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South African province says regional infrastructure investment ‘more urgent than ever’

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South Africa’s Gauteng province is planning to spend more than 94 billion rand ($8bn) on social and economic infrastructure projects including public transport over the next three years.

Gauteng finance minister Barbara Creecy told a conference in Johannesburg on innovative infrastructure financing for South African municipalities: “Significant as this sum is, it will not be sufficient to meet all of our existing and future infrastructure needs.”

Creecy called on the public and private sector to work together in seeking alternative funding to accelerate infrastructure development. “We intend to put our global city-region on a new trajectory of integrated development and social and economic inclusion.”

“Redirecting scarce government resources towards infrastructure investment is more urgent than ever before, because such an investment will contribute to economic growth by lowering transaction costs, creation of jobs, concentrating economic activity, improving productive capacities of firms and households as well as creating economic linkages,” Creecy said.

“We had to look at other creative mechanisms including public private partnerships, build-operate-and-transfers, leasing and leaseback options to name a few. We have come to understand that these options are better suited to economic rather than social infrastructure investment,” Creecy said.

The provincial government has set up the ‘Gauteng infrastructure coordinating committee’, which looks for alternative funding for infrastructure through the Gauteng Infrastructure Financing Agency. The agency helps Gauteng city-region governments “develop bankable proposals and market them to the private sector”. Gauteng province contains Johannesburg as well as Pretoria, and industrial areas such as Midrand and Vanderbijlpark.

According to South African government data, Gauteng contributes more than 33% to the national economy and around 10% to the gross domestic product of the entire African continent. Guateng is also home to the country’s “most important economic sectors” including financial and business services, logistics and communications and mining. More than 70 foreign banks have their head offices in the province.

Last year, South Africa’s independent Financial and Fiscal Commission urged the national government to improve the monitoring and implementation of public-private partnerships (PPPs) in municipalities.

In its annual report as part of the national budget process for 2015-16, the commission said municipalities were “compromising the delivery of key social and economic infrastructure” by failing to plan and spend their capital budgets properly. In addition, sources of municipal revenue for capital expenditure were under stress, “mainly because of the current poor economic climate”.

The report recommended greater use of PPPs “including fully or partially outsourcing municipal services accompanied by effective contract management and appropriate risk transfer”.

According to the report, municipalities relied on “four broad sources” for financing capital expenditures: intergovernmental transfers, own revenue contributions, external loans and public contributions and donations. While the contribution of municipalities’ funds steadily increased from 2006-07, reaching a peak of 22 billion rand (ZAR) ($1.9bn) in 2008-09, they then dropped “to below the level of capital transfers received from government”.

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