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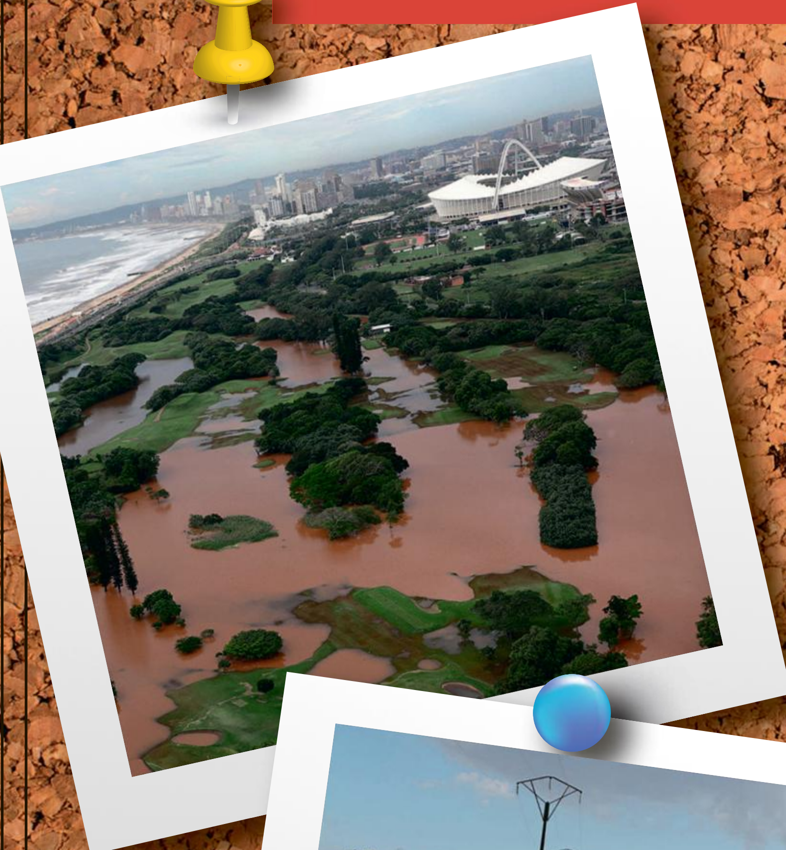


INFRASTRUCTURE FUND

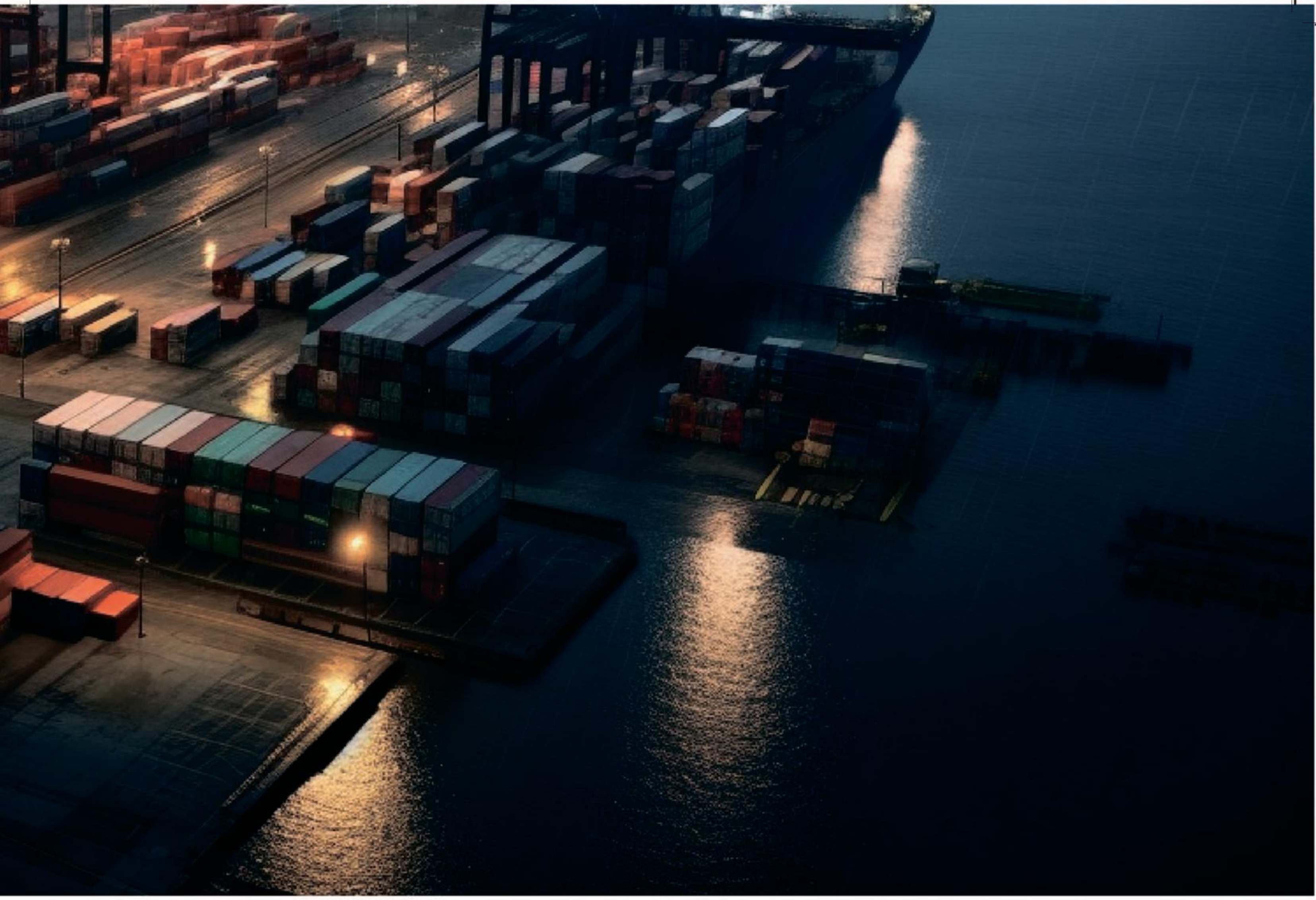
CRITICAL CROSSROADS FOR SA

Igniting a sustainable future that stimulates growth.

WHO WE ARE

The **Infrastructure Fund** is a catalyst for socio-economic growth and development in South Africa. The Infrastructure Fund uses blended financing solutions to attract private sector investment, stimulate infrastructure development, and accelerate the rate of infrastructure investment in the country. Its mandate is to transform government's approach to financing infrastructure projects, reducing fragmentation in infrastructure spending, and ensuring the efficient and effective use of government resources.

Together with its partners, the Infrastructure Fund conducts programme assurance activities to manage projects from planning to deal exit, igniting the creation of new assets that benefit the country. Through its work, the Infrastructure Fund aims to improve the quality and rate of infrastructure investment in South Africa, supporting the growth of businesses and communities.



OUR PARTNERS

The Infrastructure Fund's partners include Infrastructure South Africa, responsible for pipeline identification and programme eligibility criteria, the Development Bank of Southern Africa, which established the IF as a ring-fenced unit and funds 50% of the operational costs of the fund, and the National Treasury, which considers Budget Facility for Infrastructure submissions from the Infrastructure Fund and funds 50% of its operational costs. Together, these partners create a sustainable infrastructure development ecosystem to transform public infrastructure and improve the quality and rate of infrastructure investment in South Africa.

A crisis of confidence

There is significant appetite for infrastructure investment, but the risk issues must be addressed

● SA's infrastructure is under growing pressure, with the demand for services outstripping supply.

Public infrastructure is at particular risk of failure, is not coping with normal demand, and is poorly maintained, according to the South African Institution of Civil Engineering's (SAICE) 2022 Infrastructure Report Card.

The report notes that South Africans will be subjected to severe inconvenience and even danger without prompt action.

The country's economic infrastructure – with the exception of energy generation – remains in a satisfactory condition, says the report. But social infrastructure, which includes water, sanitation, hospitals, schools and public transport, has degraded significantly since the publication of the last report.

Commenting on this deterioration, the report says: "Crime and nonpayment for services as well as weak institutions lacking appropriate skills and accurate data have contributed towards a further decline in the overall condition of infrastructure since the last SAICE Infrastructure Report Card published in 2017."

Capital investment in public infrastructure continues its downward trajectory. Though the National Development Plan has set a target of 30% of GDP to be invested in infrastructure, in 2020 this figure was only 13.7%, two-thirds of which was from the private sector. The National Treasury has previously said the public sector needs to increase its investment to 10% of GDP.

The state's budget allocation to infrastructure, however, is constrained by weak economic growth.

"The dilemma facing the government is the affordability of new infrastructure projects in an economy that is not growing vs the challenge of fixing existing infrastructure," says Chris Campbell, CEO of Consulting Engineers South Africa (Cesa).

Persistent underspending of infrastructure budgets at a municipal and provincial level deepens the problem. "Ironically, infrastructure allocations frequently go unspent, with the result that the allocation is returned to the Treasury," says Campbell.

He attributes this underspending to the scarcity of skilled public sector engineering practitioners and insufficient leveraging of private sector capacity, likely borne out of the trust deficit between public and private sectors.

Public sector expertise, says Campbell, can be commissioned to serve as "owner engineers" where there are capacity constraints to get project business cases in place and assist with the technical input required for the bid processes for the appointment of "implementing engineers", defined as the design engineering teams required for the design and site supervision of appointed construction companies.

"Each of these parties should act independently of the other," says Campbell, adding that any evidence of corruption in these processes would have to be swiftly and harshly addressed so as not to destroy the professional trust that needs to accompany this process.

Campbell says while there has been some acknowledgment at national government level that the public sector is facing severe capacity constraints, there is less acknowledgment at some provincial and municipal levels, which still wrongfully assume that there's sufficiently experienced capacity within their respective entities.

It's a cruel irony that infrastructure allocations frequently go unspent, with the result that the allocation is returned to the Treasury

Chris Campbell, CEO of Consulting Engineers South Africa

There are exceptions, however, he says, including the City of Cape Town, the Free State department of public works & infrastructure and the Northern Cape department of public works & transport, to name a few.

At local government level there is a pilot project to pool expertise through what is known as the district development model. Campbell says the model is a good strategy to address the continued skills shortages, particularly in rural municipalities.

The public sector's lack of capacity to even appoint service providers is having a knock-on effect on service delivery. Overly onerous and highly bureaucratic procurement processes tend to lose sight of the strategic objectives of the entire process, says Campbell.

"If we could fast-track these procurement processes, without ignoring the governance element, we could be making stronger inroads into developing the infrastructure required for economic growth and alleviating high unemployment."

Campbell has long argued that a failure to appropriately maintain critical infrastructure is one of the biggest problems in the infrastructure space. He is not alone in this assessment: SAICE says maintenance neglect is the most persistent problem encountered in all four of its infrastructure report cards to date.

Eskom's high levels of load-shedding are frequently blamed on the country's ageing fleet of coal-fired power stations. However, as Campbell points out, a failure to conduct regular maintenance over a long period is more to blame than just the age of the

power stations.

This is borne out by Eskom's own energy availability factor (EAF) data, which reveals that breakdowns don't always correspond with the age of the power station, with newer power stations, including Kusile and Medupi, typically performing worse than some of the older power stations.

Worsening low levels of energy availability from the new power stations are inherent design flaws.

"Whether any party has been – or will be – held to account for these design flaws remains to be seen," says Campbell.

"As far back as 2008, the Construction Industry Development Board was party to advising on the need for maintenance. However, that guidance was ignored," says Campbell, adding that a lifecycle ownership perspective needs to be applied for all public infrastructure for its entire designed lifespan.

SAICE's Infrastructure Report Card agrees, pointing out that infrastructure that is built to last 30 years or more must be maintained for its entire lifetime.

The report's authors say it is imperative that sufficient resources are allocated to operation and maintenance, which is of a much longer duration than for the initial construction.

A Critical Infrastructure Protection Act was promulgated in 2019 to ensure that public asset owners took reasonable measures to protect critical public infrastructure assets from vandalism, sabotage and theft.

But despite the existence of this act, says Campbell, criminality and vandalism of our existing infrastructure has become the norm and offenders, either as part of organised criminal activities or as delinquent public asset owners, are not being brought to book.

"Cable theft is ongoing, steel components from pylons supporting high tension electrical transmission cables, as has happened on the West Rand in Gauteng and in the Tshwane area most recently, are removed, causing the failure of a series of these support structures," says Campbell.

"Our railway network and operations remain a challenge, including restoring the infrastructure that was pillaged before and during the Covid pandemic as well as acts of sabotage which continue to plague the operations of the railway entity."

The unintended consequence of the unreliability of rail, he says, has been a spike in long-distance road haulage, which not only shortens the lifespan of road infrastructure not designed for such frequent heavy road traffic volumes, but also the rate of catastrophic road accidents.

An appetite for investment in the right environment

The Association for Savings & investment South Africa (Asisa) estimates there is about R1-trillion available via its membership for investment into infrastructure.

However, though there is significant appetite for infrastructure investment, the risk issues and political uncertainty need to be addressed before this investment will be realised, says Campbell.

"Institutional investors need to ensure their investments are secure and that their investors' money is not at risk," he says. "They will want the assurance that their money is not at risk of corruption and that when criminality occurs, those responsible are brought to book."

To date, only 40% of investments pledged between 2018 and 2022 at SA's annual investment conference have actually been invested. Much of what has been invested to date is effectively replacement investments such as own generation capacity or maintenance rather than projects aimed at expanding the economy.

"Investment pledges are one thing, but investors have to be comfortable that they will receive a return on their investment before they actually make the investment," says Campbell.

Poor levels of business confidence as a result of persistently high levels of load-shedding, logistics challenges at local ports and in the rail sector, and ongoing concerns about safety at construction sites are just some of the reasons for declining rates of fixed investment.

The mining sector has been one of the biggest losers when it comes to new investments, despite a recent commodity boom that saw metals and minerals prices reach record highs. The Minerals Council of South Africa estimates that mining operations have been running at 20%-30% below capacity as a result of load-shedding, while poor transport logistics destroyed about R75bn of potential exports.

Investors say that onerous regulations are also holding projects back. The lack of an efficient digital mineral rights management system means lengthy delays of more than 300 days before prospecting and mineral rights applications are granted.

Campbell says that addressing these investor confidence issues would be a good start, followed by replacing cumbersome, bureaucratic processes that don't deliver value for money with appropriate procurement mechanisms that support the delivery of infrastructure as a strategic investment, whether economical or social.

"The government needs to have the political will to adequately address these challenges instead of constantly kicking the can down the road, hoping the situation will miraculously self-correct," he says. **x**

Solution to water needs

Private concessions provide great potential for solving the country's supply challenges

As much as the energy crisis has made headlines, South Africa may also be facing a looming water crisis. With rapid urbanisation, large cities are struggling to meet the growing need for water, but many smaller towns and rural areas are also facing significant water challenges.

Part of the problem, says Chito Siame, investment principal at Mergence Investment Managers, is that investment into water infrastructure has not matched the increase in demand. "Consider, for example, that Cape Town's population increased 79% between 2016 and 2021 but dam capacity in that same period increased only 15%."

Though South Africa is regarded as the 29th driest country in the world, it consumes an average of 237*l* of water per person a day, compared with the world average of 173*l*. Compounding the problem is that the country loses about 1.5-billion cubic metres of water a year due to faulty piping infrastructure.

There are signs that the government has started to heed the alarm bells. Water was singled out in both this year's state of the nation address and the national budget speech.

More recently, water & sanitation minister Senzo Mchunu mooted the idea of an independent producers programme for water, modelled on the successful Renewable Energy Independent Power Producers Procurement Programme (REIPPPP).

Siame says this is an encouraging sign as it signals a willingness on the part of the government to harness the power of the private sector and seek a collective solution to the water problem.

"What's needed is a holistic solution, and one that's driven by the government, which should drive alignment among local municipalities, national and provincial authorities. But it won't necessarily be easy," he says.

"The Municipal Finance Management Act (MFMA) No 56 of 2003 was enacted specifically to make public procurement at municipalities thorough. Strong political will is needed to develop and implement a public-private partnership (PPP) framework so that water supply and management can be done by means of private water concessions."


Silulumanzi water and waste water utility in Mbombela, Mpumalanga

Private water concessions

Proof that private water concessions through PPPs can work are two 30-year private water and sanitation concessions created in 1999, before the MFMA was enacted in 2003. These are the only two private water concessions in South Africa.

These concessions, says Siame, came about as the municipalities were struggling financially and could not expand their services. "In-house human resource capacity and the ability to source funding were issues, so the PPP route was considered the most efficient route forward."

The two PPPs, he says, were formed between the local municipality and the concessionaire, responsible for the operation, repairs and management of the infrastructure as well as the supply of water, which they either buy from the Water Board or obtain through the production of their own potable water.

The two concessionaires are Siza Water in Ballito, KwaZulu-Natal, and Silulumanzi in Mbombela, Mpumalanga. Mergence Investment Managers, an

institutional investment manager, acquired a majority stake in Siza Water and Silulumanzi in 2018 and is actively involved in their management via a special purpose vehicle, South African Water Works (SAWW).

Together, they serve more than 450,000 customers and manage more than 1,500km of pipeline and 900km of sewerage network. SAWW, through Siza Water, has commissioned one of South Africa's largest water recycling plants which recovers 2.7-million litres of potable quality water a day.

This is set to expand by a further 1-million litres a day in the next 12 months, reducing the draw on bulk water supply from rivers and dams by 30% a day.

They have made a positive impact both environmentally and socially, says Siame.

"In addition to a marked improvement in water quality and delivery to all communities, technical water losses at the SAWW concessions average 20% compared with a national average of 37%. This excludes the indigent communities where challenges remain," he says.

"Siza Water has achieved Green Drop certification, a measure of the holistic management of a sewer system, which is required to score more than 90% on all metrics to be accredited. Close to 40,000 of the 450,000 customers we serve are classified as indigent communities to whom we supply free basic water daily."

Siame says the groundwork for additional water concessions needs to be set with a comprehensive procurement programme stipulating the regulatory, technical and financial requirements, and incorporating the lessons learnt from successful and failed programmes in other markets.

"It's critical that the right expertise be harnessed from various national, provincial and municipal entities to design the programme," says Siame.

"As with the REIPPPP, corporates, entrepreneurs, commercial banks, institutional investors and advisers will answer the call and, through competition, will drive down prices if the rules of engagement are well defined and the programme has a long-term horizon.".

There is no question that significant investment is required to kick-start the process.

Siame says Mergence has already started to engage development finance institutions regarding the initial investment and to de-risk projects to enable other players to step into a more mature market later.

But he warns that investors in water infrastructure will see returns only several years after the initial investment. "This is inherent in infrastructure programmes where typically the bulk of the capital needs to be deployed upfront to build or refurbish the infrastructure before revenues start flowing.",

Siame says investors therefore need a predictable, long-term investment framework to commit the necessary capital.

He say the success of these two private water concessions highlights the potential of these kinds of initiatives. It also illustrates why pension funds should seriously consider taking advantage of the recent changes to regulation 28 of the Pension Funds Act, which allows increased investment in infrastructure.

"Investments of this nature can contribute towards both the financial security of their members and bolster the prospects of members retiring into communities where key infrastructure such as water, electricity, connectivity and educational institutions for their children and grandchildren are available and highly functional," he says. x

Water losses at the SAWW concessions average 20% compared with a national average of 37%

Chito Siame, investment principal at Mergence Investment Managers

Some light at end of tunnel

Private sector investment can help solve SA's energy crisis, but ideology and bureaucracy pose a challenge

Eskom's inability to supply sufficient amounts of energy is having an impact on nearly every aspect of the economy, with load-shedding costing the country an estimated R899m a day at stage 6, making it virtually impossible to address record high levels of unemployment. The South African Reserve Bank predicts load-shedding will cut 2% off GDP growth this year.

Bid window 7 of the country's Renewable Energy Independent Power Producer Procurement Programme is scheduled to open in June and aims to procure more than 9,000MW of generation and energy storage capacity.

This bid window will do nothing to alleviate the higher levels of load-shedding expected this winter. Recently appointed electricity minister Kgosientsho Ramokgopa has suggested it could possibly reach stage 7 and 8.

While there is little expectation that Eskom will be turned around any time soon, it's starting to look increasingly likely that the energy crisis will, over time, be resolved by private sector investment in renewables.

Not only have imports of batteries and solar panels increased exponentially in recent years, but a number of companies have announced renewable energy projects.

Anglo American, for example, announced a renewable energy partnership with EDF Renewables in 2022 to develop a regional renewable energy ecosystem. The first phase of the partnership will see the launch of 600MW of wind and solar projects.

By 2030, Anglo American expects its ecosystem to be generating up to 5GW of renewable energy as part of its bid to take its operations off-grid.

Sibanye-Stillwater plans to introduce 175MW of renewable energy across its platinum group metals operations via three solar PV projects. Harmony Gold, Gold Fields and Impala Platinum also all have plans to construct solar PV plants.

Combined, the mining industry's renewable energy projects in the next decade are predicted to be worth about R160bn, adding more than 9GW of energy to the national grid.

Eskom's load-shedding is predicted to cut 2% off GDP growth this year

Fitch Solutions, a financial risk management, solutions and insights company, says mining companies will increasingly be directing their capital expenditure at renewable energy projects.

The private sector is also stepping into the breach in other ways. It was recently reported that financial services group Investec will provide generator power to ensure the continuous operation of traffic lights at intersections near its Sandton offices during load-shedding.

In 1998, the government released a white paper outlining a plan to unbundle Eskom and transition to a democratised energy sector where independent power producers would be able to make renewable energy available to the grid via a bidding process.

This model, says Matthew Cruise, head of business intelligence and PR at solar provider Hohm Energy, is used in almost every developed country.

"It works because it promotes competition which, in turn, encourages excellence," he says.

"In South Africa, however, rather than democratising the energy sector, we've seen it being further monopolised by Eskom. Renewable energy bid windows have opened up only sporadically and, outside these limited windows, no other independent power producer operators have been allowed to provide power to the grid as no generating licences have been approved."

Given the state of Eskom's power stations and the limited generation capacity that will be coming online over the next three years, Cruise expects the severity of load-shedding to double over the next five years.

Rather than democratising the energy sector, we've seen it being further monopolised by Eskom

Matthew Cruise, head of PR and business intelligence at Hohm Energy

Cruise says demand for solar installations has risen dramatically in recent years as consumers and businesses try to lessen their reliance on Eskom. Quality solar installers, he says, are struggling to meet demand.

Earlier this year, the government announced a tax incentive scheme on the acquisition of solar panels for households and businesses. Critics have argued the household incentive scheme is insufficient.

Government-driven solar PV incentive schemes can work if they are correctly modelled, says Cruise.

"In 2020, the government of Vietnam incentivised citizens to install rooftop solar PV en masse. The incentive included a feed-in tariff for solar power that was priced at above the market price of electricity at the time. This resulted in about 9,000MW of solar installed in six months.

"In South Africa, 9,000MW is equal to nine stages of load-shedding, so a similar incentive scheme could have a significant impact if rolled out locally."

Despite calls by President Cyril Ramaphosa for private sector investment into renewable energy solutions, ideology and bureaucracy continue to pose a challenge to private sector investment.

This is particularly evident in the case of Rural Maintenance, a private company which has a long-term contract with the Mafube local municipality to manage and operate electricity distribution on its behalf.

The company used solar generation capacity from an embedded solar facility which is privately owned by farmers, businesses and local community members to supplement Eskom's supply and reduce load-shedding in the area.

Eskom argued that it cannot allow self load-shedding at the municipality as it would set a precedent for other Eskom customers. This is despite Rural Maintenance saying it had no impact on the national grid because it was downstream of Eskom's point of connection.

The high court case was dismissed because Mafube municipality refused to support Rural Maintenance's litigation.

"That Rural Maintenance's case appears doomed sets an unfortunate precedent as Eskom continues to prioritise its monopoly, revenue and short-term thinking instead of assisting communities to transition away from their reliance on the power utility," says Cruise.

He believes the government now has no choice but to unbundle Eskom and democratise the sector.

Just how much investor interest there will be in corruption-plagued Eskom, however, remains to be seen. ✖

OUR CURRENT INITIATIVES

HUMAN SETTLEMENTS:

IF and DHS signed an MoU on 09 March 2023. The MoU is for the IF to assist the DHS with project /programme packaging and financing of DHS programmes. Programmes include bulk infrastructure, social, affordable and mixed-use developments.

LEPELLE NORTHERN WATER:

We have a Memorandum of Agreement which is scheduled for signing on 21 April 2023.

BEITBRIDGE CONSTRUCTION

The DBSA 's involvement in the Transport Sector is a core Mandate of its establishment as an Infrastructure Bank operating in SADC and the continent.

OUR VALUE CHAIN

Investors 'on cusp of boom'

'Pension funds should cash in on the trillion-rand infrastructure investment opportunity'

Limited funding is inhibiting the government's ability to roll out infrastructure projects. In response, it has announced it would be pursuing partnerships with the private sector as well as global development agencies to enable faster progress.

It's estimated that more than R6-trillion will be required to deliver infrastructure that meets the development objectives of the National Infrastructure Plan 2050, with energy and transport accounting for most of this spend.

Vuyo Ntoi, co-MD of African Infrastructure Investment Managers (AIIM), a division of Old Mutual Alternative Investments, believes the South African investment community and pension funds, in particular, are sitting on the cusp of an infrastructure boom. He sees this as an excellent opportunity for diversifying portfolios and supports the development of critical infrastructure for the country.

He says pension funds should strongly consider the opportunity created by the government's ambitious investment drive.

"Under its Infrastructure South Africa programme, the government is committed to raising more than R1-trillion over the next five years. However, it is looking for more support from pension funds, which have been slow to invest in the country's infrastructure compared with similar pension fund participation in Europe and the US," he says.

According to the Organisation for Economic Co-operation & Development's 2022 report on long-term investing of large pension funds and public pension reserve funds, pension funds invested \$211.8bn in infrastructure in 2021.

Investing in alternative assets, such as infrastructure, private equity, hedge funds and real estate, can help diversify pension fund portfolios. Alternative assets make up only 8% of pension fund investments in South Africa now, compared with 18% in Europe and 24% in the US.

To make it easier for pension funds to invest, the National Treasury has amended regulation 28 of the Pension Funds Act which introduced a definition of infrastructure and set a limit of 45% for exposure to infrastructure investment.

While the overall allocation limit for alternative assets is capped at 27.5% under regulation 28, pension funds are free to invest in a range of asset types, including bonds and listed and unlisted entities.

"Though there is no specific infrastructure sector instrument, pension funds can invest in a range of asset types to diversify their portfolios," says Ntoi. "Not only will these investments help to create jobs and stimulate economic growth, but they will also improve the country's critical infrastructure, which will benefit all South Africans."

He believes the government is committed to working with the private sector to achieve its infrastructure goals, presenting "an incredible opportunity for investors".

South Africa's infrastructure backlog is substantial, culminating in a number of infrastructure crises for the country. The most visible of these is the electricity crisis. The Steel & Engineering Industries Federation of Southern Africa estimates that load-shedding has destroyed R2.64bn in investment and expansion plans of its members. The South African Reserve Bank says stage 3 load-shedding costs the economy about R204m a day, while stage 6 load-shedding costs it R899m a day.

Not only will these investments help to create jobs and stimulate economic growth, but they will improve the country's critical infrastructure

Vuyo Ntoi, co-MD of African Infrastructure Investment Managers

Load-shedding has a knock-on effect, impairing water delivery and distribution infrastructure, and causing a backlog in the development of new bulk water sources across the country. Much of the country's infrastructure is not fit for purpose.

"Some key institutions in the logistics sector are crumbling from an operational performance perspective as a result of poor maintenance of existing infrastructure and reduced or flawed investment in new capital stock. As a result, many businesses were not able to take full advantage of a commodity boom immediately before and after Covid," says Ntoi.

He says investment opportunities range from the development and construction of greenfield projects to investing in upgrades and refurbishing of brownfield projects.

"These assets are long-term good yield providers, and pension funds can participate either by buying debt through bank syndications, buying bonds that relate to a specific infrastructure project, or participating in private equity funds, publicly listed equity or listed infrastructure equity funds."

Taking advantage of this opportunity, Ntoi says, could drive a shift in the steady decline in investment in fixed capital by the government and private businesses since 2012, when the National Development Plan set targets for this measure, none of which have been met.

"The amendments of regulation 28 and the investment power of pension funds are critical to reverse the funding decline that has in part led to the crises we now face," he says. x

Fast-tracking project delivery

Infrastructure Fund plans to mobilise R1-trillion in investment by 2030 with blended finance solutions

South Africa urgently needs more investment in infrastructure to boost growth, but, there are numerous constraints impeding project delivery. Arguably, the biggest obstacle is a lack of technical capacity among project implementers which typically results in delays, cost overruns and poor project outcomes.

"Infrastructure projects often require specialised technical skills and expertise, including engineering, construction and project management," says Mohale Rakgate, the Infrastructure Fund's chief investment officer. "Even if the funding is in place, without the specialised technical skills and capacity at preparation stage, the project will fail."

Most projects in the infrastructure pipeline require a great deal of preparation, he says. "Proper development and preparation can take up to two years. The downside is that it slows down the rate of investment. The challenge in South Africa is that most project sponsors don't have the requisite capacity to adequately prepare and manage infrastructure projects.

"Given that project development, financing and implementation of public roles are legally designated for project owners, the result is that few projects are gaining momentum and that even approved funding for projects often remains unspent."

Long-term, large-scale infrastructure projects typically involve numerous stakeholders including local communities; national, provincial and local government; and private sector investors. Direction and co-ordination among these stakeholders can be challenging, says Rakgate, particularly when different priorities and perspectives come into play.

Beitbridge is one of the border ports being revamped in a public-private partnership spearheaded by the Infrastructure Fund

Similarly, political instability, social conflicts and community opposition, particularly when it involves land acquisition or displacement of local communities, can impede the process.

To fast-track infrastructure delivery, Rakgate says South Africa needs to urgently reform its project appraisal, preparation and financing approaches, including approving and committing public infrastructure funding in line with the tenure of loans.

"Blended finance projects are linked to the budget processes of funding commitments which are made over three-year medium-term expenditure framework cycles," he says. "Most capital projects have a lifespan of more than five years. When financing projects, both the construction as well as the operational periods are considered by the funding market."

The challenge is that the proposed period typically does not accommodate and address the most significant challenges of infrastructure implementation. To catalyse private sector and development finance, most debt instruments for capital projects are long-dated in nature, ranging from 10 to 20 years.

"We need reform to approve and commit public infrastructure funding in line with the tenure of loans," says Rakgate. "This will enhance credit transactions to attract potential lenders to participate in the market."

"We need the public and private sector to collaborate to address the skills gap and, where project owners don't have the capacity to implement and manage projects, work with capable government entities and the private sector to do so.

"At the same time, we need to increase investment in project preparation and ensure a dedicated focus on large, impactful socioeconomic projects with a blended finance orientation, improve intergovernmental co-ordination and planning, and implement public finance management reforms to facilitate more private sector investment in public sector projects."

Lack of capacity can mean that even approved funding for projects often remains unspent

Mohale Rakgate, chief investment officer at the Infrastructure Fund

Addressing infrastructure development constraints, says Flora Marutle-Simelane, head of the Infrastructure Fund's legal unit, requires a multifaceted approach.

This includes strengthening institutional capacity; improving planning and co-ordination among stakeholders; addressing regulatory and policy bottlenecks; and mobilising the private sector to become long-term project partners. Public-private partnerships and innovative financing models will activate private sector investment and increase the availability of funding.

Onerous bureaucratic procurement processes are often blamed for projects failing to get out of the starting blocks. But as

Infrastructure Fund executives, front row left to right: Flora Marutle-Simelane, head of legal; Tshiphiri Muedi, lead: infrastructure finance. Back row left to right: Pam Majola, operations specialist; Ahjeeth Dhruplal JaiJai, head of asset management and treasury; Mohale Rakgate, chief investment officer; Alan Ridgard, head of programme management; Misaveni Ngobeni, lead: programme management

Marutle-Simelane says, the public sector operates in a highly legislated and regulated environment as public funds are at play.

"Government procurement is a big business, which necessitates proper accountability and checks and balances. More scrutiny is placed on public procurement as it is the single main tool through which the government creates value and injects flows into the economy," she says.

"Procurement of goods , services and works is estimated at R1-trillion a year. By 2024/2025, spending on capital infrastructure projects is expected to reach about R300bn."

Encouragingly, there are reforms planned for the public-private partnership regime that would allow investments to be made faster than is now possible, she says.

Infrastructure Fund

In 2020, the government established the Infrastructure Fund, a ring-fenced initiative within the Development Bank of Southern Africa (DBSA), as part of its Economic Reconstruction & Recovery Plan.

The aim of the fund is to address the need for financing infrastructure projects by attracting private sector investments; reducing the fragmentation in infrastructure spend; ensuring more efficient use of state resources; and improving the speed of infrastructure delivery.

Its mandate is to alleviate pressure on the fiscus by providing blended finance solutions through mobilising financing from multilateral institutions, development finance institutions and the private sector. The fund also provides concessional financing to help infrastructure projects reach financial close and become operational.

The fund aims to secure up to R1-trillion in investment by 2030. Achieving this, says Rakgate, will make a significant contribution to increasing the country's fixed capital formation-to-GDP ratio from about 15% to 30%. The intention is to catalyse this investment in key network industries such as energy, transport, water, sanitation and digital infrastructure, while advancing social development in sectors such as health, education and human settlements.

Since its establishment nearly three years ago, the fund has concluded 11 agreements with other government entities and conducted numerous road shows with stakeholders including sponsors, financiers, multilateral institutions, development finance institutions and the private sector.

In the past two years it has packaged 13 mega-blended finance projects and programmes with a capital value of R57.7bn across several sectors. R21.7bn has been approved so far in various blended finance instruments out of the R100bn that has been provisionally allocated to the fund over a 10-year period.

Projects under construction include Hospital Street in Newcastle, KwaZulu-Natal, and Goodwood Station in Cape Town, which address the need for social housing for low-to-middle-income households.

Also under way is the Lufhereng mixed-used development project in Gauteng. which aims to provide 32,000 households in a variety of housing categories, 18 educational facilities, commercial developments such as retail, strip malls and filling stations, as well as parks, recreational sites, sports centres and even facilities for urban agriculture. The government has provided R3.4bn in bulk infrastructure to complement the R4.3bn from the City of Joburg.

Bulk water supply schemes and water resources development projects with a capital value of R36.7bn have been approved for blended finance support. Combined, the projects will deliver 381,395Ml of water a year. A student accommodation project, with a capital cost of R3bn, aims to deliver 9,500 beds once completed.

The fund is also involved in a public-private partnership model to redevelop six ports of entry. These include Beitbridge, Lebombo, Maseru Bridge, Kopfontein, Oshoek and Ficksburg Bridge.

Tshiphiri Muedi, head of the infrastructure finance unit, says private investors will be responsible for the design, construction, operation and financing of the redevelopment of these ports of entry. The upgrades are intended to reduce the delays at these border posts.

"We're working with various sponsors in all spheres of government to create a pipeline of new projects which meets the funding criteria and blended finance mandate," says Muedi.

"Overall, the Infrastructure Fund pipeline being prepared for submission to future blended finance investment windows consists of projects and programmes with a consolidated capital cost of R224.4bn."

Misaveni Ngobeni, programme management lead at the Infrastructure Fund, said: "A pipeline of diversified projects helps mitigate the risks associated with investing in a single project or sector because it includes a variety of projects with different risk profiles and returns, which can help reduce the overall risk of the investment portfolio."

"It provides a predictable and steady cash flow stream for investors, which is especially important for infrastructure projects that have long lifespans and require significant upfront investment. A confirmed project pipeline also helps investors to deploy their capital timeously and more efficiently and reduces the risk of missing out on investment opportunities." x

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