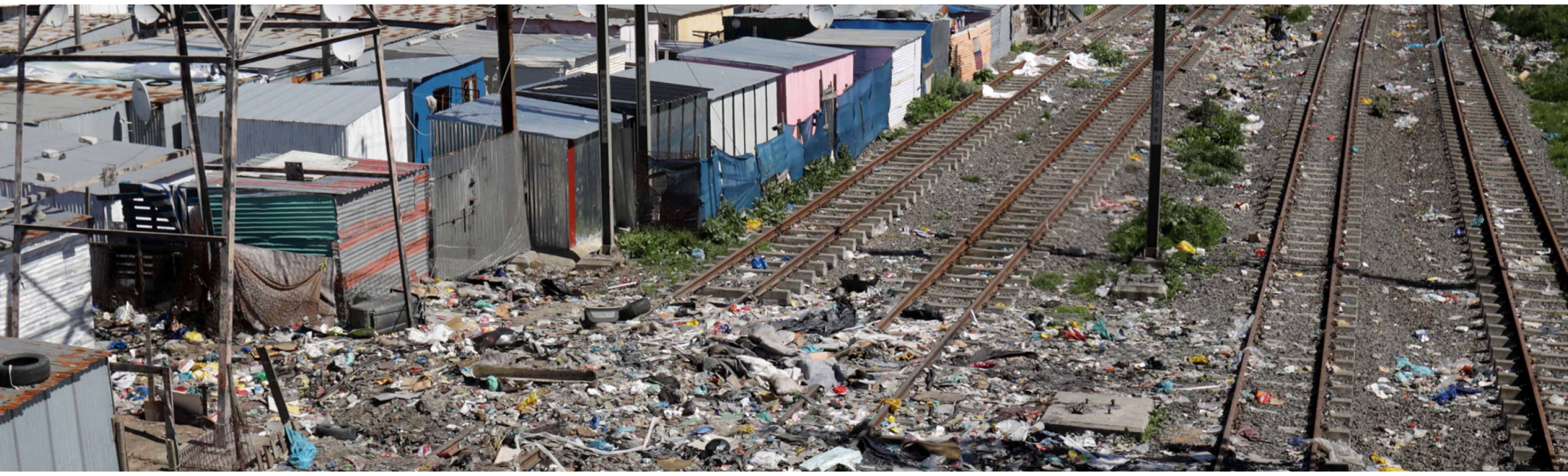
Accelerating South Africa's Infrastructure Programme
What is holding us back?

Executive Summary



South Africa's infrastructure programme, a key pillar of the President's economic recovery strategy, has stalled. At the time of writing no significant government-led infrastructure project had been initiated since 2018.

In the context of South Africa's fiscal crisis, government cannot afford large outlays on infrastructure and needs private sector investment to help finance this programme. The private sector is willing and able to participate in well-designed, state-led infrastructure projects, but there are no projects coming to market. There is already a strong concern amongst investors - local and international - about the country's credibility and capacity to set up fast-tracked projects for private investment. Without speedy action, investors will lose interest and move on.

What needs to be done to address the country's infrastructure backlog, and encourage private sector investment?

On 14 October 2021, CDE held a workshop with leaders in the financial sector and senior government officials responsible for the state's infrastructure drive (see list of participants). They spoke frankly about what was holding back the infrastructure programme and pinpointed changes required to accelerate progress.

There was a lot of agreement, and both sides spoke about improved cooperation and understanding. However, to turn this spirit of goodwill into a programme of action requires important changes from both business and government.

Business needs to make the requirements of investors crystal clear. This is not a time for mixed messages or coded politeness.

Government leadership must stop talk of the imminent arrival of scores if not hundreds of projects. Dr Ramokgopa, the senior government infrastructure executive says: 272 projects have been pitched, his unit is focusing on 76 of which 50 have been developed but it will be a "long time" before these are finalised.

Business argues that it would be best to decide on four to five projects to kickstart investment and partnership. These projects must appeal to private investors, which means risk-related returns on capital for depositors, shareholders, pensioners and policy holders.

Government needs to distinguish clearly between taxpayer-funded projects and those that could attract private investment. They should prioritise projects vital to improve conditions for faster economic growth, which can be launched without imposing new strains on the taxpayer. Leadership is required to cut through the complexity of government architecture around infrastructure development, and move a few priority projects to the fore.

Government must push through the regulatory changes that would encourage public private partnerships. It is hard to understand why this is taking so long. Surely it could be fast-tracked?

There is an enormous focus on projects developed by the state, but considerable infrastructure could be built by the private sector if policy changes were made. Done right, key government decisions could unlock private investment at significant scale. The 100 MW decision is an important first step to improving electricity supply, but it should not be the end of that process. Dealing with the investment environment for the mining sector will drive new spending in exploration; resolving uncertainties around property rights will lead to more investment in agriculture; making a decision on e-tolls in Gauteng will create certainty for investors in roads; opening ports to private investors and implementing the president's 2020 commitment to open access by third party operators to the national rail infrastructure could attract considerable investment and signal a welcome new approach. Much more urgency in implementing policy reform is required.

There is a serious lack of capacity within the state, while the skills that are there, are fragmented across government, with pockets of excellence in some departments. One idea is to bring skilled people together in a 'centre of excellence', which can then attract like-minded people and focus on developing workable projects. In some countries, units like this sell investable projects once pre-investment is completed, which then provides the resources to pay for the unit. Moreover, such a scheme creates an incentive to do it properly.

Simply involving the private sector is no guarantee of efficiency or success. Investors and officials must negotiate, in specific terms, how risks and returns are to be allocated for these projects to ensure a sustainable financing model for public goods. What matters is that projects are designed to ensure competition (ideally), market-driven outcomes and prevent corruption and malfeasance. However, perfection should not be the enemy of the good. Once some feasible projects are initiated, improvements will emerge.

Financial sector organisations have seconded experts to help government. It must be asked, to do what exactly?

Placing private sector experts within a bureaucracy struggling to deliver investable projects to the market, in a context where legislation is not conducive to PPPs, and where there may be questions about the bankability of many government projects, may not be the optimal use of that expertise. If this private-public cooperation fails to bear fruit soon, it may lead to rising frustration on both sides and a rapid reduction in levels of goodwill.

If projects are forced to have numerous additional objectives - such as empowerment, localisation, community development, and more – delivery of infrastructure is more costly or does not happen. We seem determined to do everything at once with very limited capacity. The consequence is that we end up doing very little. Ruthless focus on core outcomes is required. More efficient ports, reliable trains, new roads or bridges will promote widespread development with very many beneficiaries throughout the country and in many local areas.

'Construction mafias' – local groups that demand a significant portion of the project's contract, who if thwarted, resort to violence and intimidation to prevent the project from continuing – are a big hurdle preventing increased private sector investment. At no time should tackling this challenge be confused with community development. These mafias are criminals who deserve the full force of the law if we want to encourage investment.

Reducing lawlessness and criminality in general will improve the environment for doing business and benefit the majority of people in local areas. Violent attacks on trucks, on people and the failure to apprehend, charge and jail the guilty, undermines use of existing infrastructure and deters investors in new infrastructure.

For South Africa to move beyond goodwill and good intentions, business and government need a more focussed, action-oriented programme. Business needs to spell out the critical changes that must be made – regulations, attitudes, policy reform, policing and prosecution – before they will invest. Government needs to be realistic about capacity, curb its ambitions and act decisively on the essential 'fixes' required to encourage investment.

There are no shortcuts, much as we want them, and infrastructure is not a silver bullet for the country's ills. However, getting 4-5 projects off the ground coupled with the changes required to open up new areas for private sector investment (rail, power, roads and more) could be a bold signal that South Africa is determined to act decisively and reform. This dual approach will attract local and foreign investors and start to contribute significantly to faster long-term economic growth.

Read the full report available on CDE's website (www.cde.org.za)

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