

Recommendations in this report are in four areas:

(1) Delivery of municipal infrastructure financed through municipal infrastructure grants: Municipalities rated low in capacity would continue to prioritize projects to be funded using these grants, but they would no longer be allowed to take responsibility for procurement and contract management of construction or maintenance of these facilities. These would be procured and contract managed by various national-level organizations, such as the National Roads Agency, ESKOM, the Department of Water and Forests, and the Independent Development Trust, which would receive funds back from the municipalities for this work. Other municipalities could use these national-level organizations on a voluntary basis.

(2) Public-private partnerships (PPP's): Use of this vehicle for providing infrastructure should be expanded. Aside from other advantages normally presented for PPP's, in a South African context PPP's require pre-commitment on necessary maintenance activities that might otherwise be ignored for short-run reasons, and may increase the chances that performance standards for quality are met. In expanding PPP's, the government needs to take care to choose an appropriate discount rate for evaluating PPP projects, be careful about specifying excessive levels of quality (which raise costs), and take more steps to make sure it has talent available (probably by contracting for it) to assist with the complicated negotiations for PPP's.

(3) Large capex procurements (e.g. Transnet): Basically, the procurement and contract management processes appear to be following good international standards. This by no means assures against problems such as cost growth on these projects, but there can be a fairly high degree of confidence that the approach is not subject to criticism for failing to meet good international practice. A number of operational recommendations are made for improving the contracting process. There is also concern about the possibility of bid rigging of various sorts.

(4) “Competitive Supplier Development Program” in SOE's: These are efforts now getting started to use the large capex procurements as an industrial policy tool. The developers of this program are anxious that it not be a classical import content requirement program, but rather that it be concentrated on industries where South Africa can be expected to have competitive advantages. While the initial arguments of its developers that the program would carry no even short-time price penalties is unlikely to be correct (and seems to have been abandoned), nonetheless the program can be developed to minimize price penalties, and a number of suggestions in this regard are made, mostly involving giving bidders greater choice about how to meet these efforts, as well as a commitment to use domestic production as an evaluation criterion in procurements rather than as a precondition to winning a tender.