Infrastructure in South Africa: Opportunities and Constraints for Economic Growth

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Infrastructure is widely recognised as a key factor for economic growth. It enables economic growth by providing the required networks for the distribution of goods and services, as well as being a source of growth through its value addition to gross domestic product (GDP) and jobs during its construction and implementation phase. Thus, infrastructure investment provides a unique opportunity to tackle multiple developmental and economic challenges at the same time. However, if only it was that easy. Across the world, including South Africa (SA), there seems to be a chronic gap between infrastructure needs and investment in infrastructure.

Infrastructure as an opportunity for supporting economic growth

Infrastructure investment has been identified as a key driver for economic growth and development in SA. Infrastructure implementation provides an opportunity to, amongst others:

- Improve social service delivery (health, education, security and housing)
- Reshape the apartheid spatial economy
- Transform agriculture
- Support the export market
- Promote backward and forward linkages across sectors
- Exploit fourth industrial revolution (4IR) opportunities to build firms and industries of the future
- Address climate change

The importance of infrastructure investment has been highlighted in the country's various development strategies, in particular the New Growth Path and the National Development Plan. In addition, various structures and a legal framework for supporting infrastructure implementation have been put in place. In 2011, the Presidential Infrastructure Coordinating Commission (PICC) was established to "ensure a more strategic and coordinated response to infrastructure prioritisation, implementation and funding". In 2014, the Infrastructure Development Act 2014 (Act no 23 of 2014) was passed codifying the PICC, National Infrastructure Plan and the use of the Strategic Integrated Projects (SIPs) as a mechanism for catalysing the infrastructure rollout process. All the above was underpinned by a systematic process of identifying the country's infrastructure needs and the key drivers for improving success.

There is, therefore, a clear sense of the benefits of infrastructure, certain priorities have been set as well as implementation mechanisms put in place. The challenge is how to translate these measures into positive outcomes.

Constraints to infrastructure development

As indicated above, one of the challenges that is constantly highlighted is the gap between infrastructure needs and investment in infrastructure. Part of the challenge is the gap between the aggregate quantum of infrastructure need and the quantum of available funding. Is there sufficient funding to meet all the infrastructure needs? A second challenge is the distribution of funding with respect to which institutions hold that funding and where in the infrastructure investment value chain they can allocate their funding, given their mandates and risk appetite. For example, financiers often complain that they cannot find bankable projects. There is a lack of sufficient funding to undertake feasibility studies in order to convert project concepts into bankable projects. A third challenge is planning and implementation capacity, as demonstrated by the recent figures that local governments are unable to spend significant amounts of their allocated infrastructure budgets. Fourth, there are a range of political economy issues that create impediments to effective and efficient investment in infrastructure. For example:

- SA's public and private sectors are not in agreement regarding their respective roles in contributing towards SA's infrastructure needs. In addition, the current implementation framework (i.e. Infrastructure Act, PICC, SIPs, etc.) with its state focus, seems to sidestep this issue of how the two sectors should partner.
- How to deal with winners and losers as exemplified by challenges with the implementation of Bus Rapid Transport (BRT) systems in various metropolitan areas.
- Should we adopt the user-pay principle, and if so under what circumstances?
- How to deal with affordability issues.

Harnessing infrastructure to support economic growth

There is an urgent need to look at ways to improve SA's infrastructure implementation in support of economic growth. A lot of work has been done to assess the country's infrastructure needs. What is required is to determine what successes have been achieved and what the root causes are for the failures encountered. Furthermore, consideration needs to be given to how the various stakeholders involved in the infrastructure investment and implementation value chain in South Africa can better coordinate, share information, and come up with innovative ideas to significantly reduce the infrastructure funding gap. Building the state's capacity to plan and implement infrastructure projects, including mechanisms for tackling the political economy issues identified above is essential. Large infrastructure projects have in the past decade or so been riddled with corruption, design flaws, cost overruns and a waste of valuable resources (e.g. the building of World Cup 2020 stadiums, project implementation at Eskom, Transnet and PRASA); therefore, good governance of state-owned enterprises (SOEs) and infrastructure implementation projects is also critical. There are opportunities for funding through the Multi-lateral Development Banks, as well as other global bodies (e.g. the Global Commission on Economy and Climate), and these should be pursued, particularly with respect to using infrastructure investment to contribute towards a low-carbon growth trajectory. Contribution to employment, through the adoption of labour absorbing approaches, and supporting small and medium-sized enterprises (SMEs) throughout the life cycle of infrastructure projects (i.e. construction, maintenance and upgrading) is also important.