Will the President's proposed Infrastructure Fund work?

When president Cyril Ramaphosa announced his economic stimulus and recovery plan on 21 September 2018 he indicated that: "Public finances have been constrained, limiting the ability of government to expand its investment in economic and social development." It is thus no surprise that one of the main parts of the stimulus and recovery plan is the establishment of a South African Infrastructure Fund ("the Fund"). The stimulus and recovery plan fittingly prioritises infrastructure spending as a critical driver of economic activity. In this respect the Fund is seen as a mechanism "which will fundamentally transform our approach to the rollout, building and implementation of infrastructure projects". When one looks at our history over the past 20 years it is clear that such fundamental transformation is direly needed. Poor and fragmented planning, poor execution and corruption have resulted in significant wastage and a lack of capital efficiency. Given government's "limited fiscal space to increase spending or borrowing" it is critical that the R400 billion contribution from the fiscus to the Fund must be geared to the maximum. The key question of course is whether the Fund as envisaged is a "silver bullet" and can achieve all the things desired by the President?

In answering this question we should learn from the clear and plentiful mistakes of the past. But as the President correctly stated, we should also learn from our successes. The President cited the 2010 World Cup as an example of such a success from which we can learn. While there is little doubt that the tournament itself was a great success, I am hesitant to label the infrastructure investment drive that preceded it, as a major success. Significant cost overruns on the construction of the stadiums and other key infrastructure (such as the Gauteng Freeway Improvement Project) and poor project management are the very things we must avoid.

If we are looking for a success to learn from and imitate there is a more recent and clear example: the Renewable Energy Independent Power Producer Programme ("REIPPP"). Since 2011, a total of 6 328 Megawatts of wind, solar photovoltaic and other renewable energy generation capacity has been procured through this programme, amounting to nearly R200 billion in investment. How much of this has been invested by government? The answer is basically R0. Yes, apart from the cost of setting up and managing the programme, government's direct investment into the individual projects is R0. It should be noted that government does have an indirect investment though - it is guaranteeing the off-take obligations of Eskom. As long as South Africa continues to consume electricity, the potential financial exposure of government under these guarantees is virtually R0. This is a very good example of the type of gearing (any) government can achieve through a well-structured infrastructure investment programme.

A number of papers analysing the reasons for the unbridled success of REIPPP have been written and is freely available on electronic media. In my opinion however, the key aspect of the programme that we must try to duplicate in other infrastructure spheres is that it strictly adheres to the principles of and requirements for limited recourse project finance ("Project Finance"). Through Project Finance, government can achieve the significant gearing of its own funds through private (and other) funding. Project Finance by nature will also require and instil the discipline in the design and implementation as well as operations and maintenance of the infrastructure that will ensure sustainability and affordability of the service(s) rendered through the infrastructure. Unfortunately and for far too long, government has ignored the multiple benefits of Project Finance. Why so? Firstly, there is the incorrect but enduring view in government that Project Finance amounts to privatisation. I hope that the REIPPP will contribute to eradicate this misconception. Secondly, I believe it is the very nature of Project Finance - establishing a strict, robust and rigid contractual framework for the implementation and on-going operation and maintenance (as well as other performance measures) of the infrastructure - that is inherently unpalatable to many government officials.

This is a critical point. I believe there are opportunities to duplicate the REIPPP in certain infrastructure spheres, which are under control and jurisdiction of national and/or provincial government. But, a significant portion of the critical infrastructure in this country is developed, operated and maintained by municipalities. This is the infrastructure that can impact most on economic growth, job creation and the general well being of the population. But this is the elephant in the room that nobody is talking about. Even more so than central government, most municipalities do not have any "fiscal space to increase spending or borrowing". It is at municipal level where the need to fundamentally transform our approach to the rollout, building and implementation of infrastructure projects is the greatest and most urgent. It is at municipal level that Project Finance is the solution that can enable increased infrastructure spend and yield the most significant benefits. But it is at municipal level where the resistance against the contractual discipline and performance demanded by Project Finance is at its greatest. It is at municipal level that the political will is more attuned to the benefit of the politicians and the party than the benefit of the masses. It is against this background that the perceived "loss of control" through Project Finance poses a significant threat rather than a welcome solution.

This is the key challenge for the South African Infrastructure Fund envisaged by the President. If it is going to be "business as usual" at municipal level, then in my opinion very little gearing of government funds will be achieved through the Fund. Like rearranging the deck chairs on the Titanic, this will simply be an exercise of redirecting and reprioritising existing government funds. I do not see this as really contributing meaningfully to job creation and economic growth. No, at municipal level it must be "business unusual" and the key lies with significant gearing of government funds that can only be achieved through Project Finance. A concerted effort will be required by the President and his team to bring the municipalities on board. The success of his plan depends on it. Take heed Mr President!