



South Africa's Infrastructure Investment Plan

Update Report

Select Committee on Transport, Public Service and
Administration and Public Works and Infrastructure

02 September 2020



OUTLINE

The Presentation covers the following

- 1 Economic Reality**
- 2 South Africa's Infrastructure Investment Plan**
- 3 Building a credible infrastructure pipeline**
- 4 Sustainable Infrastructure Development Symposium**
- 5 Strategic Infrastructure Projects**
- 6 Financing Infrastructure Projects**
- 7 Next Steps**

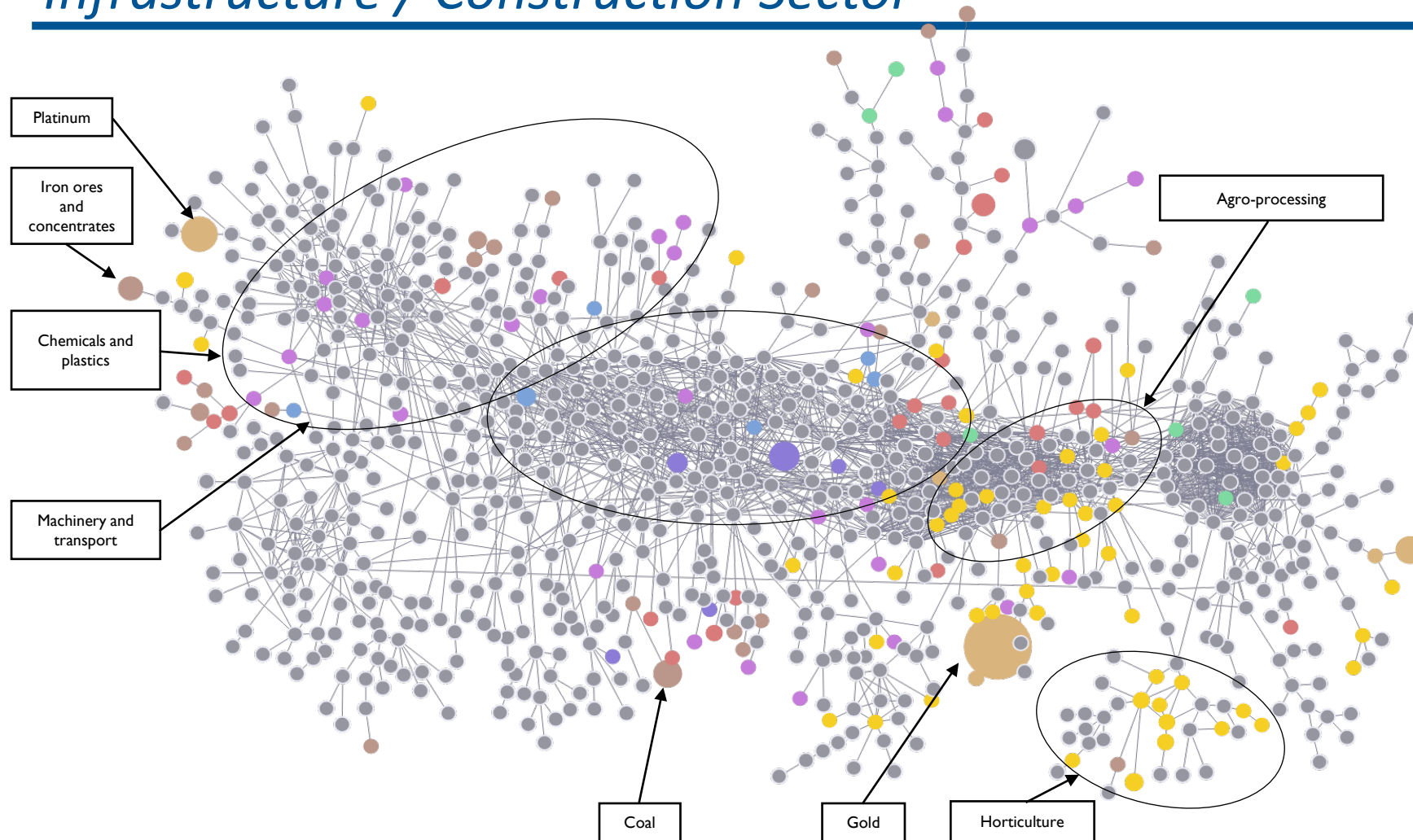


BACKGROUND



South Africa has de-industrialised

Infrastructure / Construction Sector



- Mining was 15.5% of GDP in 1994, now only 8.1%.
- Agriculture down by 28%.
- Manufacturing has declined by 13%.

Source: CID (2018)

Notes: Product groupings or clusters are represented by the following colours: Textiles & Furniture (light green); Vegetables, Foodstuffs & Wood (yellow); Stone & Glass (light brown); Minerals (dark brown); Metals (red); Chemicals & Plastics (light purple); Transport Vehicles (dark purple); Machinery (blue); Electronics (turquoise); Other (dark blue).

Insufficient Employment Creation

Indicator	2009	2019	Absolute change	Annualised % change
Labour Market Aggregates ('000)				
Employment	14 386	16 362	1 976	1.30
Narrow Unemployment	4 342	6 657	2 315	4.37
Narrow Labour Force	18 728	23 019	4 290	2.08
Discouraged work seekers	2 338	3 574	1 236	4.34
Target Growth Rate (TGR) annualised (%)	2.98			
Employment Absorption Rate (%)	46.1			

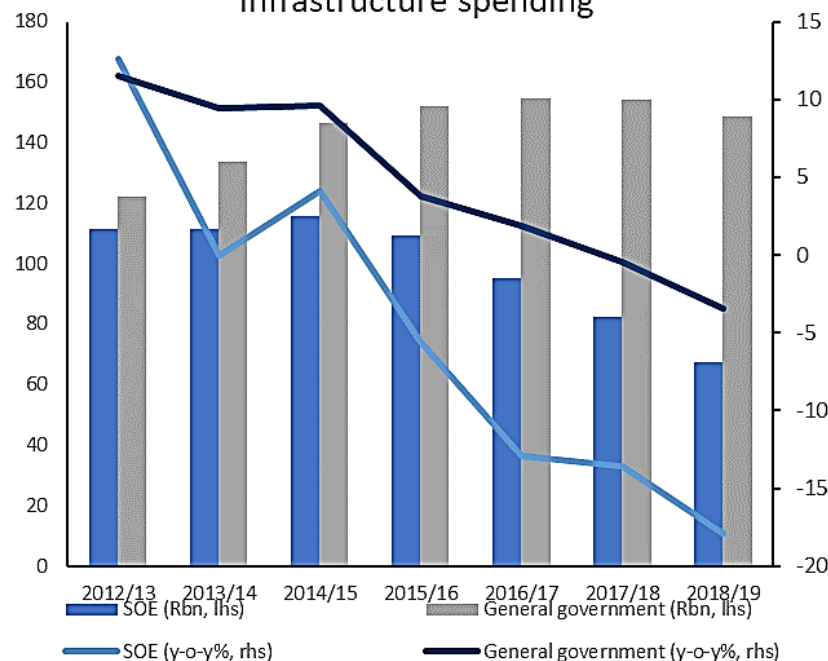


South Africa's Current Economic Reality

Infrastructure / Construction Sector

- ❑ SA is far from NDP target for public sector infrastructure investment
- ❑ Investment by general government (GG) down 0.8% on average in real terms between 2014 and 2019. State owned enterprises (SOEs) down by 4.9% on average
- ❑ Massive underspending in infrastructure by all spheres of government and SOEs
- ❑ **Construction Industry has been the most severely impacted on by the downgrade in the economy and COVID-19**
- ❑ -14.2% Contraction in the Construction Sector (2x the next lowest – Manufacturing Sector)
- ❑ Highest job losses have been in the Construction Sector

Historical view of public sector infrastructure spending



Moody's downgraded SA's foreign and local currency sovereign credit rating to Ba1 – can further hamper economic recovery

	Moody's	S&P Global	Fitch
Foreign currency	Ba1 (1 notch below)	BB (2 notch below)	BB+ (1 notch below)
Outlook	Negative	Negative	Negative
Local currency	Ba1 (1 notch below)	BB+ (1 notch below)	BB+ (1 notch below)

	Total underspend (2014/15 - 2018/19) R' bn
SOE	109,06
GG	38,29
TOTAL	147,35



South Africa's Infrastructure Investment Plan



South Africa's Infrastructure Investment Plan

Flywheel in Infrastructure Investment and Implementation

At the Cabinet meeting of 2 April 2020 President Ramaphosa gave clear direction that the Country is facing a recession of enormous proportions, and COVID-19 has placed South Africa in an even worse position. Closing economy for a five-week period will have dramatic impact on our Country and the World. We are essentially in a war situation.

The President further stated that we should also be able to identify the sector that can be the flywheel to get us out of this hole. The Flywheel is Infrastructure Investment and Implementation, through an immediate and purpose-driven Recovery Plan that will not only kick-start our economy but will also stimulate the Construction Sector which has been hit the hardest.

SA's Infrastructure Investment Plan will lead to major job creation and at the same time address the essential service needs of communities in both our rural and urban areas, as infrastructure investment will focus on:

- Network Infrastructure, Agricultural Infrastructure, Human Settlements Infrastructure & Social Infrastructure;
- Building new and upgrading existing infrastructure;
- Repurposing redundant infrastructure; and
- Expediting the maintenance of neglected infrastructure.



The Implementation of the Plan

A New, Streamlined and Accountable Partnership

- ❑ Clear delivery targets related to value for money and need
- ❑ Transparency in relation to performance
- ❑ Accountability of professionals and contractors as well as government – if it can be done for private sector development, it can be done for public sector infrastructure
- ❑ Monitoring, review, insights and infrastructure intelligence
- ❑ Transformation and spatial justice will no longer be rhetoric
- ❑ Skills transfer, empowerment and job creation are at the forefront of the plan – it is not just part of the construction process but how we upskill our nation
- ❑ Use new technology and the green economy



KEY FOCUS AREAS

Focus areas for the infrastructure investment plan

- Building a robust and credible infrastructure pipeline
- Infrastructure Financing
- Development of the National Infrastructure Plan 2045
- Rural Development innovative activities
- Restructuring EPWP to include mainstreaming, Women's Maintenance Teams and Social Compacts
- Monitoring, Evaluation, Insights and Intelligence

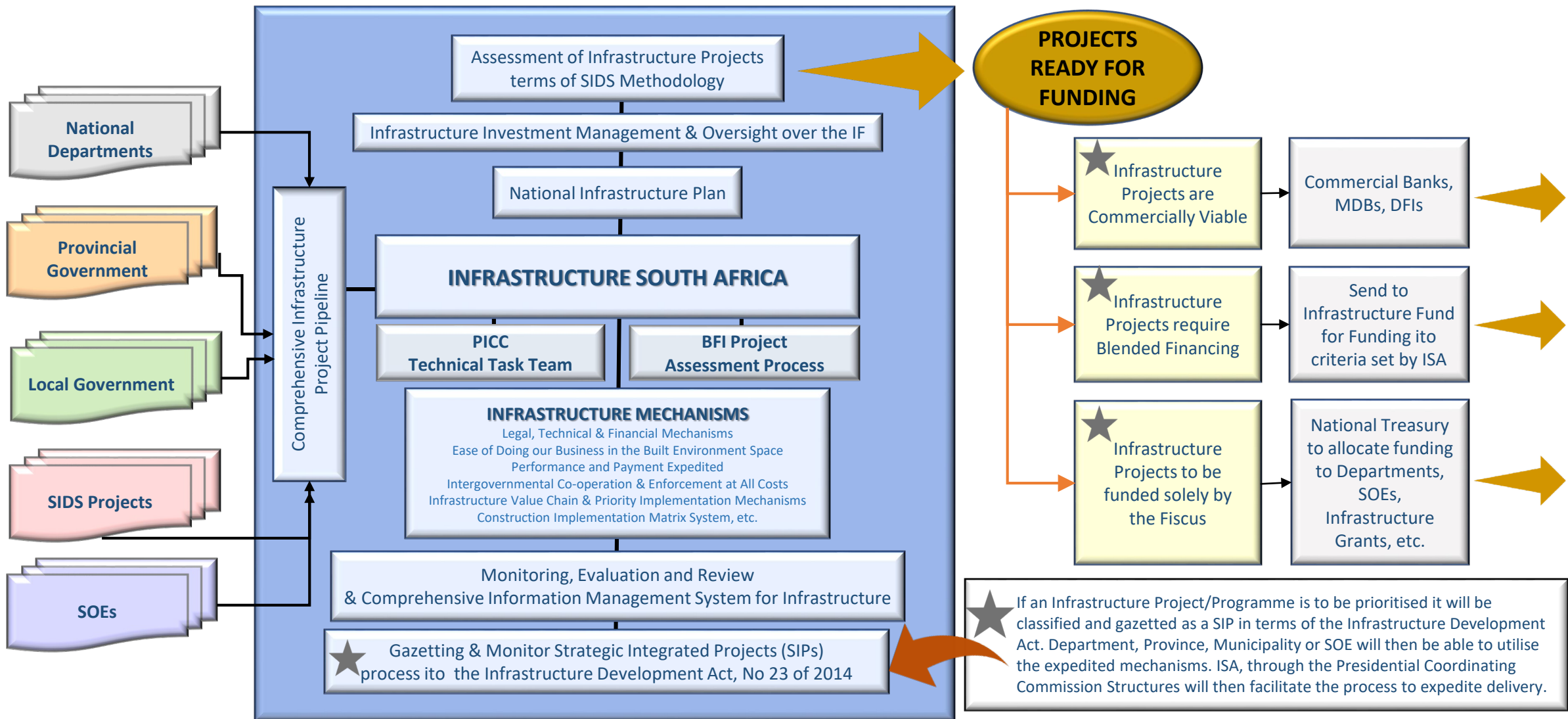


Building a credible Infrastructure Pipeline



Infrastructure Projects Process Flow

The New Way of Working

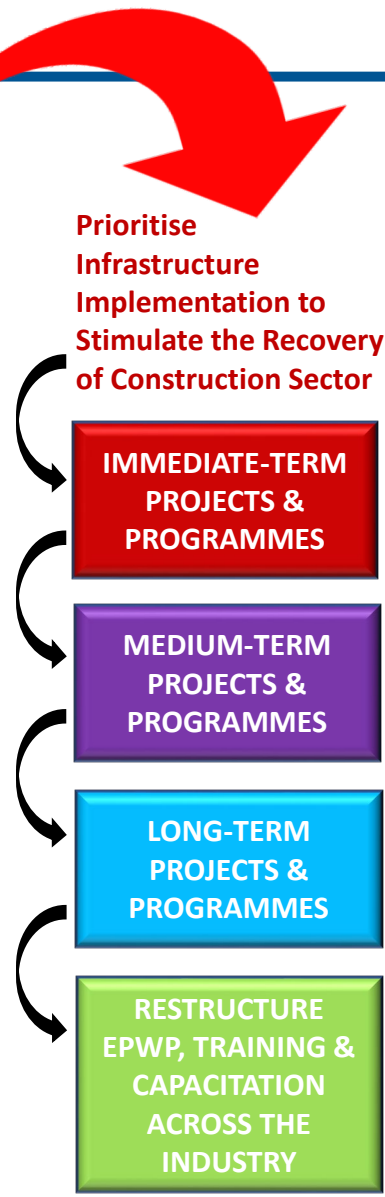
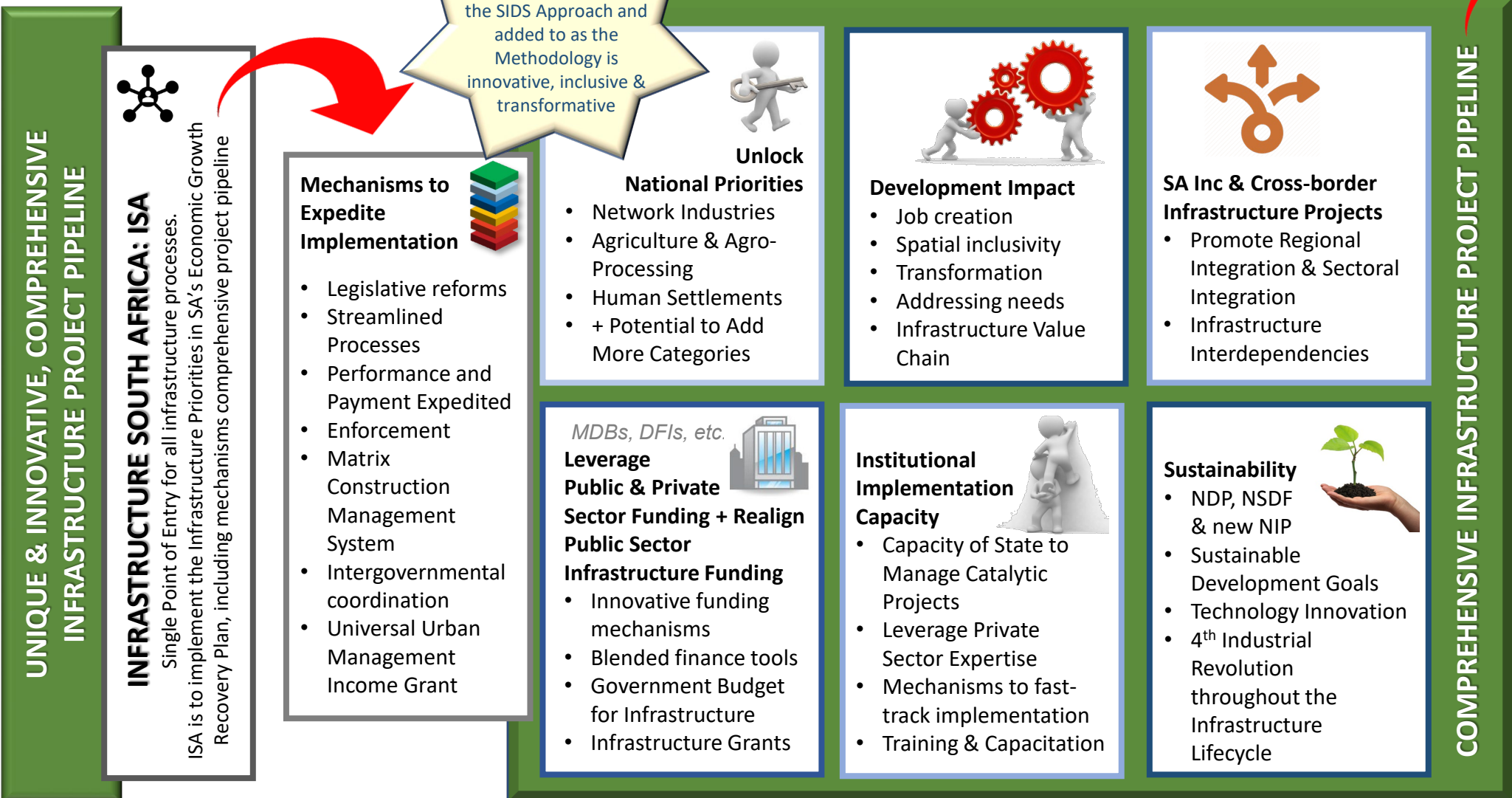




SA's Economic Growth Recovery Plan

A Unique & Innovative Approach to Infrastructure

Much has been drawn from the SIDS Approach and added to as the Methodology is innovative, inclusive & transformative





SIDS

An Inclusive South African Journey

The Journey towards building a pipeline of projects for the SIDS required a SA Inclusive Approach, engaging with government in both national and provincial departments, partnering with our State Owned Entities and Agencies and crowding in the international MDBs and DFIs.



National
Provincial



public works
& infrastructure
Department:
Public Works and Infrastructure
REPUBLIC OF SOUTH AFRICA



AFRICAN DEVELOPMENT BANK GROUP



WATERBOARDS



PRIVATE SECTOR COLLABORATION



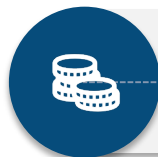


Building a Credible Infrastructure Pipeline

As at June 2020



276 Projects submitted, 88 projects post feasibility stage



Total investment value of more than **R2.3 TRILLION**

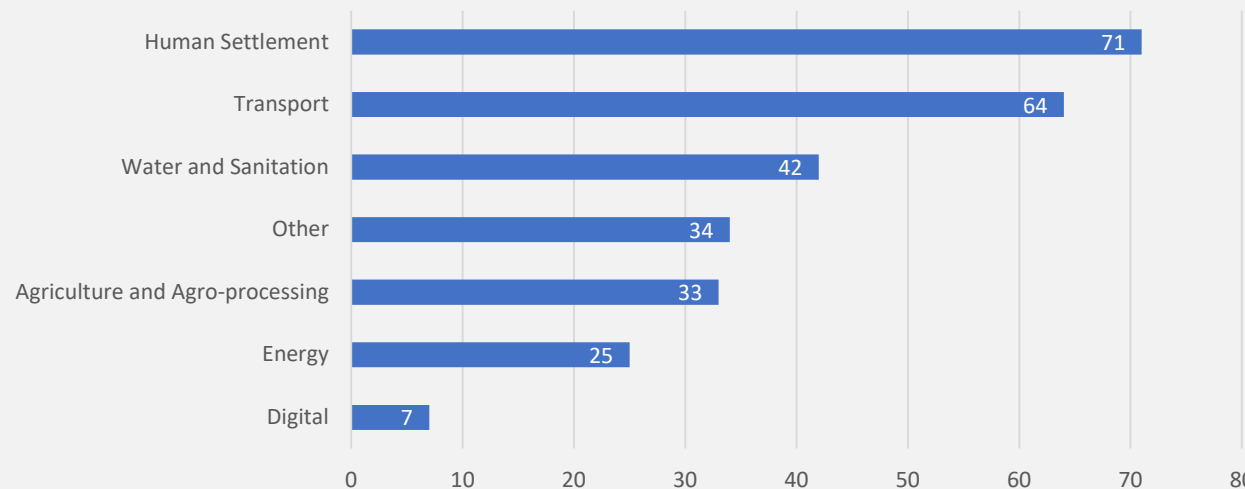
- Estimated gap of funding required **R502 BILLION**



Reported employment opportunities ~ **1.88 million** (direct & indirect)



Sector allocation of projects submitted



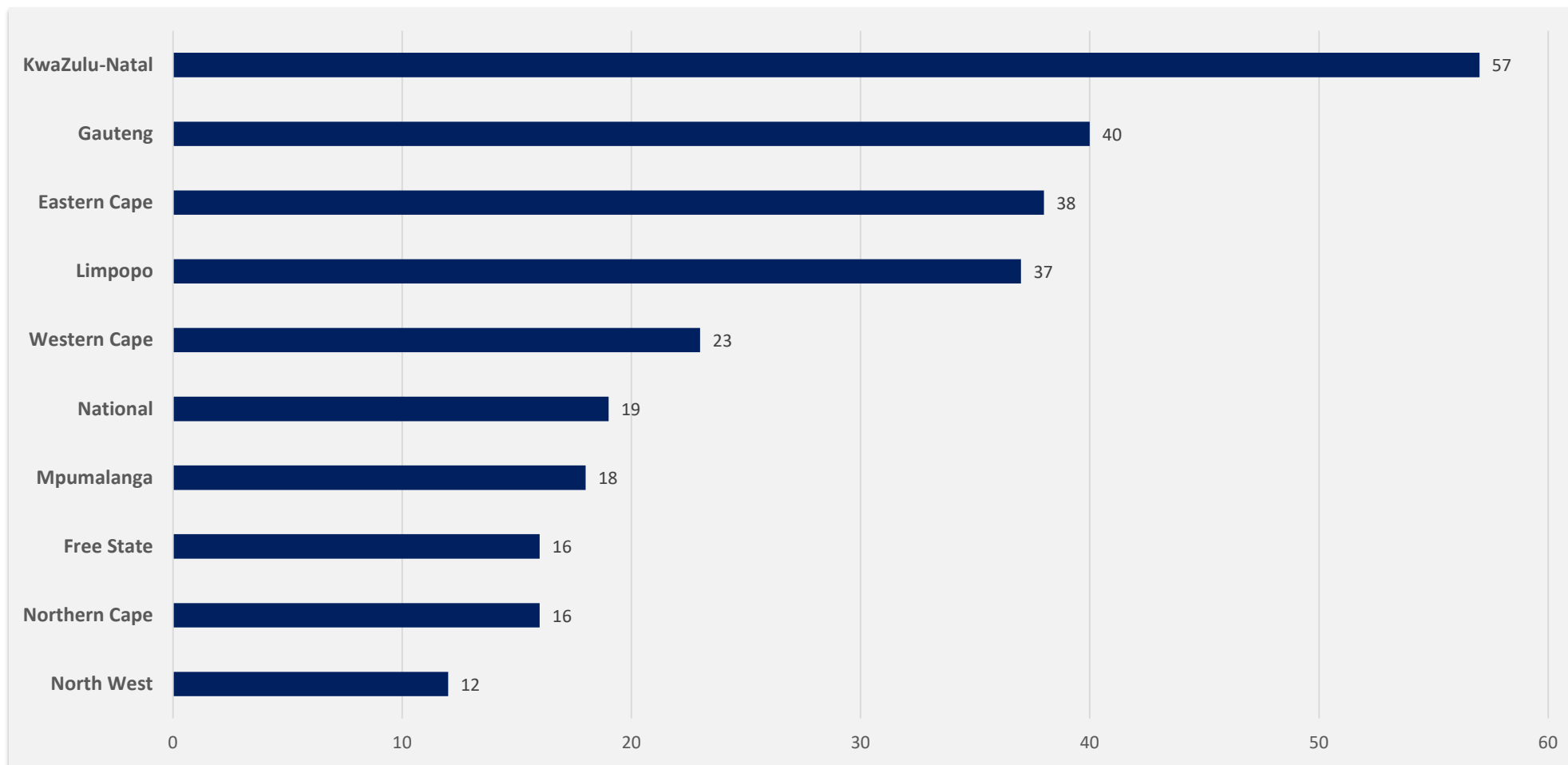
***Other**

- 11- Environmental
- 1 – Tourism
- 1 – Mining
- 21 – still to be allocated



Geographic Spread of Project Pipeline

As at June 2020





STRATEGIC INTEGRATED PROJECTS



Building a Credible Infrastructure Pipeline

50 SIDS Projects Gazetted as SIPs

Focus on 50 SIDS Projects to be expedited under the IDA and are gazetted as Strategic Integrated Projects (SIPs)



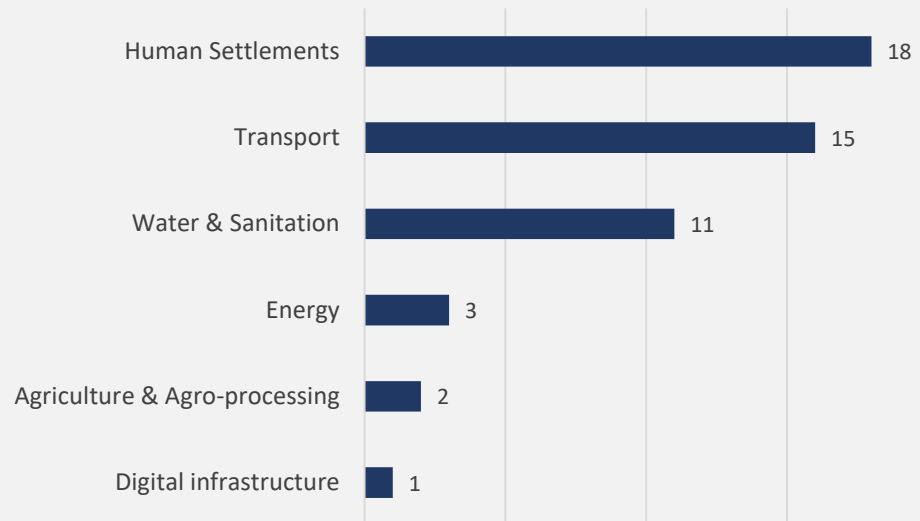
50 Projects post feasibility stage



Total investment value of more than **R340 BILLION**



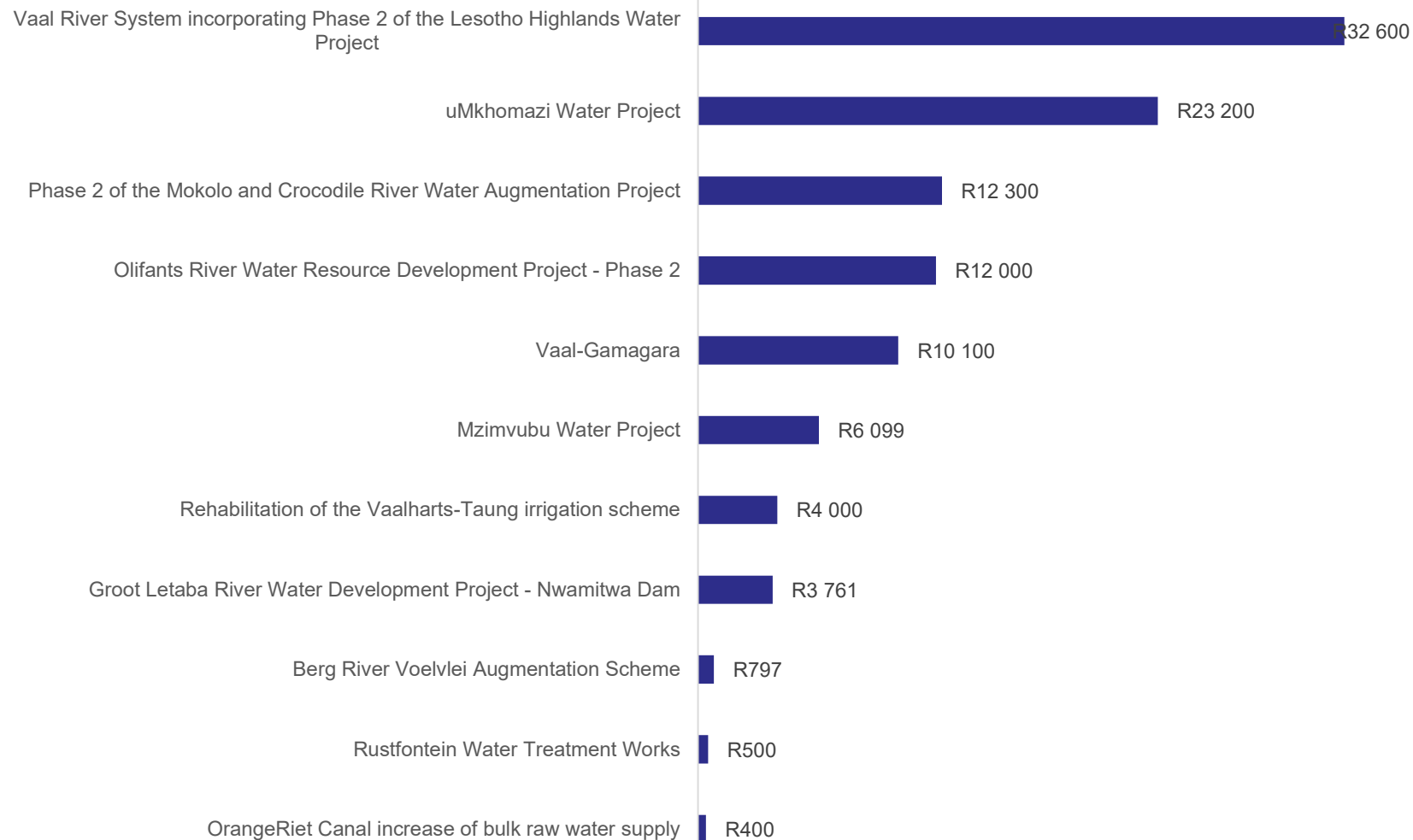
Sector allocation of projects submitted





SECTORAL ALLOCATION

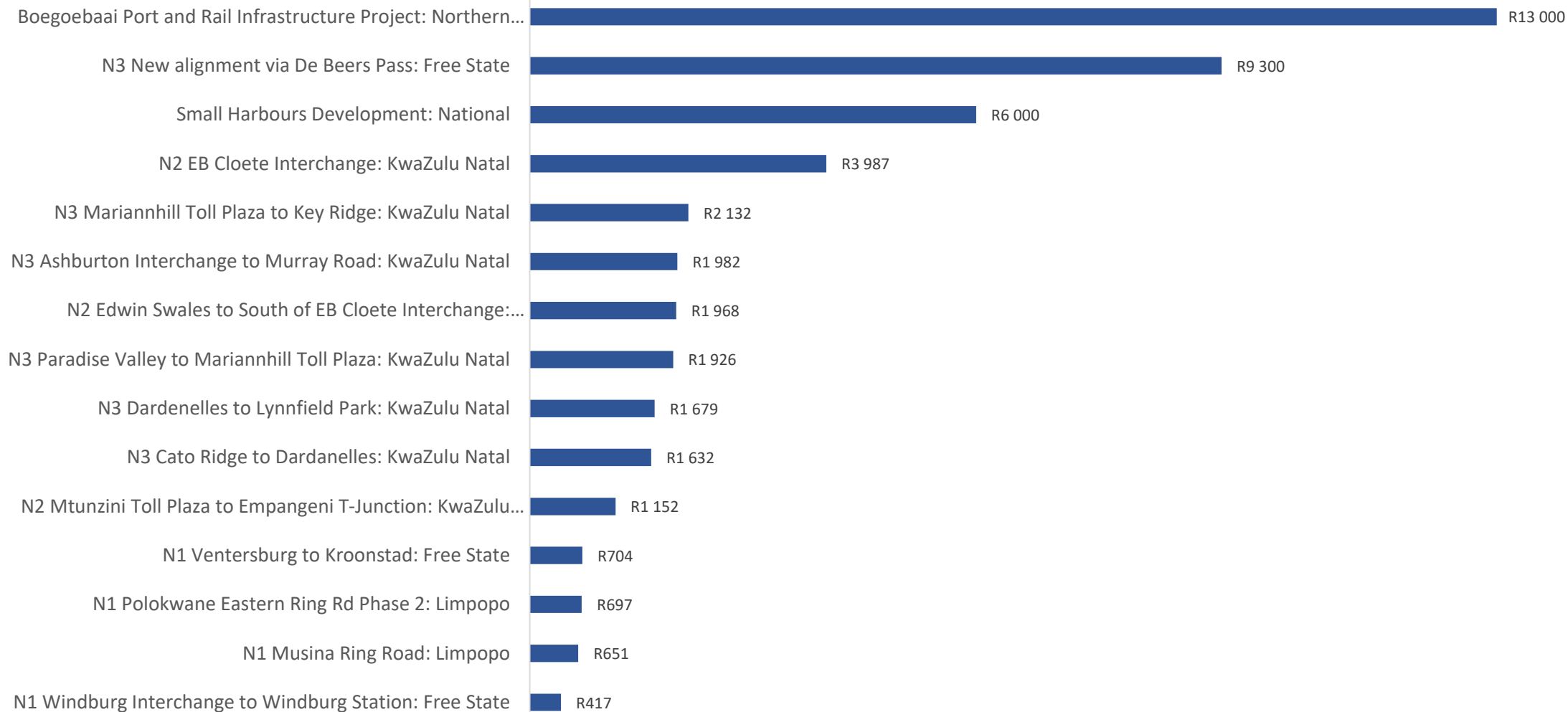
Water and Sanitation: SIP 19





SECTORAL ALLOCATION

Transport



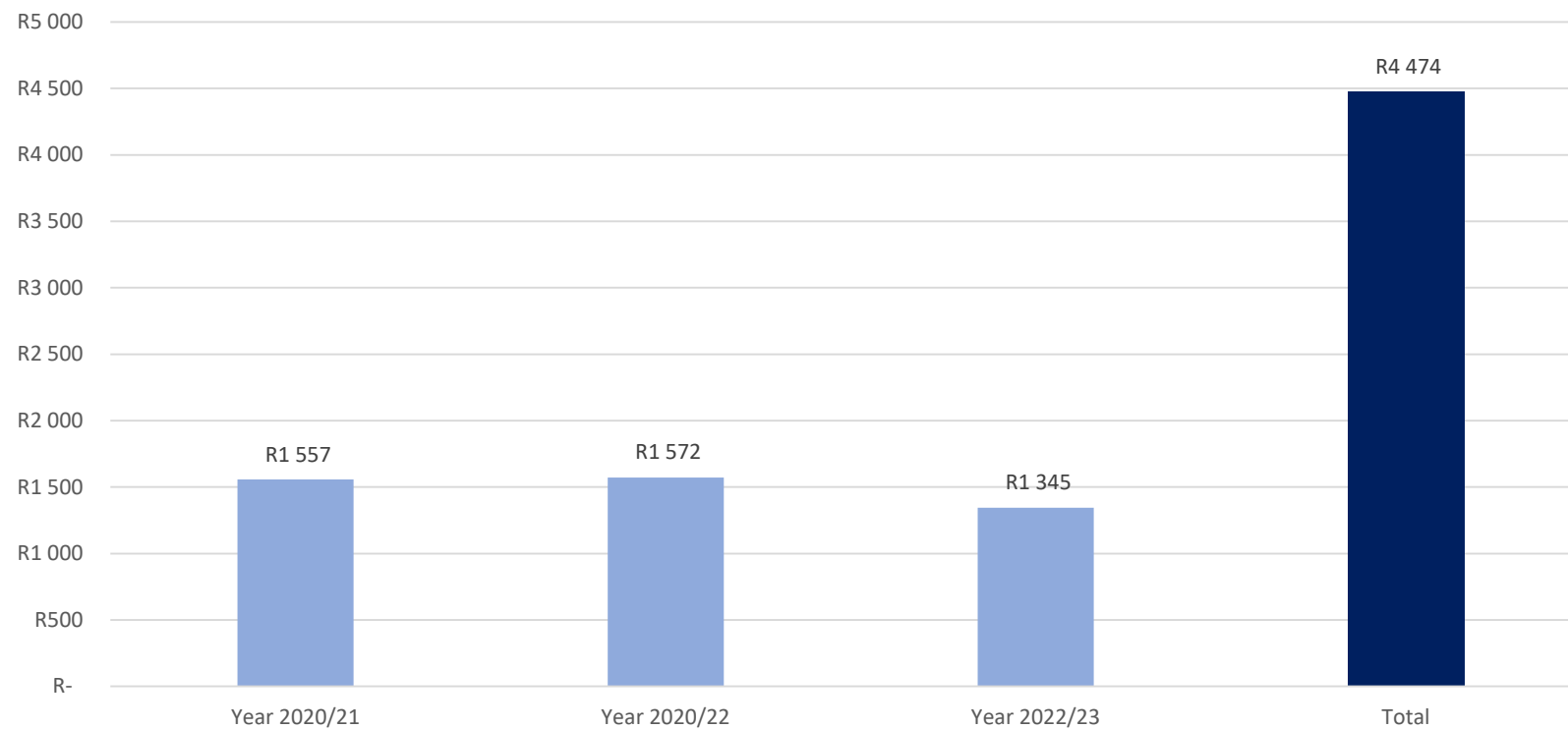


SECTORAL ALLOCATION

Digital: SIP 22

Require Policy/Regulatory decision/resolution

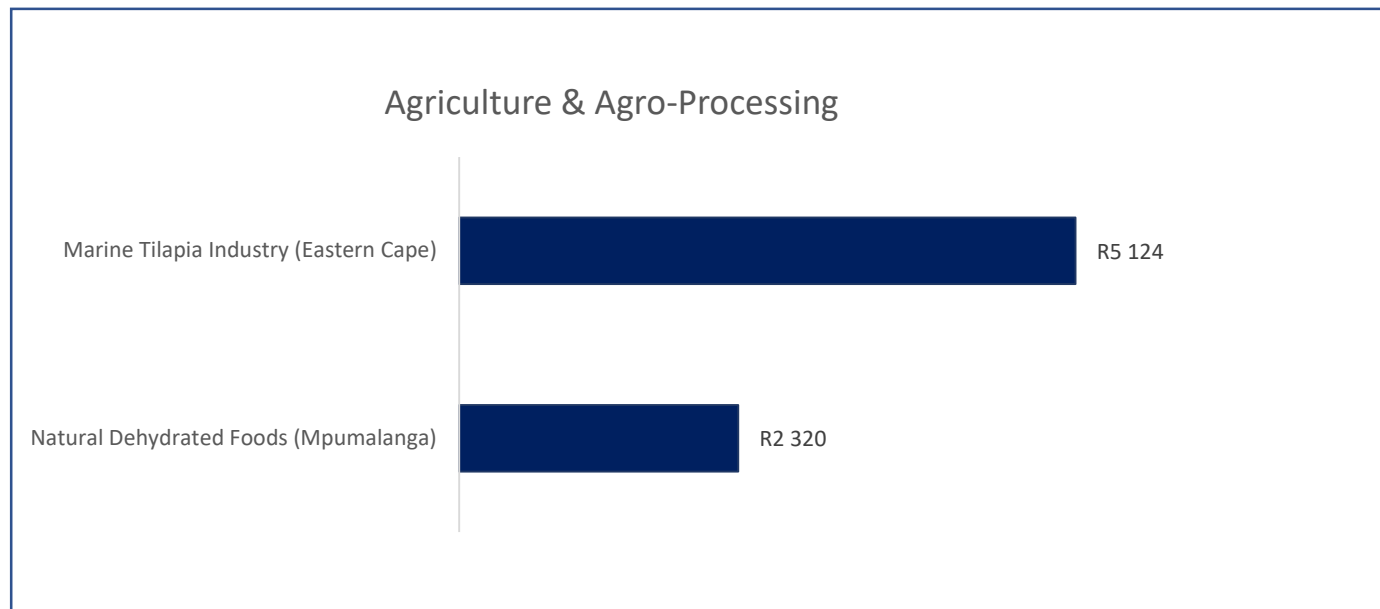
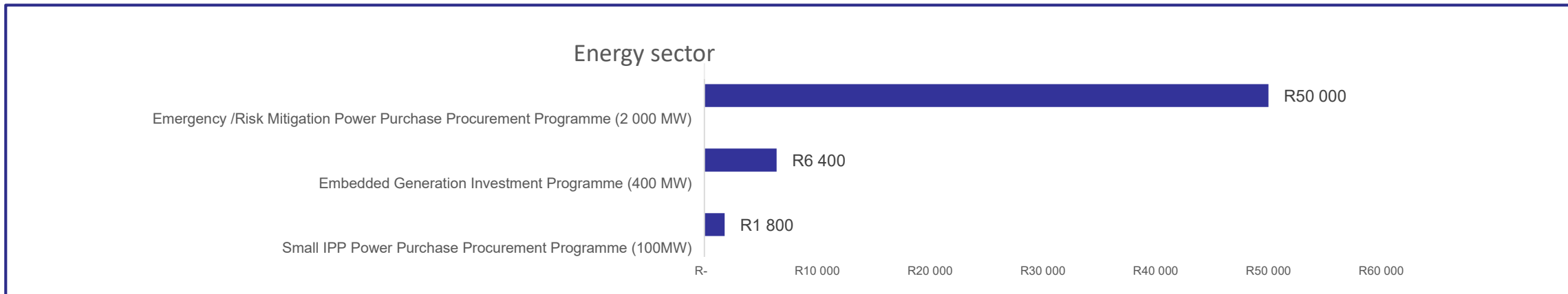
SANSA Project Break down per annum





SECTORAL ALLOCATION

Energy: SIP 20 and Agriculture & Agro-processing: SIP 23

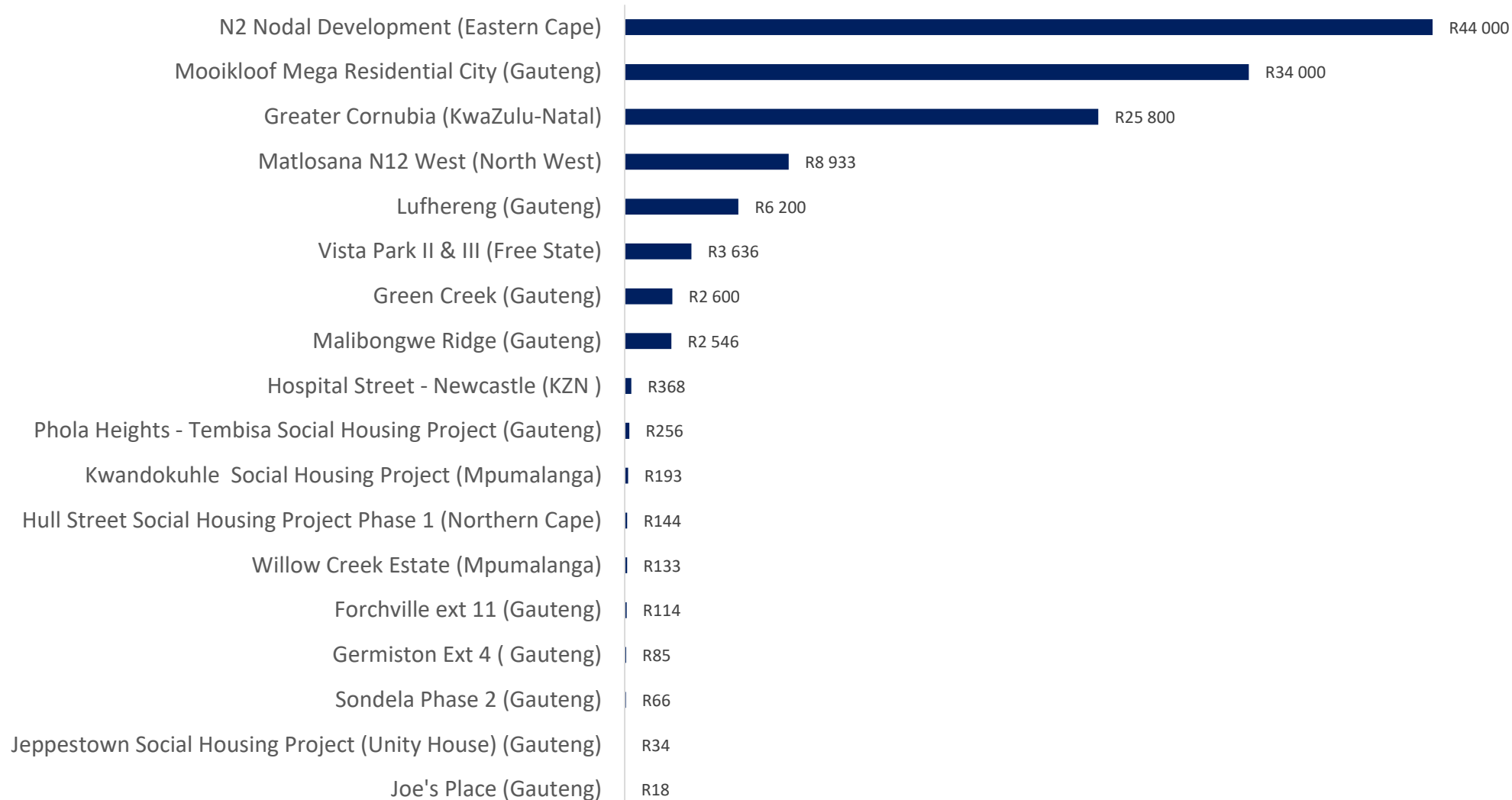




SECTORAL ALLOCATION

Human Settlements: SIP 24

Project Breakdown





SPECIAL PROGRAMMES GAZETTED AS SIPs

Rand Value:

Jobs (Construction & Operations): 294 000

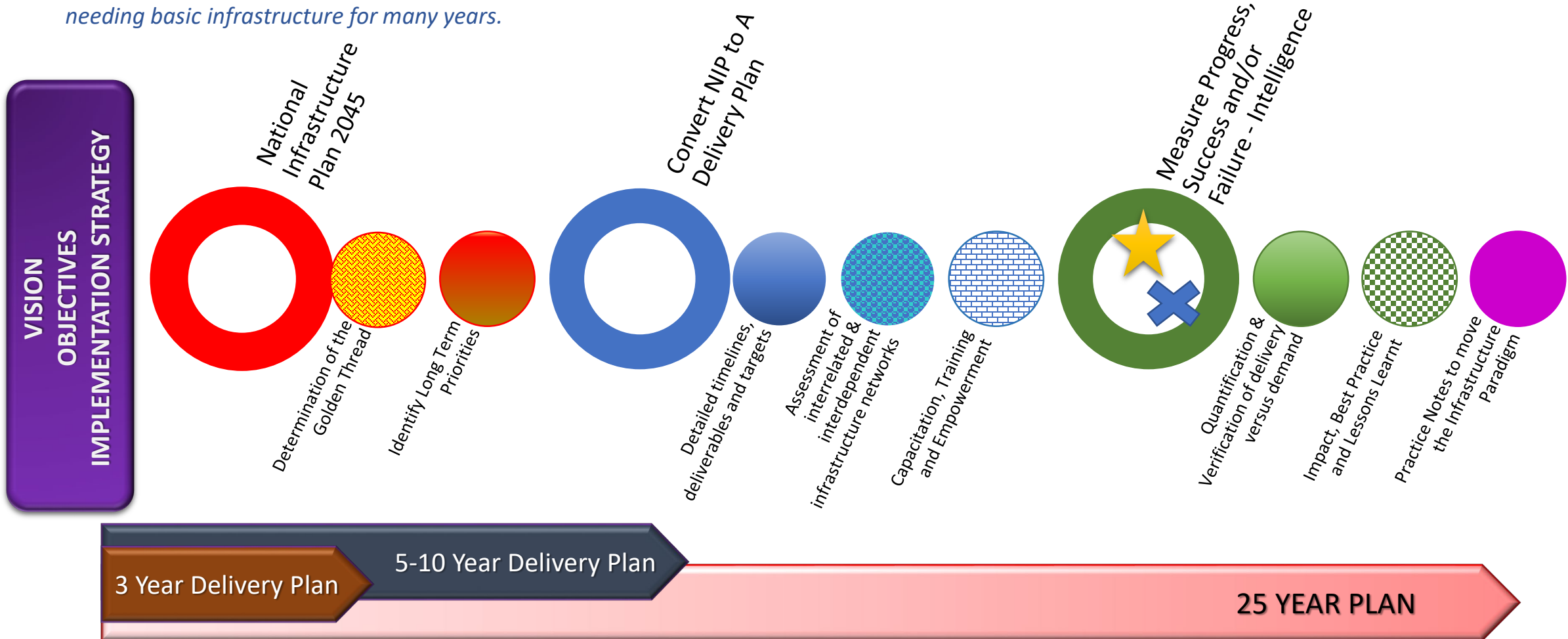
- SIP 25** Rural Bridges 'Welisizwe' Programme (first deployment: Eastern Cape, Kwa-Zulu Natal and Free State)
- SIP 26** Rural Roads Upgrade Programme (phase 1: Limpopo, Mpumalanga, Eastern Cape, KZN and North West)
- SIP 27** Upgrading and Repair of Township Roads in Municipalities
- SIP 28** PV and Water Savings on Government Buildings Programme
- SIP 29** Comprehensive Urban Management Programme
- SIP 30** Digitising of Government Information
- SIP 31** Innovative Building Materials and Removal of Alien Vegetation
- SIP 32** National Upgrading Support Programme
- SIP 33** Solar Water Initiatives
- SIP 34** Student Accommodation
- SIP 35** SA Connect
- SIP 36** Salvokop Precinct



National Infrastructure Plan 2045

Process

The **Infrastructure Vision, Objectives and Implementation Strategy for South Africa** is to be determined and set up front. This will then ensure both stability and consistency in the planning, investment, implementation and maintenance of infrastructure in the short, medium and long term. It will also restore the confidence of the private sector and the construction industry. The Vision will further bring certainty to communities who have been needing basic infrastructure for many years.





INFRASTRUCTURE FINANCING



Strategic Partners and Engagements

The Inclusive South African Journey continues with our International Partners



DBSA
DEVELOPMENT BANK OF SOUTHERN AFRICA
Building Africa's Prosperity

TRANSNET

TCTA
A new word for water

SANRAL
SOUTH AFRICAN NATIONAL ROADS AGENCY SOCIETY LTD

SARAO
South African Radio Astronomy Observatory

LAND BANK
We stand by you

sansa
SOUTH AFRICAN NATIONAL SPACE AGENCY

IDC
Industrial Development Corporation

SALGA
SOUTH AFRICAN LOCAL GOVERNMENT ASSOCIATION
Inspiring service delivery

Broadband Infraco

AFRICAN DEVELOPMENT BANK GROUP

IFC
International Finance Corporation
WORLD BANK GROUP

KfW
Bank aus Verantwortung

New Development Bank

European Investment Bank

AFD
AGENCE FRANÇAISE DE DÉVELOPPEMENT

JICA
Japan International Cooperation Agency

THE WORLD BANK

UNITED STATES OF AMERICA EMBASSY

Embassy of the United Arab Emirates

FRENCH SOUTH AFRICAN CHAMBER OF COMMERCE

WAH KONG ENTERPRISES LTD

D-Fund
中非发展基金
China-Africa Development Fund

国家开发银行
CHINA DEVELOPMENT BANK

EDC
Export Development Canada
Exportation et développement Canada

AFREXIMBANK

AFC
AFRICA FINANCE CORPORATION

BSA
BUSINESS FOR SA | COVID-19

LEFIKA SECURITIES
Member of the JSE Limited

FTTX COUNCIL

Black Asset Managers

absa

Standard Bank

NEDBANK

RMB

Investec

Ninety One

STANLIB
STANLIB KHANYISA
Impact Investment Fund

PPGI

THE BANKING ASSOCIATION SOUTH AFRICA

BUSA
BUSINESS UNITY SOUTH AFRICA

AGRI SA

CESA
Consulting Engineers South Africa

ASISA

BLACK BUSINESS COUNCIL



Infrastructure Fund

Unlocking private sector investment for public sector infrastructure programmes

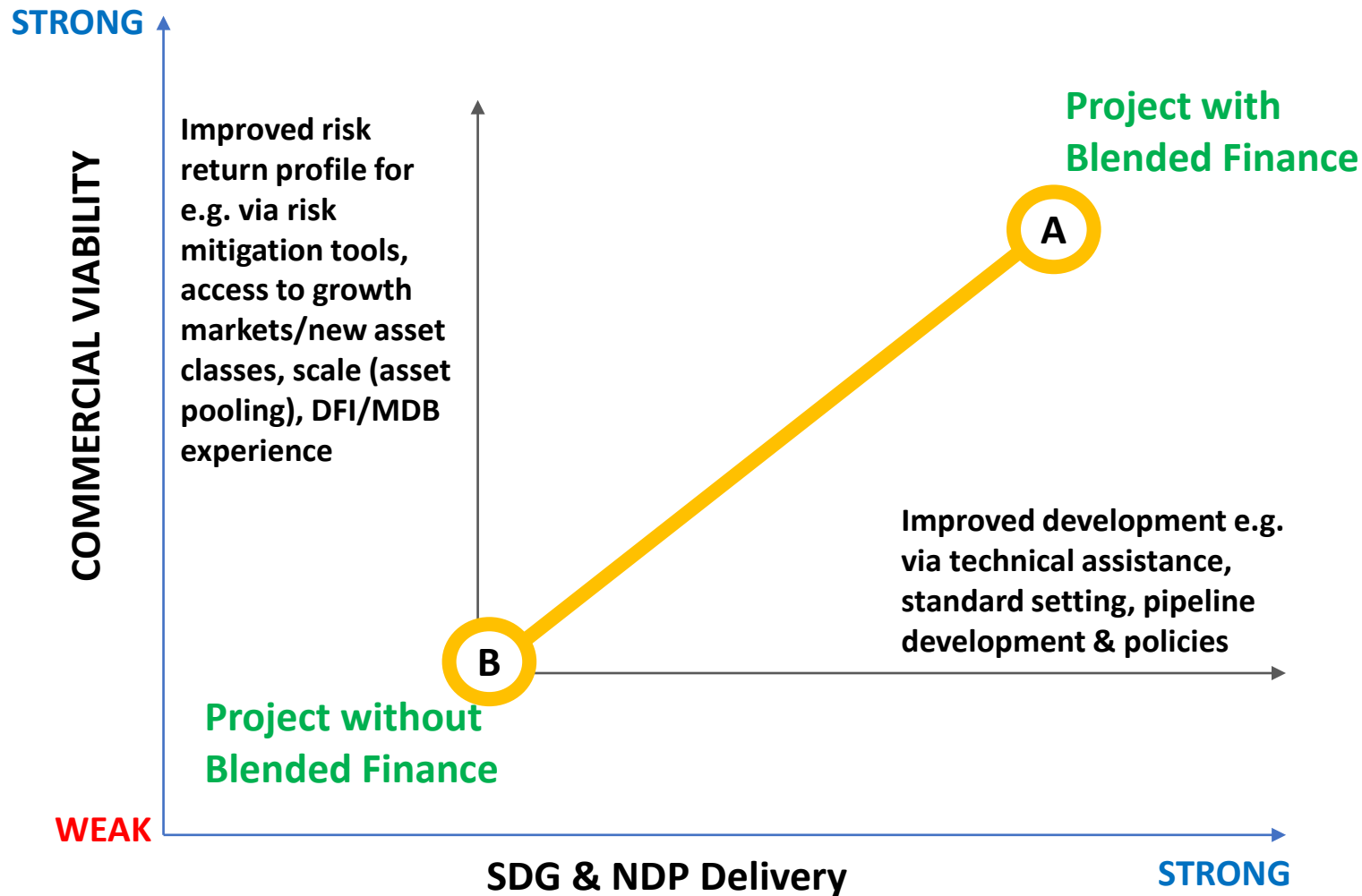
- ❑ Memorandum of Agreements signed by National Treasury, DBSA and Infrastructure South Africa
- ❑ R100 billion over the next 10 years
- ❑ Private sector participation





Blended Finance to drive the NDP Targets

Including Global Goals such as the SDGs & AU2063 Agenda for South Africa



Blended finance involves unlocking economic and social infrastructure through (i) the use of different financial instruments (e.g. a mix of senior debt and subordinated debt) and/or (ii) structuring financial instruments, with different cost of funding rates such that when these are blended together, they result in a lower average cost of funding.

Blended finance structures can be implemented in order to facilitate the participation of lenders in:

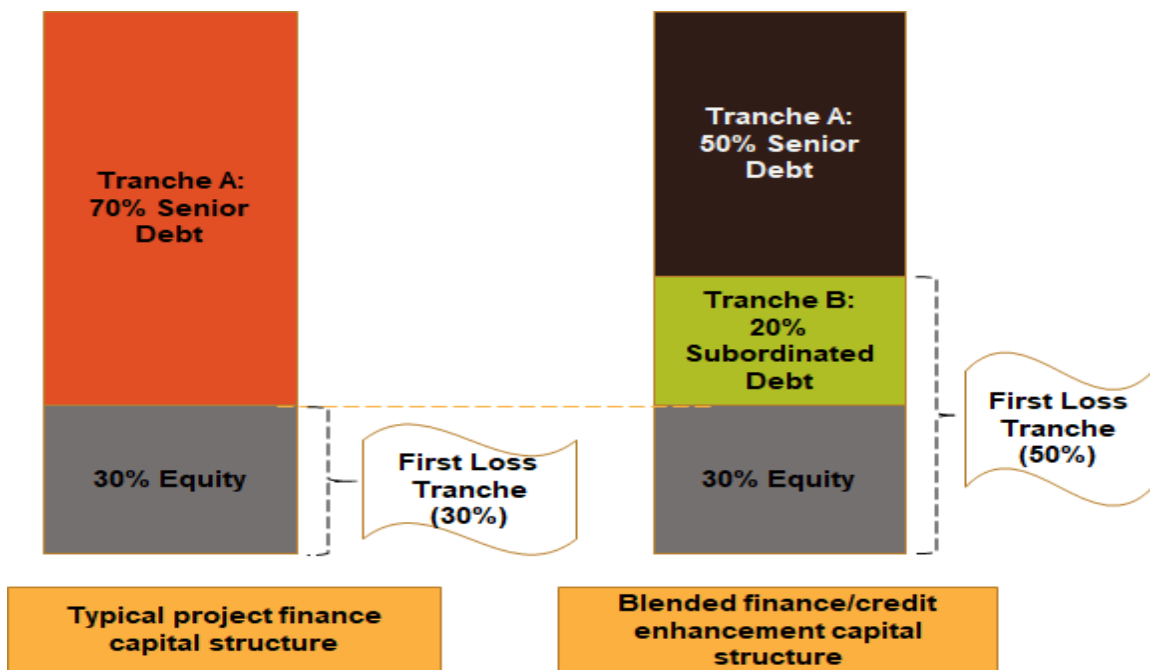
- Social infrastructure projects; Infrastructure projects with some level of market risk exposure (e.g. lack of off-take arrangements); and
- Infrastructure projects with inadequate cash flows (e.g. low debt service cover ratios) to attract the requisite funding.



Illustration of a Traditional to a Blended Capital Structure

Innovative finance capital structure for Infrastructure investments in South Africa

Typical Project Finance Capital Structure	Blended Finance Capital Structure
CAPITAL STRUCTURE (ILLUSTRATION)	
<ul style="list-style-type: none">70% (senior debt):30% (equity)	<ul style="list-style-type: none">50% (senior debt):20% (subordinated debt):30% (equity)



Some Structures include:

- ❖ Interest rate subsidy instruments
- ❖ Capital Grants
- ❖ Debt tranching (incl. First loss facilities)



Financing Instruments and Mechanisms

To Unlock Infrastructure



Examples

Project Bonds

Performance Bonds/
Construction Guarantee
Instruments

B-BBEE
Funding

Green
Infrastructure
Bonds

Project
Preparation
Funding

Advantages...

Advantages over commercial bank loan financing incl. **longer tenors & Access to a More Diverse Pool of Investors** (e.g. pension funds)

It provide green jobs and provide climate resiliency. **Advantages include securing significant funding at concessional cost of funding.** Allowing institutional investors and green climate funds access to sustainable investments.

Transform the construction industry through the increased participation of BEE contractors, performance bonds products targeting BEE O&M and EPC contractors

Well prepared projects are necessary to reach a bankable stage and to be successfully implemented. **The costs for preparation range between 1% to 4% of the total project cost and can further increase from 12% to 15% for mega infrastructure projects.** A Preparation roundtable to attract investors will be conducted

The use of blended finance instruments for example through **the optimization of concessional funding, inclusive of grant funding, and BEE warehousing structures.**



Next Steps



Implementation of the Infrastructure Investment Plan

Next steps

- ❑ Operationalisation of the Infrastructure Fund has been achieved.
- ❑ Development of the National Infrastructure Plan is work in progress
- ❑ Oversight and monitoring of the implementation of the Strategic Integrated Projects
 - SIP Coordinating committee has been established
- ❑ Development of robust and credible infrastructure pipeline. First phase complete.
- ❑ Investor roadshows to mobilise financing for infrastructure projects is ongoing.
- ❑ Advertise for Technical Advisory Committee is work in progress
- ❑ Developed a Social Facilitation Methodology.
- ❑ Establishment of Infrastructure South Africa is work in progress.
- ❑ Process for Green Infrastructure Bonds – is work in progress.
- ❑ Quarterly report to Cabinet to be presented to October 2020.