integrated transport."

However, Andrew Johnstone, director of Macquarie Capital Funds in South Africa, who was involved with one of the unsuccessful bidders to build the route, retains some doubts.

Mr Johnstone thinks that Gauteng's chronic road congestion should help encourage some commuters to ditch their cars for the train. The route has been designed to pass some of the worst traffic pinch points, to ensure drivers in traffic jams see trains whizz past them.

But he adds: "They're trying to get guys out of their BMWs on to trains. That's not going to be easy."

Gauteng province has sought to reduce some of the risks by using technology that has proved itself abroad.

The Electrostar trains are among the most reliable new trains in the UK. The main modifications are a streamlined nose and some changes to the traction equipment.

Most importantly, the South African versions have more motors, to cope with the effect of Gauteng's thin air on the motors and the line's steep gradients.

The rationale for introducing standard-gauge track is partly the same as that which inspired Japan to use standard gauge instead of narrower track for its Shinkansen high-speed trains. Trains on narrow-gauge tracks can become unstable at higher speeds.

The Gautrains will run at up to 160kph, well below the speeds of Europe's high-speed trains, but faster than anything else currently running in South Africa.

However, neither the province nor the system's builders can address the fundamental problem with introducing rail into the sprawling Johannesburg-Pretoria area – the conurbation is the opposite of the kind of densely-packed city where urban rail works best.

Part of the answer has been to build a system of feeder buses running to and from the stations.

Some of the stations will also be served by Johannesburg's Bus Rapid Transit Network, which runs on dedicated lanes between the city centre and outlying areas such as Soweto.

Taxi ranks at stations will also play an important role.

However, the developers also hope that new development will cluster around the line, as has happened with many other urban rail systems worldwide. That way, the line will generate a substantial amount of its own traffic.

Mr Johnstone believes the developers will need all the help they can get because the 15-year life of their concession to run the system before handing it to the government is short by international standards.

> 'They're trying to get guys out of their BMWs on to trains. That's not going to be easy'

Mr Barry insists, however, that the line will confound the pessimists and demonstrate the potential of passenger rail in South Africa.

"I think a couple of years from now it will certainly influence the thinking at government level as regards the future of rail," he says.

He also believes it will provide a powerful example of the private sector's ability to deliver complex projects and of the talents resident in South Africa – where most of the trains were built and most of the planning done – to deliver such projects.

"The amount of excitement this train has generated has been phenomenal," Mr Barry says.

"It has been a tremendous motivator for our team here. It's South Africa proving to itself that it can do it."

Economic growth constrained by quality of bulk rail lines

Freight transport

Robert Wright looks at a subject vital to the country's prosperity

Looking at the grubby, old-fashioned-looking electric locomotives parked in Ogies, in the mining region of Mpumalanga, it would be easy to miss their significance to South Africa's economy.

But each year these locomotives help haul tens of millions of tonnes of coal, South Africa's most plentiful mineral export, from Mpumalanga to Richards Bay in KwaZulu Natal for export to power stations around the world. The efficient functioning of the rolling stock and infrastructure on this and every other mineral-handling railway in South Africa is vital to the country's prosperity.

Many in South African mining believe that deteriorating track and trains and poor management on the country's heavy-haul rail lines are holding back the sector's growth.

Coal exports from Richards Bay fell marginally from 2008 to 61.1m tonnes in 2009, even though demand from power stations grew worldwide.

The chief executive of Richards Bay Coal Terminal, the privately-run company that handles exports, has blamed rail inefficiencies – including a series of derailments – for the decline.

The coal line's problems are not unique. South Africa, which has 80 per cent of the world's manganese reserves, has only a 15 per cent share of world exports of the ore. Many blame rail and port bottlenecks for the mismatch. There are also complaints about the costs of the rail line carrying iron ore to Saldanha Bay, the main ore export point.

Peter Beaven, head of manganese in South Africa for BHP Billiton, which also mines coal and iron ore there, believes public-private joint ventures are needed to resolve the problems.

"There's a very sensible, co-operative way forward, but it requires new thinking," Mr Beaven says. "That is to deploy the combined resources of the country in the public and private sectors so as to produce a world-class, efficient, low-cost transport system that has sufficient capacity to meet demand."

However, Transnet, the state-owned monopoly that operates all South Africa's freight railways and nearly all its bulk ports, insists many of its operations are already world-class. The main priority is investment to make up the shortfall in the years immediately after the end of apartheid.

Chris Wells, acting chief executive, particularly disagrees with mining groups' claims that costs in South Africa are far higher than on the rail lines they run themselves in western Australia.

"The iron ore line stacks up against the best in the world," he says.

The most obvious constraint on the Richards Bay line is the 4km single-track tunnel at Overvaal in Mpumalanga. Capacity cannot be expanded beyond 81m tonnes annually without a second track. Mr Wells accepts that Transnet cannot afford to finance the expensive expansion work on its own.

The line's capacity will also improve, once Transnet has taken delivery of 110 new electric locomotives ordered in 2006 from a Japanese-led consortium.

The locomotives will be able to use both electric currents along the route. Trains are presently held up by a change of locomotives at the junction between two electrification systems.

Transnet is also buying new diesel locomotives from the US's General Electric to improve the ore line's reliability.

However, sceptics point out that the coal line is unable to meet its current theoretical capacity of 74m tonnes and that 2009 saw the fourth consecutive fall in throughput.

Most observers agree that, with Richards Bay Coal Terminal currently expanding its capacity to 91m tonnes, the rail line is the main barrier to coal export growth.

"Their efficiencies are not so good as they were – hence the fall in exports," one maritime industry figure says of Transnet. "But that kind of performance can be seen throughout the country."

Dave Rennie, head of the freight services division at Durban-based Grindrod, which runs some mine railways, says the key to improving throughput is to improve rail's consistency.

"You can't have it being efficient one day and poor the next," Mr Rennie says.

If mining houses or other important customers had stakes in Transnet's operations, it could improve co-ordination throughout the supply chain, he adds. Such companies might also have greater incentives to invest in improvements.

"Where Transnet might not wish to invest, why preclude the private sector, which might want to invest," Mr Rennie asks. "There are certain areas where the private sector will manage it better than the public sector."

Mr Wells, however, insists that private sector involvement would make less difference than Transnet's critics suggest. Mining houses have responsibilities as well.

Transnet, nevertheless, remains "open-minded" about private sector involvement in individual investment projects.

"If we believe we can do it ourselves efficiently and we can afford it, we'll continue on that basis," Mr Wells says. "Where it's not a priority for Transnet but we don't want to stand in the way of investment, we're quite happy to participate in a private-sector initiative."

The company will need to find some way to bring in outside finance to expand the Overvaal Tunnel, enhance the ore line's capacity and boost Transnet's capacity for manganese. All are too expensive for Transnet to fund on its own.

South Africa: Infrastructure

Party may yet leave a nasty hangover

Construction

Simon Mundy looks at prospects after the temporary boost

South Africa not only confounded international expectations when it completed world cup football stadiums ahead of schedule. The contracts helped shield the country's leading construction companies from the impact of the economic downturn.

With that temporary boost now over, many in the industry are expecting a bitter hangover to follow the feast of football.

A continuing lack of private investment means this year could be one of the sector's toughest in recent history, says Elsie Snyman, chief executive of construction analysis company Industry Insight.

"The private sector is not going to be in the industry for the next couple of years," she warns.

Residential construction went into a decline in the middle of 2007 and is still falling sharply, with investment in the fourth quarter of last year down by 8.3 per cent year-on-year.

The situation looks no better in the commercial sector, which tends to lag behind trends in residential construction, says Ms Snyman, while uncertainty about electricity supply has seen mining companies shy away from big building projects.

"At the moment, we're hoping the situation will start to improve by late 2012. But will interest rates stay stable; will the rand stay strong; what will happen to the oil price? All these things could completely change our outlook," she says.

Pravin Gordhan, finance minister, appeared to bring some respite to the industry in February, when his budget speech announced an R846bn investment in infrastructure over three years.

Construction stocks surged, as investors anticipated a vital boost from the investment programme, which will concentrate on power plant construction, transport infrastructure, and water supply capacity.

Brian Bruce, chief executive of Murray & Roberts, a construction company, says the drive reflects a vital change of approach by the government after a 25-year period of under-investment in infrastructure that began in the mid-1970s.

"The economy has overtaken infrastructure," he notes. "That deficit, if not tackled, will impair our ability to achieve socio-economic growth."

But the public sector can be an unreliable partner, cautions Mr Bruce, whose company is locked in a payment dispute over work done on the Gautrain rail link from OR Tambo Airport to Johannesburg. "Essentially, the private sector is focused on the economics of its investments, while the public sector is constrained by the process."

The World Cup stadia provided a good example of construction operations clogged up by red tape, says Mr Bruce.

"With almost all of them, the design had to be changed after the contracts were signed, and the amount of money spent was a lot more than had been indicated.

"We all built stadia that were substantially different from the original designs."

Despite these concerns, Mr Bruce expects public expenditure to tide the larger companies over the private spending slowdown, while warning that smaller ones that miss out on state tenders could be hard pressed.

Ms Snyman agrees, saying many small and medium-sized companies "will hang on by their fingernails this year", with an rise in liquidations already visible.

High-wire act: with the temporary building boost finished, a continuing lack of private investment means this year could be one of the sector's toughest in recent history Getty

Of particular concern is the issue of delayed payments: 58 per cent of payments to contractors last year were made more than a month after invoicing, according to a survey by the Construction Industry Development Board.

Ronnie Khoza, its chief executive, pointed to corruption in government departments as a contributing factor.

"Smaller companies are tendering below cost at the moment just to secure work opportunities," says Ms Snyman. "When people are pricing irresponsibly, the slightest payment delay can be fatal."

The World Cup fallout has already begun for many labourers, says Frans Baleni, general secretary of the National Union of Mineworkers. Mr Baleni – who counts a large contingent of construction workers among his members – estimates that 18,000 contractors on World Cup-related projects have been left jobless since completing them.

"With the skills they have acquired, these workers should be channelled to new projects in other parts of the country," he says. "It's not just about cheap labour – when you start a project, you need a skilled core."

The concern that valuable new skills will go to waste is "valid", Mr Bruce ackowledges. "No one planned the economic crisis, but this is a consequence of that. It's a tragedy."

The depressed conditions in South Africa have spurred one leading construction company to focus on international expansion, however, capitalising on its work for the World Cup.

Having proved its mettle by building stadia including Johannesburg's R3.2bn showpiece Soccer City, Aveng, the infrastructure development company, is set to pursue similar projects in Brazil, saysRoger Jardine, its chief executive .

"The World Cup has proved our ability, as SA Inc, to deliver world-class construction projects," says Mr Jardine.

"A few years ago, international companies came here to ask: 'How can we help you?' We're now in a position to help other countries."

Digital revolution needs a key stroke to open market

Telecoms

Simon Mundy finds the country slow to capitalise on broadband

South Africa has been slow to capitalise on the broadband revolution, but the launch of submarine fibre optic cables promises to help the country close the gap with competitors.

The first cable – operated by the Seacom consortium – came into use last year, and two other links should start in 2011, greatly increasing bandwidth in the country.

However, analysts say tougher regulation is required if the country is to take full advantage of the digital revolution.

"But submarine cables can only go so far in increasing broadband uptake," says Spiwe Chireka, a communications analyst at Frost & Sullivan, a research company. "Until prices go much lower, the economy won't feel the full benefits of increased connectivity."

Seacom was expected to jump-start competition in South African internet services by providing a rival to the existing SAT-3 cable managed by state-owned company Telkom, which was accused of abusing its position to keep prices high.

Already internet providers such as Vodacom and MTN have slashed their business internet rates in recent months, while individual consumers have been able to access "uncapped" packages for the first time.

Previously, all domestic internet use was limited to a set monthly amount, restricting the use of popular websites such as Youtube.

"That's wonderful for high-end users who need a lot of bandwidth," says Alison Gillwald, executive director of consultancy Research ICT Africa.

Indeed, according to Vittorio Massone, local managing director of Bain & Co, the management consultancy, the improvements mean Johannesburg could rival Dubai as a choice for multinationals seeking a regional hub in the Middle East and Africa.

Cable vision: more links should increase bandwidth

But the extent of price cuts for basic household access has been disappointing. Ms Gillwald says "cost remains a large barrier to entry for most people."

Such concerns prompted Coface, the French credit insurance company, to warn in January that South Africa was in danger of falling behind other African countries such as Kenya in terms of connectivity.

Certainly, internet penetration remains stubbornly low, with only 1m broadband-capable telephone lines in a country of nearly 50m people.

Siphiwe Nyanda, communications minister, has promised universal broadband access by 2019 – a pledge that is "totally unrealistic", says Arthur Goldstuck, managing director of research company WorldWideWorx.

"That would require a programme on the scale of the Marshall Plan, but information technology wasn't even mentioned in [finance minister] Pravin Gordhan's budget speech this year."

Regulatory weakness is among the biggest problems. The government has made little progress on local loop unbundling, widely seen as a crucial step in opening internet markets. Telkom still has a near monopoly over the local loop – the "last mile" of copper that connects individual homes to local exchanges – and has pushed up broadband prices by charging high rates to internet service providers for the use of that crucial link.

'Until prices go much lower, the economy won't feel the full benefits of increased connectivity'

The government pledged three years ago to end Telkom's local loop monopoly by the end of 2011 – a target now impossible to achieve, most analysts agree.

Regulatory problems have also held back competition in fixed-line telephony, says Ajay Pandey, chief executive of Neotel, which has struggled to establish itself as a first rival to Telkom after wrestling with onerous bureaucracy.

Neotel expected to sign up 60,000 subscribers within nine months of its launch in May 2008, but admitted in January that it was still shy of the 50,000 mark.

In the mobile sphere, however, there have been recent signs of increased determination to foster competition.

South Africa's mobile phone costs have long been high by international standards, helped by the fact that the market is dominated by Vodacom and MTN, with 43m users between them.

Rates were raised further by high interconnection fees (for calling one network from another) that were imposed by the two market leaders in an apparent attempt to block new entrants. Icasa, the regulator surprised the industry in April, however, ordering companies to cut interconnection charges from R1.25 to 40 cents by 2012.

This followed a slump in subscriber numbers caused by last year's RICA act, which required all new mobile customers to be officially registered.

But the horizons of the big home-grown telecom companies are not restricted to South Africa – now a relatively slow-growth market, with more mobile phones than people.

MTN has more than 123m customers in Africa and the Middle East, and is lining up a $10bn bid for Egypt's Orascom Telecom; Vodacom has expanded into countries including Tanzania and the Democratic Republic of Congo.

Yet after a decade of stupendous market growth, conditions in the rest of the continent are becoming harder for South Africa's larger telecom companies, warns Ms Chireka.

With mobile markets in leading cities now saturated, she sees "a move into the rural market", where custom is less lucrative and harder to attract.