



# THE PRESIDENCY REPUBLIC OF SOUTH AFRICA

Presentation to the Consulting Engineers of South Africa (CESA)  
11 March 2020



# PRESENTATION OUTLINE

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- Problem Statement.
- Summary of key infrastructure challenges.
- Consequences of challenges in the infrastructure space.
- Constraints in the municipal infrastructure funding space (2).
- Missed opportunities.
- Short and long term remedies.
- Sustainable Infrastructure Development Symposium (SIDS) Roadmap

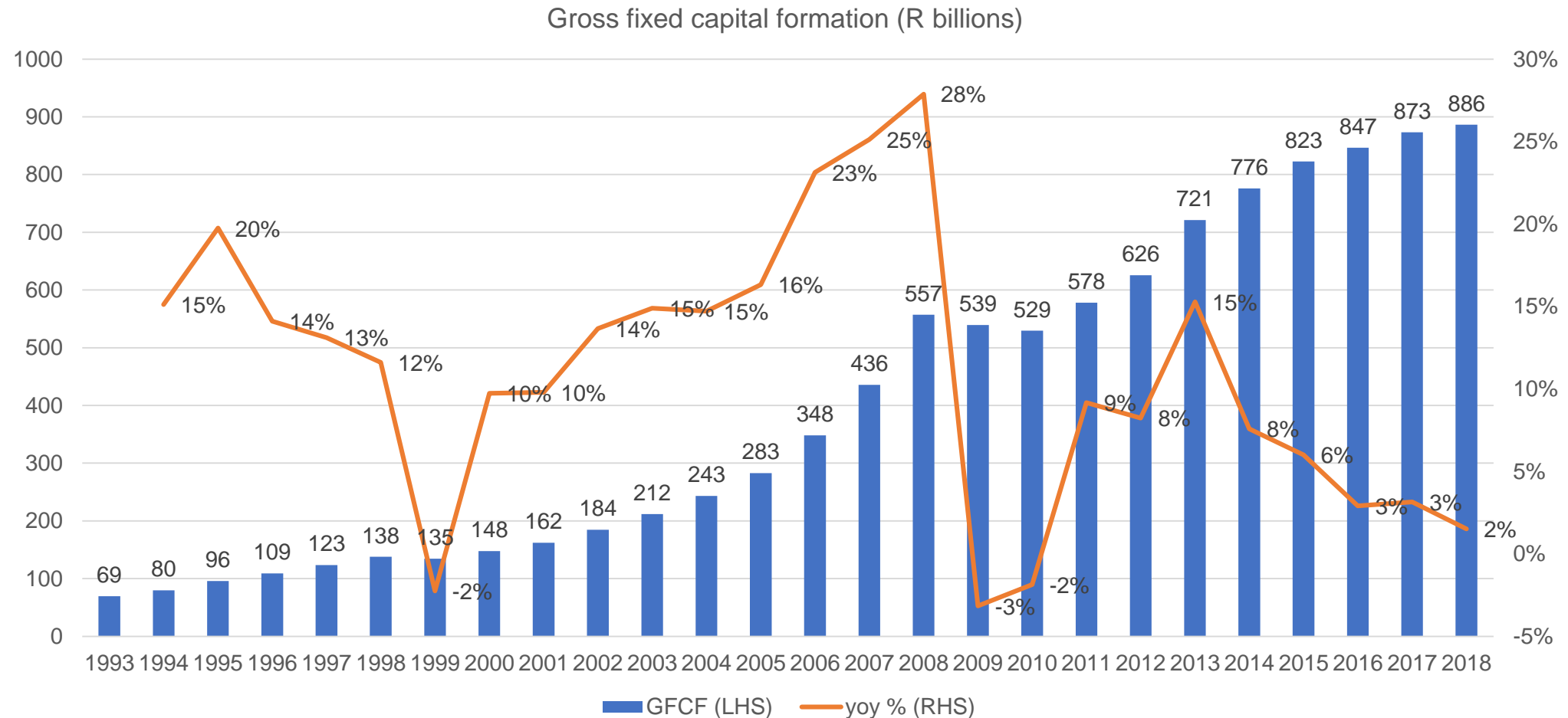


# Problem Statement

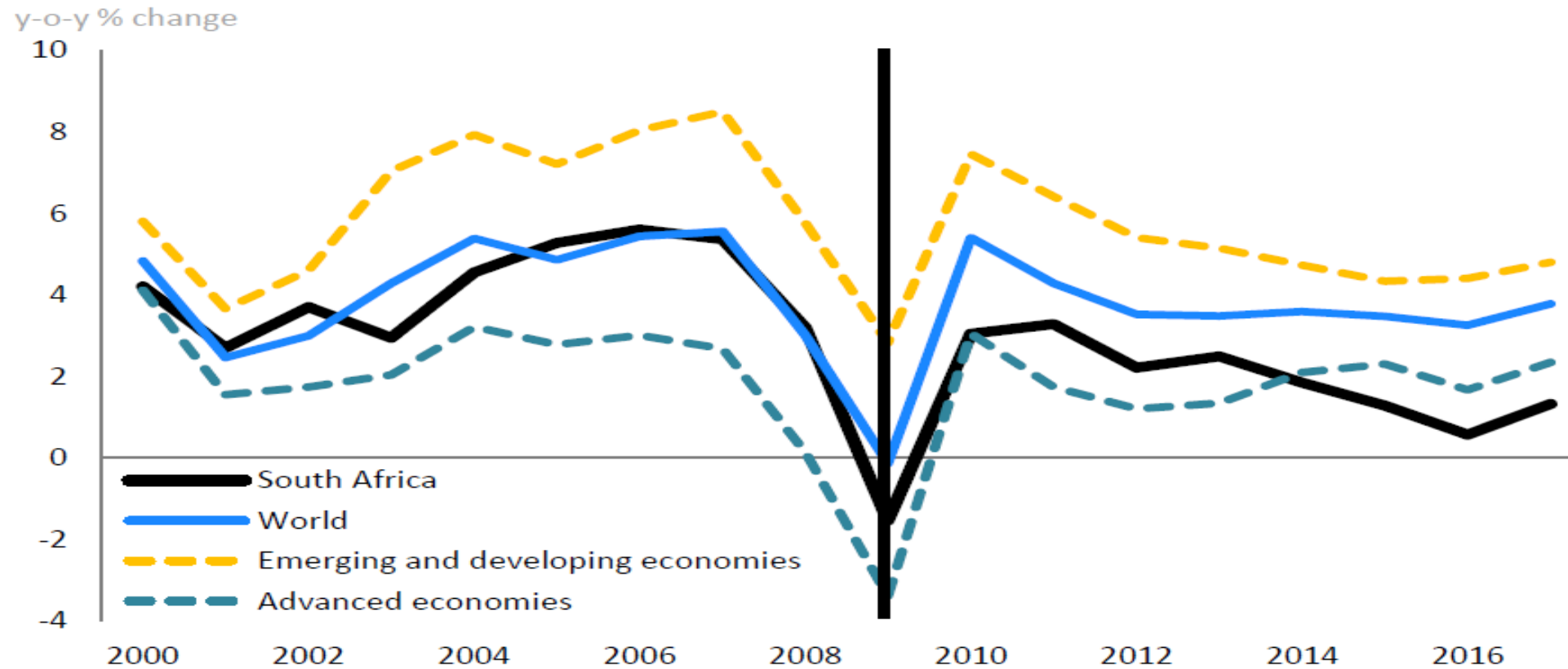
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- The combination of low growth, rising unemployment and social conflict means that South Africa is unlikely to meet its developmental goals as articulated in the **National Development Plan: Vision for 2030**.
- Government should urgently initiate a suite of interventions and growth reforms aimed at recalibrating the country's economic trajectory in order to **promote inclusive growth, economic transformation, spatial justice, and create a globally competitive economy**.
- State spending on infrastructure, largely aimed at **crowding in private sector investment** is an important part of the economic recovery effort. The state need to urgently **bolster its technical and financial engineering capacity** to achieve desired rates of investment.

# Gross Fixed Capital Formation Remains Under Pressure



## South Africa's poor growth cannot be explained in terms of global trends



Source: IMF World Economic Outlook Database



# Public Sector Infrastructure Players

Need to design an efficient institutional framework

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- The Investment and Infrastructure Office in the Presidency (IIO) will **coordinate and align** the work of the various structures responsible for both economic and social infrastructure
- IIO oversees that IF aimed at achieving **blended financing of infrastructure**.
- Presidential Infrastructure Coordinating Commission (PICC) provides **facilitation and co-ordination** of public infrastructure development which is of significant economic or social importance to the Republic.
- PICC ensures that the **development goals of the State** are promoted through infrastructure development;
- Government Technical Advisory Centre (GTAC) housed in the NT to assist owners of projects to be funded through the fiscus throughout the **preparation phase of the PPF and institutionalise good practice**.
- DBSA allocated R400 million to assist with **Project Preparation**.
- The Presidency to assume the role of being **the strategic centre of infrastructure planning, coordination, alignment, monitoring and evaluation**.



# Summary Of Key Infrastructure Challenges

Binding and systemic constrains

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- Acute shortage of technical skills in the public sector.
  - Poor project preparation and packaging.
  - Absence of a country-wide project pipeline.
  - Absence of long-term planning framework.
  - Poor project execution.
- Inefficient state design.
  - Delays in regulatory approvals (EIAs; WULA, Township Establishments etc).
  - Misaligned planning horizons and budget cycles.
  - Poor sequencing of projects.
- Unavailability of bulk infrastructure funding.
  - Municipal fiscal envelope.
- Regulatory constraints
  - Legal framework undermines the country's ability to leverage on MDB funding.





# Consequences Of Challenges In The Infrastructure Space

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- **No up-to-date coherent credible portfolio of well-developed programmes and projects** ready for financing or implementation exist.
- **Weak portfolio (stage-gate) management** (i.e. projects are not moving between phases with appropriate authority or sign-off at each gate).
- **Poor quality and incomplete project preparation practices.** This is reinforced by inadequate project management, knowledge and capacity of project owners.
- **Inadequate leveraging of private sector financing** (with high reliance on the fiscus, which is now heavily constrained)
- **Lack of continuous asset management systems** (maintenance) over the full life cycle of projects.
- **Poor spatial alignment and coordination across spheres of Government** and between various sectors of infrastructure development.
- **Procurement requirements and misalignment of financial regulations** relating to infrastructure roll-out.
- **Lack of community involvement leading** to site-disruptions and project interference.
- **Underspending of available budgets** due to incapacity in State departments to deliver.





# Infrastructure Fund: a game changer

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- The Infrastructure Fund has two main aims to:
  - Improve the quality and rate of infrastructure investment by *strengthening project preparation and governance* so that there is a visible pipeline of projects; the second is to
  - *Close the viability gap and provide blended finance for projects* that have both social and economic elements, and/or to address market failures. This will ensure that Government strategically uses the limited fiscal resources to mobilize financing from the private sector, Development Finance Institutions (DFIs) and Multilateral Development Banks (MDBs).
- The envisaged Infrastructure Fund will have four core elements:
  - **Pipeline and Project preparation:** Effective project preparation is critical in addressing the fragmentation that currently exists in the preparation of feasibility studies, viability assessments, project structuring and procurement.
  - **Budget Facility for Infrastructure (BFI):** Assesses whether large infrastructure projects are ready to be considered for funding. The IF will place increased demand on the rigor with which the regulatory role by the National Treasury needs to be carried out.
  - **Strategic Intervention Unit:** The IF should be supported in the short- to medium-term by a dedicated implementation unit. The unit will facilitate and assist the financial structuring, procurement and implementation of priority blended-finance projects and programs.
  - **Project Account** (disbursement vehicle): Ring-fenced funding for projects.



# Missed Opportunities

Improve ability to access pool of liquidity available to SA

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- South Africa is a capital contributing shareholder in a few MDBs with the ability to leverage concessional funding and implementation support. However there is limited effort to access MDBs.
  - **Estimated annual capital available for SA:** World Bank **US\$3.5bn**; NDB **US\$2bn**, AfDB **US\$1.2bn**, European Development Bank Euro 1.6bn, etc
- Government needs to devise a bespoke mechanism to access the pool of funds available.
  - Attend to delays in borrowing limits, guarantees without harming the sovereign fiscal position.
  - Consider a programme approach as opposed to a project approach to cushion poor balance sheets of financially distressed municipalities.
  - Explore options of coupling certain municipal infrastructure grants with technical assistance provided by MDBs and DFIs.



# Short And Long Term Remedies

Need to appreciate the urgency of the situation without compromising the big picture

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- **Long term**

- Revise the Infrastructure Plan (IP) to accommodate a changing environment.
- Indicate funding sources; skills required, etc.
- Introduce enabling policy and regulatory framework that facilitates investments.
- Macro-organisation of government to give birth to a single focal point for public infrastructure conceptualisation, funding and delivery.

- **Short term**

- IIO to assume the role of coordinating of all infrastructure players within the legislative framework.
- Invite active private sector expertise to help in developing an shovel-ready project pipeline.
- Prioritise network industries for this purpose.
- Address the regulatory impediments (with least possible resistance and effort) to facilitate delivery of the project pipeline.
- **Sustainable Infrastructure Development Symposium (SIDS)** to serve as a platform present projects for funding.

- **SIDS priority projects**

- Network industries (water, energy, rail and ports; road, ICT infrastructure), agriculture and human settlements have the potential to drive economic growth or attract significant private sector investment and
- Assist in meeting the government's strategic objectives



# The Sustainable Infrastructure Development Symposium (SIDS)

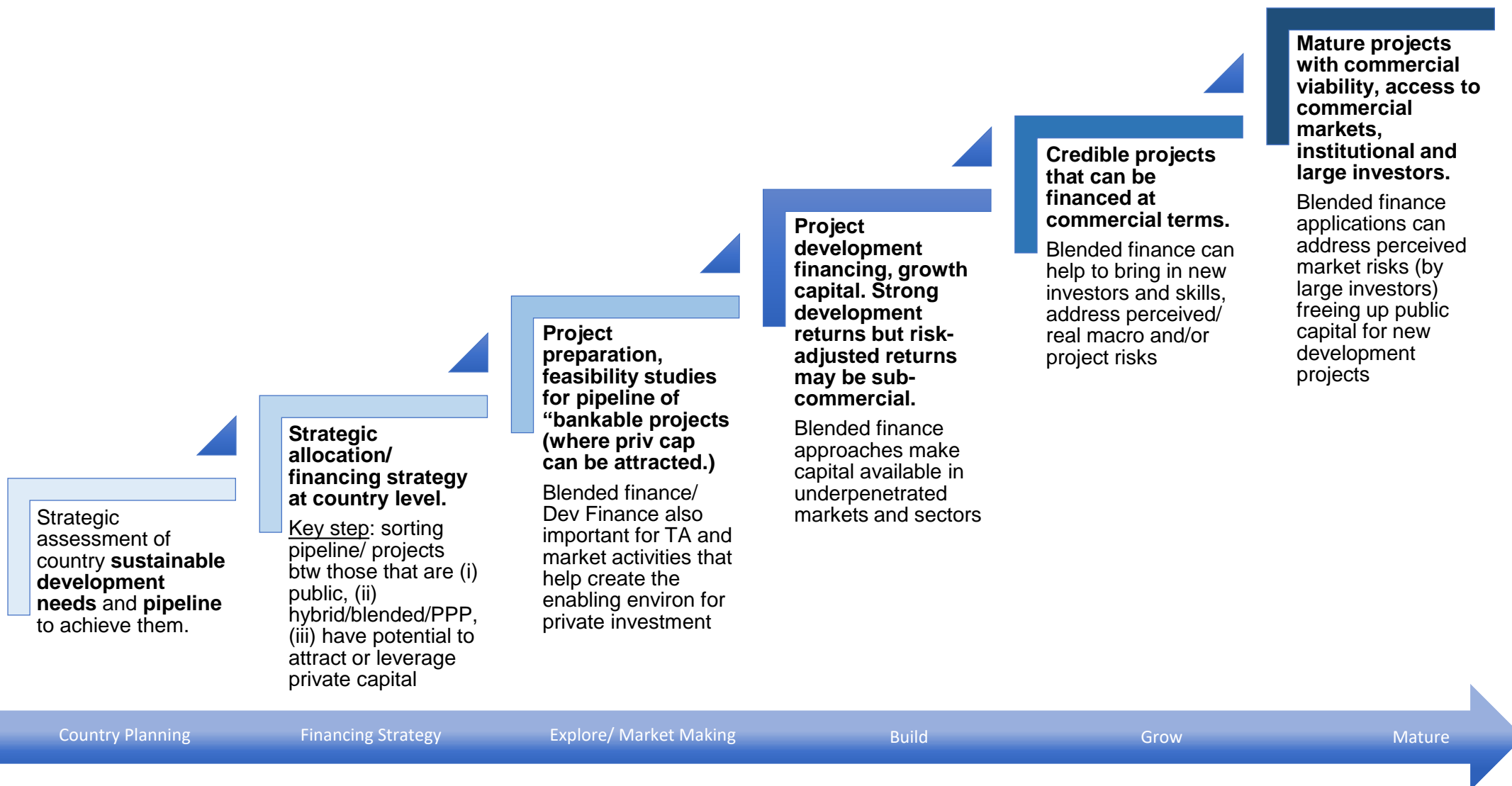
The rationale for the title

Sustainable	<ul style="list-style-type: none"><li>• The focus on the SDGs enables a positive contribution to our international commitments and the NDP (74% alignment between SDGs and NDP); and</li><li>• Access to greater and cheaper sources of funding.</li></ul>
Infrastructure	<ul style="list-style-type: none"><li>• The United Nations Conference on Trade and Development estimates that attainment of the SDGs requires \$2.5 trillion annually.</li><li>• Targeting network industries, agriculture and housing aligns with 10 of the 17 SDGs.</li></ul>
Development	<ul style="list-style-type: none"><li>• Represents a public sector led demand side stimulus focused on GDP growth, job creation especially among the youth and inequality.</li></ul>
Symposium	<ul style="list-style-type: none"><li>• A gathering of a limited number of highly knowledgeable people.</li><li>• A workshop not a talk shop.</li></ul>



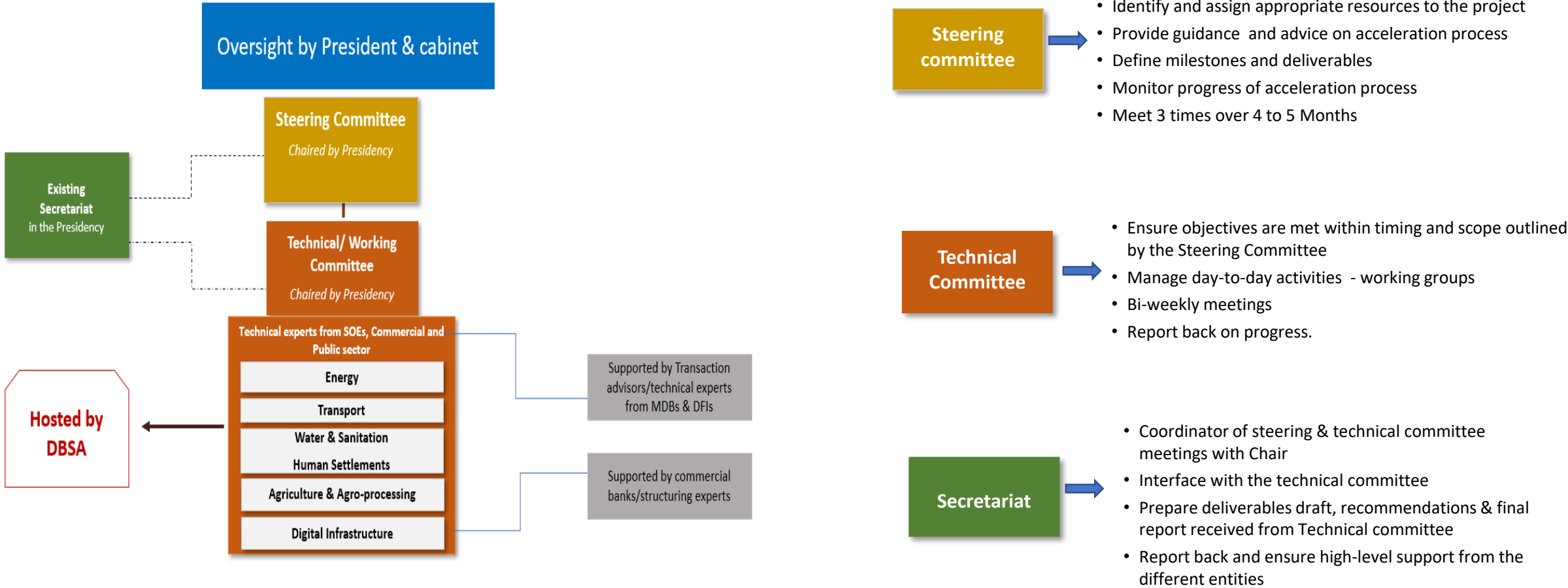
# THE SIDS PROCESS

Integrating country sustainable development needs into the project life cycle



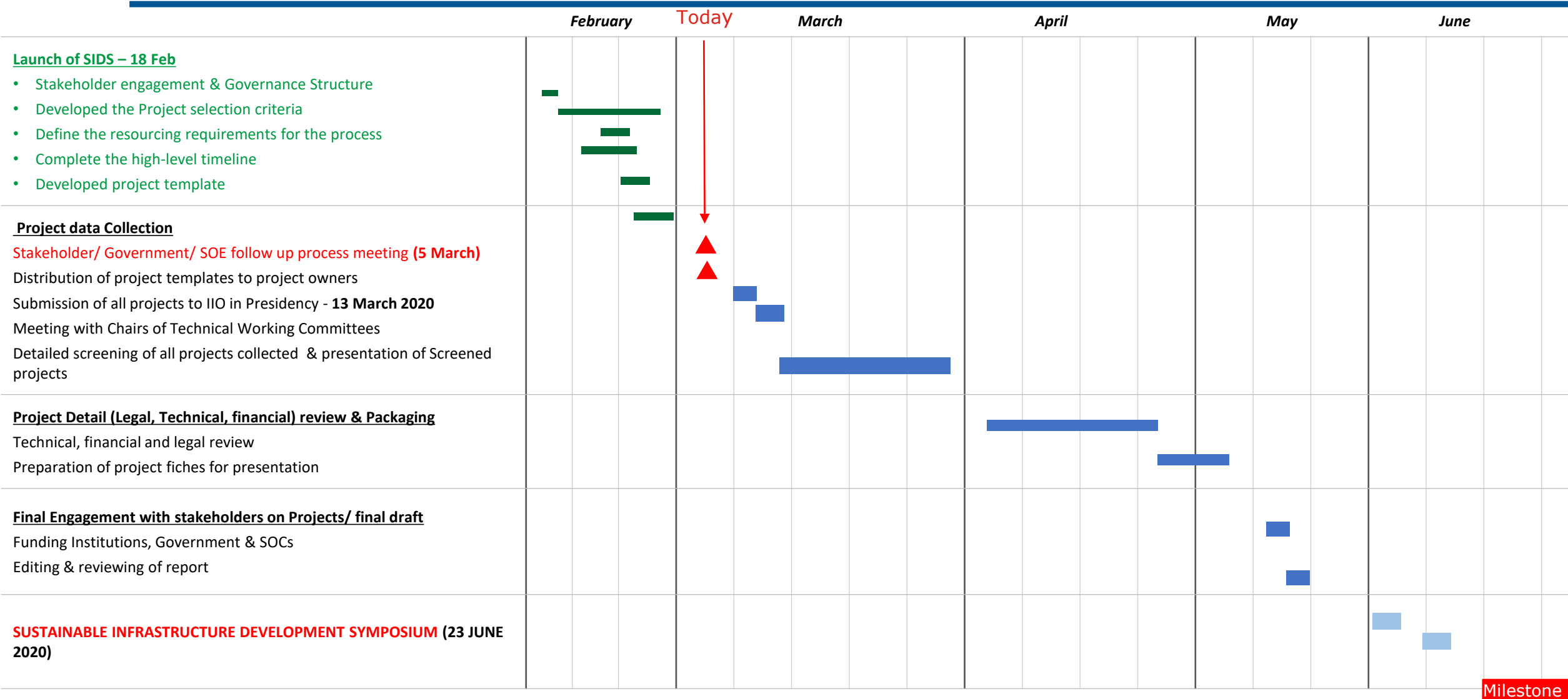


# SIDS GOVERNANCE STRUCTURE





# SIDS: KEY TIMELINES



Milestone





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