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Opinion & Analysis

State has to make sensible build choice

by Ramos Mabugu and Bongani Khumalo, July 21 2015

SA's RAPID urbanisation is testing the government's capacity to meet the growing demand for services. It already spends significant sums of money on public investment, but the outcomes fall short of expectations.

Infrastructure is ageing and badly maintained, while the capacity to implement new infrastructure projects is questionable. Municipalities and state-owned entities, which account for nearly 70% of all public investment in infrastructure, are failing to meet service delivery targets or to spend their budgets.

Increased infrastructure spending is seen as the solution to unlocking economic growth and reducing poverty and unemployment. It is central to the National Development Plan and the cornerstone of the government's economic policy.

Infrastructure investments are important because of their large multiplier effects on the economy. However, although public infrastructure investment can be a powerful lever for transforming public resources into assets that support growth and development, certain fiscal and structural challenges are impeding its effectiveness.

Lower-than-expected growth means less money is available for investing in infrastructure. The downward trend in infrastructure spending is forecast to continue for at least the next three years. In this light, the government urgently needs to get public infrastructure right, by providing the best value for money, prioritising investments that will have the greatest effect on growth and managing infrastructure projects more efficiently.

However, insufficient financial resources and a lack of capacity pose major obstacles. Infrastructure projects are multiyear commitments, that are difficult when the budget system has insufficient capacity to spend effectively, and institutional mechanisms to ensure accountability are lacking. Such complex projects create conditions for corruption when coupled with weak management and poor intergovernmental co-ordination. As a result of insufficient capacity and accountability, delays in project evaluation, oversight and implementation, and cost escalations are inevitable.

Recent research conducted by the Financial and Fiscal Commission found that increased capital spending on electricity, water and sanitation can spur economic growth. Extending the useful life of infrastructure also helps with long-term economic growth.

Although investing in new infrastructure is important, repairing and maintaining existing infrastructure may be more important. Maintenance can be deferred for some time without obvious signs of deterioration but before long, the asset's structural integrity declines quickly. This will negatively affect the sustainability of growth and jobs.

To close the "infrastructure gap" good co-ordination among spheres of government and improved capacity are needed. The establishment of the Presidential Infrastructure Co-ordinating Committee is a step in the right direction towards an integrated approach to policy, planning and delivery of infrastructure. The committee has developed SA’s first National Infrastructure Plan, which identifies infrastructure projects considered essential for promoting economic growth and supporting service delivery to the poor.

If SA is to meet the demands of rapid urbanisation, infrastructure plans must be sustainable and affordable, and procurement forms part of the project management process.

Infrastructure-led growth is possible but requires urgent action from the government. All spheres of government must commit to work together and to build capacity and, most important, to prioritise spending that will have the greatest effect on growth rather than "politically visible" spending. This means upgrading existing infrastructure and building infrastructure for electricity, transport, water and sanitation.

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