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Ramaphosa's mega infrastructure plan fails to get rolling

President Cyril Ramaphosa is on a drive to invest in large infrastructure projects. Here, he assesses the Msikaba Bridge construction site in Lusikisiki in the Eastern Cape. *Photo: Elmond Jiyane/GCIS*

The President wants the government to spend billions on projects over three years. But Treasury figures show the budget is shrinking – thanks to a lack of expertise and legislative hurdles

By **Ray Mahlaka**

Is the government making progress in its drive to improve decrepit infrastructure in South Africa by pouring billions of rands more into new projects that might pull the country's economy out of the doldrums?

Not quite. But the penny might have finally dropped for President Cyril Ramphosa's administration that government-led infrastructure projects, which have been in perennial decline over the past 14 years, are the last card left to play for South Africa to grow the economy, create jobs, and boost private sector investments.

Infrastructure investments by the government and the private sector are a centrepiece of Ramaphosa's ambitious economic recovery and reconstruction plan, which was announced in October 2020 and aims to re-industrialise the economy post-Covid lockdowns.

Finance Minister Enoch Godongwana, responsible for finding money to bankroll this plan, this week unveiled investment priorities for the next three years, with R112.5-billion for projects focused on water to communities, bridges in rural areas and towers for high-speed internet for schools and hospitals.

Godongwana's Medium-Term Budget Policy Statement (MTBPS) said infrastructure spending will increase from R66.7-billion in the 2022/23 fiscal year to R112.5-billion by 2025/26.

But a closer look at the numbers suggests the budget for infrastructure projects is either reducing or the government is not spending money because it is struggling to get projects off the ground.

The MTBPS does not usually contain new spending priorities but gives updates on things tabled in the main Budget. In February 2022, Godongwana unveiled huge amounts of money for infrastructure projects by national, provincial and local spheres of the government, with a collective budget of R141.5-billion in 2022/23 (see table below) – substantially higher than the R66.7-billion mentioned in the MTBPS. And, over three years, the main Budget pencilled in R431.9-billion – again, higher than R112.5-billion.

Lack of capacity hobbles projects

The discrepancy remains unexplained by the National Treasury, which says more details will come in February 2023 when the next Budget is tabled. But market watchers have made some guesses.

Intellidex, a research and consulting firm, is withering in its analysis of the government's infrastructure push, saying there are several chronic problems with execution. The infrastructure drive so far has mainly focused on new buildings and the maintenance of existing infrastructure, instead of big-ticket projects (such as factories, expanded rail lines and renewable energy plants) that can lift economic growth, which will be stuck below 2% over the next three years.

In a note to clients, Intellidex says infrastructure spending is constrained by the government's lack of capacity to break ground. "There simply aren't the engineers and project managers in local government and provinces to initiate and manage projects," it says. This leads to South Africa having few or no new projects to fund or showcase to private sector investors, who also want to throw money into such projects through partnerships with the government.

But even these investors have been deterred by laws such as the Municipal Finance Management Act and the Public Finance Management Act, which are designed to curb fraud and corruption but have the unintended consequences of making it bureaucratically burdensome to partner with the government.

The laws govern how public-private partnerships are formed and have lengthy processes for government officials to follow before projects can start. Intellidex has called for the laws to be amended to make it easier for the private sector to sign up.

DM168 understands that some potential investors, keen to form partnerships with the government on infrastructure projects, have recently walked away because of the legalities. This isn't a new trend; potential partnerships have been collapsing for many years.

Few projects on the ground

There is little to show for Ramaphosa's big infrastructure investment push. The Infrastructure Fund, at the state-owned Development Bank of Southern Africa, was launched to prepare bankable infrastructure projects, de-risking them by taking first losses and then attracting private sector funding. The fund has not delivered a large number of projects, even though it was recently given R4.2-billion by the Treasury – which has since been pulled back. Grants worth R5-billion, allocated by the Treasury to municipalities, have not been used. According to Intellidex, of a projected 30 new schools to be built in the current fiscal year, only six have been delivered in the first half.

State-owned enterprises (SOEs) such as Transnet, the Passenger Rail Agency of SA and the South African National Roads Agency Limited have also been targeted by the government as vehicles for infrastructure delivery. The Treasury expects SOEs to spend R251.7-billion on projects over the next three years. But the balance sheets of SOEs have deteriorated owing to corruption and mismanagement, making it difficult to fund projects with their cash resources or borrowings. Transnet CEO Portia Derby has warned that, without financial support from the government, the port and freight rail operator cannot embark on large projects. Poor execution capacity at SOEs has also led to poor outcomes and poor quality infrastructure.

South Africa lags developed nations

South Africa is getting left behind in the infrastructure frenzy. Developed countries such as the US, the UK and China have pumped a lot of money into projects to stimulate their economies after being battered by the pandemic. Spending money on infrastructure is considered an effective way to jumpstart an economy, though projects often take years to get off the ground. Once they start, though, construction spending peaks and creates jobs for engineers, artisans, labourers and others. Infrastructure projects take months or years to complete, so jobs are stable. Workers spend their income locally and help to stimulate the economy. Once projects are completed, citizens can more efficiently use infrastructure such as bridges and roads to improve their worker productivity.

South Africa hasn't taken advantage of this multiplier effect since infrastructure spending by the government started declining in Jacob Zuma's presidency. The priority at the time was shifting money from pro-economic growth initiatives to consumption, including SOE bailouts and more public sector wages.

Over the past 14 years, South Africa has moved further away from the National Development Plan (NDP) goal for fixed capital investments (including infrastructure investments) to reach 30% of GDP by 2030. From a level of 22% of GDP in 2008, fixed capital investment levels fell to 20.3% in 2015 and further to 17.9% in 2019.

The Department of Public Works and Infrastructure, which has produced a new version of the draft National Infrastructure Plan, estimates that to get to the NDP's 30% target, the government needs to spend an additional R6-trillion on infrastructure projects.

That's a lot of affordable homes, bridges, roads, electricity networks, broadband towers and railway lines to be built in the next eight years. **DM168**

Public sector infrastructure expenditure and estimates

	2022/23	2023/24	2024/25	Total over the next three years
National departments	R17.5bn	R17.3bn	R17.2bn	R52bn
Provincial departments	R61bn	R61.2bn	R63.3bn	R185.5bn
Local government	R63bn	R64.3bn	R67.2bn	R194.4bn
Total	R141.5bn	R142.8bn	R147.7bn	R431.9bn

Source: National Treasury's 2022/23 budget delivered in February 2022