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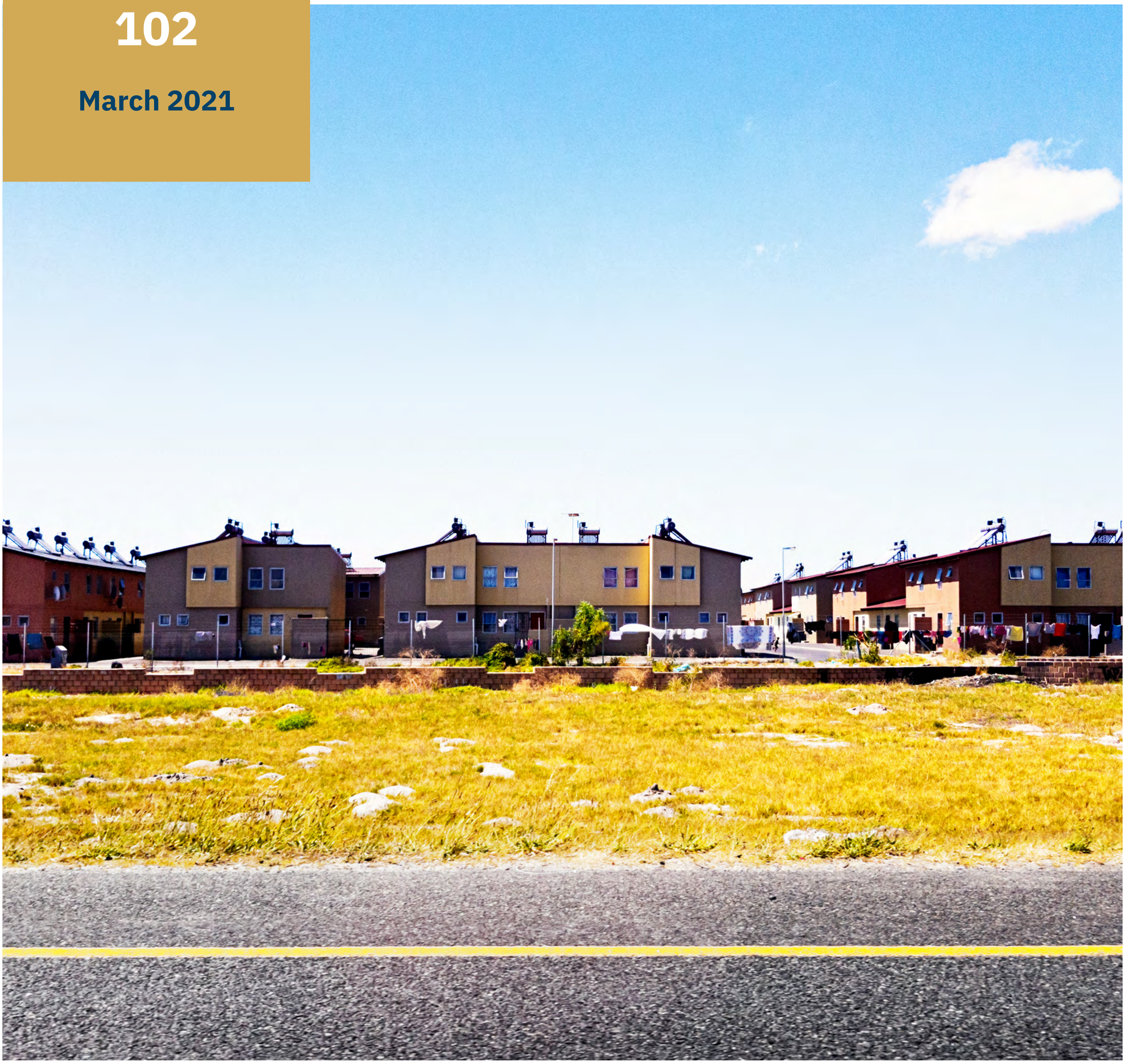

Tackling South Africa's Infrastructure Deficit: The Role of Development Finance Institutions

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African perspectives
Global insights

SOUTH AFRICAN INSTITUTE
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Executive summary

Infrastructure development is widely considered to be pivotal to South Africa's economic recovery plan and growth prospects. Yet infrastructure spending at all levels of government has been declining in recent years in the face of a steady rise in public debt. There is, however, an opportunity for the government to meet its infrastructure development requirements by accessing more funding from international development finance institutions and multinational development banks, as well as private sector investors. This policy insight outlines the importance of infrastructure development for South Africa, the role of development finance institutions in providing financial and technical assistance for infrastructure development, the infrastructure initiatives that have been launched in South Africa, the nature of the engagement between international development finance institutions and the South African government, and evident gaps in the assistance offered to date. South Africa has a huge pipeline of infrastructure projects that could unlock considerable potential across numerous sectors – from energy and transport to housing – with the help of foreign and local finance and investment partners. However, the government needs to take urgent steps to resolve current uncertainties surrounding the types of infrastructure that are needed in different sectors and how much financial assistance is required from local and international sources respectively. Critically, too, skills are needed to ensure that projects are properly conceptualised, prepared and executed. Capacity-building (including at the highest levels) is therefore a priority. It is also important that different role players' contributions to infrastructure development projects are well-coordinated.

Introduction

When South Africa's democratically elected government took office in 1994, there was an underlying intention not to rely on financial assistance from international development finance institutions (DFIs) in order to address the country's development needs. The government's position was largely influenced by a number of African countries' negative experiences with the 'structural adjustment programmes' of the 1980s. These programmes came to be viewed as a means by which lending agencies imposed unwelcome policy interventions. As a result, the South African government tended to avoid extensive engagement with these agencies, preferring to independently (and cost-effectively) raise funds for the purpose of tackling the country's development challenges.

However, in more recent years, South Africa's debt levels have risen significantly and this has affected the government's ability to continue funding infrastructure projects. International DFIs and multilateral development banks (MDBs) have been identified as two key sources of assistance to government in its quest to meet its Infrastructure Build Programme targets. The government regards this programme as one of the main vehicles through which economic growth can be re-ignited in the country.

Over the years, infrastructure spending at all levels of government has declined, resulting in a growing infrastructure deficit in the country. This policy insight reviews the South African government's relationship with international DFIs and other lending agencies in the area of infrastructure development and how these collaborations can be leveraged to enhance government efficiency and delivery.

The ensuing sections cover the following: the role of infrastructure development and its importance for economic growth in the South African context; the government's Infrastructure Build Programme and the recently announced Economic Recovery Plan, both of which identify infrastructure as one of the keys to economic growth in the country; the role of international DFIs in providing financial and technical assistance for infrastructure development; the common themes that have emerged from this assistance and how the various partnerships can be structured to ensure that all parties benefit; the infrastructure initiatives that have been launched by the South African government and the role of international DFIs in this process; and the nature of the engagement process between international DFIs and the South African government, and evident gaps in the assistance provided to date. The policy insight concludes with some recommendations aimed at assisting the South African government to address identified gaps and other shortcomings.

Infrastructure development and its importance for economic growth

According to Holicki and Tladinyane, infrastructure development can be grouped into three categories.[1] First, there is infrastructure development aimed at driving economic growth, and thus directed at transportation, electricity, telecommunications, and commercial and industrial production facilities. Second, there is infrastructure development intended to enhance water and sanitation services and housing so as to meet basic human needs. Third, there is infrastructure development aimed at poverty alleviation, which includes all of the above elements, plus health and educational infrastructure.

In addition, economic infrastructure comprises investments and related services that enhance the productivity of physical capital (eg, power and transport), while social infrastructure comprises investments and related services that enhance the productivity of human capital (eg, education and health).[2] These definitions clearly indicate that in order to stimulate a country's economy, investment is needed in social infrastructure. Conversely, economic growth is needed if a country is to invest adequately in its social infrastructure.

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1 Otto Holicki, Neo Tladinyane, 'Evaluation of ODA to the Infrastructure Sector,' *International Organisational Development*, May 2000, http://www.treasury.gov.za/publications/other/devco-op/section_2/07.pdf.

2 Peter Perkins, 'The role of economic infrastructure in economic growth: Building on Experience,' https:hsf.org.za/publications/focus/focus-to-january 2011-making-south-africa-work-rules-of-the-game/Perkins.

However, in South Africa economic growth has been constrained by low levels of investment in infrastructure. The extent of infrastructure spend in an economy is reflected in the level of gross fixed capital formation (GFCF) as a percentage of gross domestic product (GDP). This measure captures how much money (as a proportion of total economic activity) is invested in capital goods (eg, equipment and tools) and other measurable outputs.[3] In South Africa, GFCF was 18.19% of GDP in 2019, which is considered very low for a developing economy. Several studies have shown that an acceptable norm would be in the region of 30–35% of GDP.[4] In addition, the effects of COVID-19 are expected to negatively influence South Africa's economic growth prospects for some time to come. Against the backdrop of credit rating downgrades and the socioeconomic effects of the pandemic (especially job losses), President Ramaphosa has stated that infrastructure investment has the potential to positively impact South Africa's economic growth prospects and also mitigate the short-term effects of COVID-19.[5]

In October 2018, an inaugural investment summit was convened by President Ramaphosa to showcase the country's investment and growth potential. The intention behind the investment drive was to secure ZAR[6]1.2 trillion in fixed investments over a five-year period. Two follow-up summits were held in 2019 and 2020. The two initial summits (ie, those hosted in 2018 and 2019) yielded ZAR664 billion-worth of investment pledges of which ZAR250 billion-worth of projects are in the implementation phase.[7] New pledges amounting to ZAR110 billion were announced at the third summit in 2020, thus totalling ZAR773.6 billion of investment pledges to date.

Infrastructure development is one of the key programmes underpinning the broad investment drive that the government hopes will see economic growth rising to an average of 3% over the next decade. In the words of the president, 'infrastructure has immense potential for stimulating investment and growth to develop other economic sectors and create sustainable employment both directly and indirectly'.[8] During July 2020, the South African government gazetted 50 strategic integrated projects and 12 special projects. These include 15 transport projects, 11 water and sanitation projects, 18 housing projects, 3 energy projects and 1 digital infrastructure project – which together have a cumulative value of ZAR353 billion.[9]

These projects form part of a package of 276 catalytic projects that have been identified for the government's Infrastructure Build Programme, which has a total funding gap of

3 Future Growth Asset Management, 'Private-sector: Ready to get behind government's multi-trillion-rand infrastructure programme,' *Daily Maverick*, September 28, 2020, https://www.dailymaverick.co.za/article/2020-09-28-private-sector-ready-to-get-behind-governments-multi-trillion-rand-infrastructure-programme/.

4 Future Growth Asset Management, '*Private-sector*'.

5 Future Growth Asset Management, '*Private-sector*'.

6 ZAR is the currency code for the South Africa Rand.

7 Independent Development Corporation and InvestSA, 'The Case for Investing in South Africa: Executive Summary' (paper, South African Investment Conference: Accelerating Economic Growth by building Partnerships, October 2019), https://sainvestmentconference.co.za/wp-content/uploads/2019/11/The-case-for-investing-in-South-Africa-2019-Executive-summary-31-October-2019.pdf.

8 Lynley Donnelly, 'Big build programme at centre of recovery plan,' *Business Day*, October 16, 2020.

9 Kgosientso Ramokgopa, 'Infrastructure to catapult economy forward,' *City Press*, November 15, 2020.

approximately ZAR502 billion.[10] To address this gap, the government has identified a number of international DFIs and MDBs as potential partner institutions that could provide financial and/or technical assistance to support the infrastructure programme.

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However, it is not yet clear how much funding will be required from international institutions to cover each individual project. It is therefore crucial for the government to ascertain what the funding requirements are, as this will inform the project funding structure. It also necessary for the state to strike a balance between securing infrastructure development finance and ensuring that additional loans do not have a detrimental effect on the country's already-precarious fiscal position. Within this current context, it is therefore necessary to review the role of international DFIs in funding government's infrastructure development initiatives and future engagements.

Foreign development finance instititions (DFIs) in South Africa – an overview

Since the advent of democracy in 1994, the South African government has been quite selective about accessing financial assistance from international DFIs. DFIs can be regarded as unique banking institutions that are majority-owned by governments and financed by public funds, and act according to a specific political mandate to fund development projects in certain regions or countries.[11]

Even though South Africa is a contributing member to a number of international DFIs and MDBs, the national government has historically been hesitant to seek financial support from these agencies. It is only recently that the government has sought financial assistance from international institutions to cover the unprecedented expense associated with providing COVID-19 relief measures. This assistance has been in the form of rapid-response

10 The Presidency of the Republic of South Africa, 'Building a new Economy: Highlights of the Reconstruction and Recovery Plan,' October 2020.

11 Juliette Laplane, Anniek Hender and Johanna K Schmidt, '*Applying the Fair Finance Guide Methodology to DFIs: Baseline assessment of investment and finance policies of selected Development Finance Institutions*' (Report for Fair Finance International, Profundo, Amsterdam, May 20, 2020), https://fairfinanceguide.org/media/495979/applying-ffi-guide-methodology-to-dfis.pdf.

loans made available by a number of international DFIs. During the months of June and July 2020, for example, the government accessed loans from the New Development Bank ($1 billion was approved), the International Monetary Fund ($4.3 billion was approved) and the African Development Bank ($288 million was granted).

Regarding infrastructure financing, several DFIs have provided financial assistance to state-owned enterprises (SOEs), municipal governments and local DFIs for targeted infrastructure projects. The next section discusses some emerging themes linked to DFI assistance and examines a number of export credit agencies that provide political risk insurance for infrastructure projects. The various infrastructure projects that are currently being funded by international DFIs are outlined in Table 1.

TABLE 1 OVERVIEW OF DFI FINANCING IN SOUTH AFRICA

AGENCY	SECTOR	TOTAL FUNDING
Agence Francaise de Développement (AFD)	• Public infrastructure • Water and sanitation • Social housing	$236 million[a] (The AFD has been supporting infrastructure development in the country since 2008)
African Development Bank (AfDB)	• Energy	$31 billion[b] (Funding has been allocated by the AfDB for regional integration projects in support of regional integration since 2007)
European Investment Bank (EIB)	• Public infrastructure • Bulk water infrastructure • Renewable energy	$2.95 billion[c] (Infrastructure projects have been funded by the EIB since 2004)
German Development Bank (KfW)	• Renewable energy • Energy efficient housing • Green growth facility	$2.25 billion[d]
New Development Bank (NDB)	• Renewable energy • Transport • Water and sanitation	$2 billion[e]
World Bank	• Renewable energy	$4.1 billion[f]
Multilateral Investment Guarantee Agency (MIGA)	• Renewable energy • Infrastructure	$315.41[g]

a Agence Francaise de Développement, *Infrastructure-southern-Africa: Boosting economic growth and equal access to services* (Johannesburg: AFD, September 2018), https://www.afd.fr/en/ressources/southern-africa-infrastructure.

b African Development Bank, Republic of South Africa: Country Strategy Paper 2018–2022 (June 2018), https://www.afdb.org/fileadmin/uploads/afdb/Documents/Boards-Documents/SOUTH_AFRICA_CSP_2018-2022.pdf.

c European Investment Bank, https://www.eib.org/en/projects/loans/index.

d KfW Development Bank, *KfW Development Bank: German Financial Cooperation in South Africa* (August 2020), https://www.kfw.de/microsites/Microsite/transparenz.kfw.de/#/country/ZAF.

e New Development Bank, https://www.ndb.int/projects/list-of-all-projects/.

f World Bank, https://www.worldbank.org/en/country/southafrica/overview#3.

g Multilateral Investment Guarantee Agency, https://www.miga.org/project/south-africa.

Emerging themes in the types of assistance provided

Renewable energy

Renewable-energy and energy-efficiency projects have received the bulk of the funding. These are energy projects that facilitate integration into the Eskom grid or are aimed at improving or rehabilitating Eskom's infrastructure. Therefore, Eskom and local DFIs (Development Bank of Southern Africa and the Industrial Development Corporation) have received the largest share of financial and technical assistance. Local DFIs in turn have been identified for their on-lending capabilities to sub-projects in the renewable-energy sector.

SOEs have recognised that financial assistance can only be accessed by requesting green finance. Eskom, which has an approximate debt of ZAR500 billion, recently announced that it would be approaching a number of development funders for the purpose of expanding the transmission grid. Eskom CEO, Andre de Ruyter, said that, 'Fortunately, there is significant transition and green financing that is available to enable this transition. We've already had some of the major development-financing institutions globally approach us and commit in writing to a willingness to support this transition. We therefore anticipate we will be able to access this green financing to enable the expansion of our transmission grid to take place'.[12] In view of this, DFIs and MDBs are playing an increasingly important role in providing green bonds and climate finance (eg, Amundi's new $2 billion Cornerstone Green Bond Fund).

> Climate challenges are a reality, but the country needs to strike a balance between advancing its infrastructure programmes and ensuring that it is still on track to meet its sustainable development goals

Climate challenges are a reality, but the country needs to strike a balance between advancing its infrastructure programmes and ensuring that it is still on track to meet its sustainable development goals. South Africa's 2019–2030 energy programme will utilise a number of energy sources, including wind, solar power and coal. International DFIs and MDBs should take South Africa's energy programme into account when they tailor their assistance programmes for the country.

Municipal Infrastructure assistance

Various municipalities have been able to access both financial and technical assistance for infrastructure projects in the water and sanitation, housing and transport sectors. It is

12 Lisa Steyn, 'Institutions "willing" to help grow power grid,' *Business Day*, October 16, 2020, https://www.businesslive.co.za/bd/national/2020-10-15-institutions-willing-to-help-grow-eskoms-power-grid/.

at this level of government that infrastructure delivery is critical, as most citizens engage with government at the municipal level. The DBSA provides extensive support to municipal governments in the form of financial and technical assistance. Where assistance is provided by a number of entities, agencies should ensure that these funding initiatives are well coordinated.

Debt and infrastructure funding

A country's debt levels have a definite impact on its ability to fund infrastructure initiatives. When one includes state guarantees to SOEs, the South African government's debt-to-GDP ratio is expected to rise to 100% by 2023. This compares unfavourably with the average emerging-market ratio of 45%.[13] Future Growth Asset Management notes that the South African government will have difficulty funding large-scale infrastructure projects and will therefore have to seek funding from alternative sources (eg, international DFIs, MDBs, commercial banks and others).

A KfW official noted that as South Africa's sovereign credit rating declines, it becomes more difficult to fund infrastructure projects as the risk premium for KfW's lending facility increases. If South Africa's credit rating had been higher, KfW's lending facility would certainly have been more competitive.[14] Within this constrained environment, it is interesting to note that the NDB's loans are denominated in either US dollars or the local currency. This is a unique strategy, which provides a level of flexibility for a recipient country.

Private-sector risk insurance

MIGA has provided political risk insurance to private-sector developers in the renewable-energy sector. Securing funding guarantees can also assist investors to obtain project finance from banks and equity partners, thus lowering the cost (and possibly also the risk) of capital projects. It will be useful to investigate whether the risk premium for MIGA-guaranteed projects in South Africa has in fact been reduced as a result of MIGA's support. For current and future projects that have been earmarked by the state, the project risk should be shared by the state and the private sector.

South Africa's infrastructure development initiatives

Although international DFIs have provided financial support for several infrastructure projects, the South African government has implemented a number of domestic interventions to complement its external partnerships. In 2012, the Presidential Infrastructure Coordinating Commission (PICC) was established to plan and coordinate a National Infrastructure Plan across all spheres of government. To this end, 18 strategic

13 Future Growth Asset Management, '*Private sector*'.

14 Interview with KfW official, September 2, 2020.

infrastructure plans (SIPs) were identified. The additional SIPs that were gazetted in July 2020 are a continuation of this process that began in 2012.

A number of projects have come to fruition, such as the establishment of new universities in Mpumalanga and Northern Cape provinces. It is interesting that international DFIs and MDBs were not identified as sources of funding for the initial SIPs. Funding would be accessed from the following three sources:

- retirement funds;
- SOE balance sheets; and
- local DFIs, such as the IDC.

In addition, the government committed to contribute funds amounting to 10% of GDP towards infrastructure development. Currently, the value of the government's contribution is sitting at 5.9% of GDP, which is still a long way off the 10% target.[15] It was emphasised that the public–private partnership (PPP) model that is utilised for funding the SIPs should ensure an equitable transfer of risk to the private sector.

Given the current economic climate, the South African government has placed greater emphasis on securing external assistance to fund its Infrastructure Build Programme. This is because fiscal constraints prevent domestic funds being used to cover the infrastructure financing gap

Given the current economic climate, the South African government has placed greater emphasis on securing external assistance to fund its Infrastructure Build Programme. This is because fiscal constraints prevent domestic funds being used to cover the infrastructure financing gap (ie, ZAR504 billion). Government has accumulated nearly ZAR4 trillion of debt and spends approximately ZAR226 billion per year servicing it. All three ratings agencies (ie, Fitch, Moody's and S&P) have lowered the country's credit rating to below investment grade, which means that the cost of servicing the debt will increase as South Africa will be charged more to borrow money.

It is against the above background that the South African government hosted the Sustainable Infrastructure Development Symposium SA (SIDSSA) on 23 June 2020 to

15 Khulekani Magubane, 'Interview – De Lille: Inherited messy Public Works needs credibility after Infrastructure failures,' *Fin24*, December 9, 2020, https://www.news24.com/fin24/Economy/interview-de-lille-inherited-messy-public-works-needs-credibility-after-infrastructure-failures-20201209.

encourage participation from the private sector, MDBs and international and local DFIs in the government's Infrastructure Build Programme. Government representatives at the symposium noted that infrastructure investment is complex and to get the process right – from conception to construction to operation – requires a unique institutional arrangement. This entails managing consultations with a number of stakeholders and the development of a credible project pipeline. The Investment and Infrastructure Office (IIO) within the Presidency was established for this purpose. This office has institutionalised a Sustainable Infrastructure Development Symposium (SIDS) methodology which will identify, consider, approve and implement sustainable infrastructure. This is an initiative designed to bring together funders, policy makers, SOEs, academia and the private sector to explore partnership possibilities between the public and private sectors and infrastructure investment opportunities.

The private sector has usually made a late appearance in the planning process, when funding has already been finalised and it is too late to obtain input from private-sector stakeholders. The SIDSSA process aims to do things differently

The IIO notes that the public and private sectors have not always enjoyed smooth partnerships in infrastructure investment projects. The private sector has usually made a late appearance in the planning process, when funding has already been finalised and it is too late to obtain input from private-sector stakeholders. The SIDSSA process aims to do things differently. Each step in the project pipeline will be articulated by all parties involved. Moreover, multilateral funders will assist in validating and ensuring that the project investment proposals are realistically sustainable and also ensuring that the projects are completed. At the symposium, President Ramaphosa said that 'we are institutionalising the SIDS methodology as a new way of packaging and preparing projects for funding'.[16] Minister de Lille noted that the National Treasury had committed ZAR440 million towards project preparation, but indicated that this allocation was still insufficient.[17]

Hence, over a period of five months prior to the symposium, the IIO engaged a number of institutions (eg, MDBs and foreign and local DFIs, among others) to encourage them to work with the public sector in producing a credible infrastructure project pipeline. Consequently, the IIO has unveiled a list of infrastructure projects for funding consideration by global and local institutions in the energy, water, transportation, information and

16 Sustainable Infrastructure Development Symposium, June 23, 2020.

17 Khulekani Magubane, '*Interview – De Lille*'.

communication technology, agriculture and agro-processing, and human settlement sectors. The total investment value of these projects is approximately ZAR650 billion.

Various MDBs, DFIs and commercial banks have allocated human and technical resources towards the SIDS process – primarily for the identification and packaging of projects for funding and investment purposes. DFI officials who were interviewed during the investigation confirmed their support for the SIDS methodology. In addition, their interventions in the SIDS process will be guided by the assistance that the IIO is requesting. South Africa is a capital-contributing shareholder in several MDBs, but has not made sufficient use of concessional funding and implementation support. In this regard, the estimated capital available annually from the World Bank is $3.5 billion, $2 billion from the NDB and $12 billion from the AfDB.[18]

The IIO recently signed a memorandum of agreement (MOA) with the DBSA and the National Treasury to establish a ZAR100 billion Infrastructure Fund. The South African government will provide seed funding over a period of 10 years. This fund is intended to be a vehicle for government funding and ancillary support for the co-financing of a blended finance programme, which will include financing from the private sector and international DFIs. The fund is regarded as a complement to broader budgeting reforms that the government is undertaking in order to address problems in the infrastructure value chain. Support will take different forms, including the funding of deserving infrastructure projects, blended co-funding, capital subsidies or interest-rate subsidies and guarantees.[19]

In terms of roles and responsibilities: i) the IIO will coordinate the infrastructure value chain through development, assessment, management, project preparation, implementation and monitoring of an infrastructure pipeline and related investment for South Africa; ii) National Treasury will facilitate government's contribution of the funding by putting in place defined budgeting processes for the fund; and iii) the DBSA will establish, manage and administer the fund. In addition, the DBSA will facilitate the financial structuring, procurement and implementation of priority, blended finance projects and programmes, as identified by the IIO.

A number of details remain unclear regarding the structure of the Infrastructure Fund. For example, what type of funding (debt/equity/blended) would be allocated to an identified infrastructure project? More importantly, how would the fund differ from what the DBSA already provides? Both Minister de Lille and the IIO have stated that certain regulations and legislation (eg the Public Finance Management Act) will be amended to facilitate private-sector investment. Currently, there seems to be no specific opportunity for the private sector to invest directly in the project, except by providing debt finance.

18 'Economic Transformation' (SIDSS-Editorial-v.10, Sustainable Infrastructure Development Symposium South Africa, Pretoria, June 23, 2020), 15.

19 National Treasury, 'Signing of MOA: DBSA's Mandate to Establish and Manage the Infrastructure Fund' (Media Brief, DBSA, Midrand, August 17, 2020), https://www.gov.za/speeches/national-treasury-infrastructure-south-africa-and%C2%A0development-bank-southern-africa-sign.

It is interesting to note that the National Treasury's public–private partnership (PPP) model will not be utilised for this process. Minister de Lille regards the Treasury's PPP model as time-consuming and cumbersome, as only 2% of infrastructure investment has been secured through this process (eg, the Gautrain is one of the few projects that have been successfully completed under the PPP model). As a result, government is reviewing other PPP models that allow for greater private-sector investment, such as the build–operate and transfer (BOT) and the build–operate–own and transfer (BOOT) models. A number of DFIs can offer assistance in the design of i) various PPP models (eg, BOOT) and ii) the regulatory regime that will facilitate private-sector investment.

Nevertheless, the DBSA is the appropriate institution for managing the Infrastructure Fund, providing project-preparation support to municipalities and SOEs for their infrastructure projects as well as being a recipient of infrastructure funding from foreign DFIs. Such a role has emerged for the DBSA, given its expertise in infrastructure development and financing. Several MDBs, financiers and government officials have noted that one of the major bottlenecks in infrastructure development is the conceptualisation and preparation of bankable projects. Furthermore, the planning and delivery of large infrastructure projects is complex and inherently risky. Hence, many projects fail or are implemented with eventual budget and timeline overruns.

Such an environment created an opportunity for the DBSA to create a highly skilled project development and preparation business unit which 'de-risks' projects and delivers bankable project concepts. It is therefore not surprising that the European Union (EU) allocated funding of 100 million Euros towards South Africa's Infrastructure Investment Programme (IIPSA), with the DBSA acting as the implementing entity. The programme formed part of the support that the EU provided to the country in the period 2003–2017. The aim of the IIPSA was to support the implementation of the government's infrastructure programme and to address the constraints to infrastructure development in South Africa and the Southern African Development Community (SADC) region.

Under the IIPSA, project proposals for grant funding are invited from eligible public and private entities for the purpose of financing infrastructure investment projects. Funding can either take the form of technical assistance or direct investment grants. Furthermore, IIPSA provides for financing to consist of a co-funding arrangement comprising EU grants and loans from participating DFIs, including the DBSA, EIB, AFD and KfW. To be eligible, projects should preferably be supported by more than one participating DFI in a consortium. Other DFIs such as the AfDB and the IDC may be associated with projects supported by the IIPSA. This means that they can co-finance projects together with one or more participating DFI/s, but they cannot directly access IIPSA funding, as in the case of participating DFIs.

The DBSA notes that the added value of the IIPSA is in the technical exchange that takes place during the project preparation and implementation phases, and in the cooperation that is facilitated between development partners and local financiers. Such a partnership enables bigger projects to flourish with maximum impact, in turn lowering the cost of money and in the financial leverage itself.

Within the DBSA, a project preparation fund was established to provide project-preparation funds for the purpose of developing infrastructure projects. This fund was created to support the project pipeline of the DBSA's financing divisions. Sectors that the fund focuses on are energy infrastructure, water and sanitation infrastructure, transport and logistics infrastructure, and ICT infrastructure. South African municipalities are a key target market for this fund as they play an important role in the provision of basic infrastructure services. Funding support is intended for the following purposes: i) creating an enabling environment in which infrastructure projects can be implemented; ii) conducting pre-feasibility studies; iii) conducting bankability feasibility studies; and iv) assisting with the cost of reaching financial close. The funds are provided on the basis that projects prepared with these funds will be funded through the DBSA's lending divisions.

Through the provision of both technical and financial assistance, municipalities are provided with a 'one-stop service', which does not require them to seek alternative funding for the different aspects of the infrastructure development chain

Through the provision of both technical and financial assistance, municipalities are provided with a 'one-stop service', which does not require them to seek alternative funding for the different aspects of the infrastructure development chain. Financing is provided through debt and mezzanine finance. In certain instances, concessionary lending can also be provided. This dual form of support – ie, providing both financial and non-financial products – is targeted mainly at medium- and under-resourced municipalities.

Recommendations and concluding remarks

The Medium-Term Budget Policy Statement that was delivered on 28 October 2020 indicated that the Economic Recovery Plan would focus on building infrastructure, expanding electricity generation, allocating digital spectrum, and supporting rapid industrialisation and employment. In the Organisation for Economic Cooperation and Development's reporting system, 'infrastructure' refers to the water and sanitation, energy generation and support, transport and communication sectors.[20] All the various parts of the infrastructure paradigm (ie, social and economic infrastructure) are crucial pillars for

20 Helena Wright et al., 'Sustainable Infrastructure and the Multilateral Development Banks: Changing the Narrative,' *E3G*, June 1, 2018, http://www.jstor.com/stable/resrep21743.

re-igniting economic growth in South Africa, although there tends to be a bias towards funding renewable-energy and green-efficiency projects.

Most infrastructure projects are being built in developing countries as they face the largest number of infrastructure challenges. Through its Infrastructure Build Programme, South Africa has a huge pipeline of infrastructure projects that have the potential to unlock approximately ZAR1 trillion-worth of investment. These projects span the entire infrastructure landscape (ie, energy, transport, housing, and more). DFIs and MDBs have an opportunity to access a lucrative project pipeline by partnering with the South African government in tackling the country's infrastructure challenges.

However, there are a number of uncertainties impeding the process. The government needs to indicate how the recently gazetted SIPs will be funded. What percentage of financial assistance will be sourced from international institutions and what proportion of funding can be met internally? This will inform the design of the DBSA's Infrastructure Fund as it intends to implement a blended finance model that utilises public, private, local and international funding. In addition, the business and revenue model for these projects is not clear. How will private-sector investment be secured? Will it be through PPPs or other investment platforms? Clarity is also required on the types of infrastructure that can absorb funds that require a rate of return (eg, toll roads) as opposed to social infrastructure (eg, a school).

The ability to deliver on the Infrastructure Build Programme is heavily reliant on the capacity of civil servants to perform their duties. Both the DBSA and the IIO have developed project-preparation capabilities within their offices in partnership with international DFIs, as government representatives have indicated that resources available for project preparation are limited in relation to the funding that is available for bankable projects. The lack of project-preparation skills has led to numerous infrastructure failures, such as large numbers of incomplete projects around the country. Infrastructure project specialists from municipal governments should undergo regular in-service training on project-preparation techniques. These are technical assistance programmes that can be funded by international DFIs.

It is worrying to see that separate procurement processes were established for the National Treasury's PPP programme and the Department of Energy's Renewable Energy for Independent Power Producers Programme (REIPP). The government also intends to introduce a third procurement system for the infrastructure programme, with the IIO being the single-entry point for all infrastructure projects. It would be more feasible for the government to create a single procurement plan for PPPs, the REIPP and the Infrastructure Build Programme or, alternatively, develop a procurement plan that encompasses different aspects of the PPP programme and the REIPP process.

The IIO should therefore assume a leadership role in coordinating donor assistance. Various types of funding programmes are available for infrastructure development; the IIO should thus be tasked with identifying infrastructure funding requirements and matching requesting entities (eg, SOEs, municipal governments, and others) with the relevant funding agency. This office has, after all, been created to coordinate the many stages of the project development process as well as approach development banks, multilateral institutions and pension funds in search of funding and partnerships.

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Cover image

Government-built low-income apartment block with solar water heaters on rooftops (RapidEye/Getty Images)

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