MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH BY THE MINISTER OF FINANCE, MR ENOCH GODONGWANA, AT THE CONSULTING ENGINEERS SOUTH AFRICA INFRASTRUCTURE INDABA, AT THE INDABA HOTEL SPA AND CONFERENCE CENTRE, FOURWAYS

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Good morning to the facilitator, CESA members and the invited guests.

I thank you for your gracious invitation to address this gathering of professionals working in the critical construction industry, on a topic that is very close to my heart.

INTRODUCTION

Today, I will be addressing you on *the roles of different stakeholders in supporting the rollout of much- needed infrastructure in South Africa.*

The Economic Reconstruction and Recovery Plan identifies infrastructure investment and related institutional reforms as critical for supporting higher economic growth, job creation and poverty alleviation. Many of these reforms involve pooling resources with the private sector, multilateral development banks and development finance institutions to fund infrastructure investment more effectively.

To grow the economy and reduce unemployment and poverty, capital investment by the public and private sectors, which amounted to 13.7 per cent of GDP in 2020, needs to significantly increase. Over the past decade, weak growth, rising spending pressures and the financial support provided to state-owned companies have constrained government's ability to invest in new infrastructure. As a result, capital investment has been adversely affected.

Between 2010 and 2020, public-sector capital investment averaged 5.8 per cent of GDP, while private capital investment averaged 11.2 per cent of GDP. Total investment is well below the National Development Plan target of 30 per cent – and has been declining since 2015.

To reach this target, the public-sector investment would need to grow from 3.9 per cent of GDP in 2020 to 10 per cent of GDP by 2030, while private-sector investment in infrastructure would need to grow from 9.8 per cent of GDP in 2020 to 20 per cent in 2030.

There are four main challenges that we need to overcome to ramp up infrastructure investment and delivery:

Government investment levels including under-spending of conventional infrastructure budgets by government institutions;

Under-provision of maintenance budgets for conventionally procured infrastructure resulting in declining quality/quantity of services provided by that infrastructure;

Considerable waste and corruption in the selection and execution of infrastructure projects, resulting in unnecessarily high costs of delivering infrastructure projects, and, at the extreme, a failure to deliver infrastructure projects at all; and

A steep decline in the delivery of PPPs, with executed PPP deals in the recent past also increasingly dominated by accommodation-type projects, the funding of which comes from the fiscus.

The government is working on measures to improve the delivery of public infrastructure and attract private capital and I will touch on some of these next and close off with a discussion of the role of the private sector including investors and the broad construction industry.

UPDATE ON THE GOVERNMENT'S INFRASTRUCTURE DRIVE

Increasing spending by the government

In the current 3-year medium- term expenditure framework (MTEF) starting April 2022, allocations for public sector infrastructure spending are estimated at R812.5 billion. This compares to R627.2 billion that was allocated in the 3-year MTEF ending March 2022, which is a 30% increase.

This is an important step forward in terms of moving closer to the NDP targets and it is an important signal to investors and the industry and society that government is committed to ramping up infrastructure delivery.

To support the accelerated provision of infrastructure on a large scale, the National Treasury is working with provinces to allow them to front-load their multi-year grant funding and use it to finance their infrastructure requirements. Development Finance Institutes like the Development Bank of Southern Africa (DBSA) are at the frontline of these initiatives.

Addressing under-spending by government institutions

To overcome under-spending by government institutions we need to ensure that we have a viable project pipeline, and that the sponsor institutions have the requisite skills and support in project preparation and planning.

On the project pipeline, the Department of Public Works and Infrastructure released the National Infrastructure Plan 2050, which sets out the vision and plan for closing the infrastructure gap.

The National Treasury – through the Budget Facility for Infrastructure (BFI) –, the Development Bank of Southern Africa and Infrastructure South Africa are working on a viable project pipeline.

On project preparation and planning, the Infrastructure Fund (currently housed in DBSA) was introduced to create the capacity and capability in government to assist sponsors to develop project proposals that are suited to blended finance and to bring these to a financial close within a reasonable timeframe.

National Treasury has also initiated the development of a government-wide guideline to improve the process of appraising and selecting public projects. The guideline provides project sponsors with simple methodologies to prepare and appraise infrastructure investments.

To ensure uniformity, accuracy and ease of project appraisal across all government sectors, the National Treasury has also created a web-based tool that provides standard parameters and economic values that will be used in the appraisal of projects.

Both the guideline and web-based tool will be available on the National Treasury website in 2022.

Under-provision of maintenance budgets

It is critical that public infrastructure is well maintained to ensure that infrastructure investment is focused on new investments rather than replacing infrastructure that should still have a useful life.

We have noted the under-provision of maintenance budgets by government institutions and are working on addressing this issue.

On waste and corruption, we have initiated various interventions to improve state capability and reduce the scope for procurement corruption.

First, we acknowledge that it is important are differentiate between corruption and minor transgressions of the rules of policy prescripts that are audited as irregular expenditure. In this regard, National Treasury is engaging with the Auditor-General to continue to ensure transparent disclosure of minor transgressions, but outside the financial audit process. This should allow accounting officers to take decisions without the fear of unintentionally undertaking irregular expenditures.

Second, we have incorporated the insights from the Zondo Commission reports highlighting abuses in state procurement into the revised Public Procurement Bill. The Bill was taken to Nedlac end of May 2022, and we are working on finalising and serving at Cabinet and Parliament within this financial year.

Third, we have increased fiscal support for institutions that are fighting corruption.

Public-Private Partnerships

We have noted with great concern, that the value of public- private partnerships (PPPs) has steadily declined in recent years, from an estimated R10.7 billion in 2011/12 to R5.6 billion in 2019/20.

This is partly due to onerous approval processes, especially for small projects, and the poor capacity of departments to estimate risk-sharing with the private sector. At the same time, lack of clarity regarding the user-pays principle affects the cost of state guarantees.

A PPP review concluded by the National Treasury has emphasised the need to simplify approval and compliance requirements, and reform the policy framework to assess and prioritise PPPs.

To address this, we aim to create a centre-of-excellence for PPPs, as well as introducing an expedited approval process for projects below a predetermined value.

This centre-of-excellence will be a direct interface with private financial institutions for investments in critical government infrastructure programmes.

THE ROLE OF CONSULTING ENGINEERS AND THE CONSTRUCTION SECTOR IN SUPPORTING THE INFRASTRUCTURE DRIVE

Years of infrastructural decline in the country alongside prolonged and slow economic growth is a recipe for social instability and even further economic stagnation. The added challenge of the accelerating impact of climate change necessitates a multi-stakeholder response, pairing policymakers with experts in the field, in order to come up with workable and sustainable solutions.

Consulting engineers and other experts in the field of construction are therefore vital to our infrastructure drive. You have the experience and expertise needed for the country to identify and take advantage of the opportunities in infrastructure as well as prepare for the inevitable obstacles.

Civil engineers, quantity surveyors and construction project managers are amongst the scarcest skills in the country. This is at a time when we are looking to significantly ramp up the volume of infrastructure delivery and broaden our productive base. Your role in every level of the process, from project identification and preparation to completion and maintenance, is undeniable.

I have merely scratched the surface here. You are better placed to deepen this conversation and help the government to integrate the sector into our ambitious plans to use infrastructure as a catalyst for faster and more inclusive economic growth.

Thank you.