

# **Service Delivery & Recession: Financing Options & Challenges**

**INCA Summer School on Building Local  
Government Capacity**

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*Dr Iraj Abedian*

*Pan-African Investment & Research Services*



# Outline

1. Government's Infrastructure deadline
2. Trend in Infrastructure Expenditure
3. Financial Requirement of Infrastructure backlog
4. Some Underlying Institutional Problems
5. Critical Success Factors
6. The Need for Innovative Project Finance Approaches
7. Medium Term Challenge: A Regional Perspective
8. Concluding Remarks

# Government deadline for Meeting Municipal Backlogs

- Government set deadline for eradicating backlogs in municipal services
  - Eradication of sanitation buckets – 2007
  - Access of potable water – 2011
  - Access to sanitation – 2011
  - Infrastructure for FIFA world cup – 2010
  - Universal access to electricity – 2013
  - Solid Waste - 2014
  - Other municipal services - 2014
  - Housing - 2014

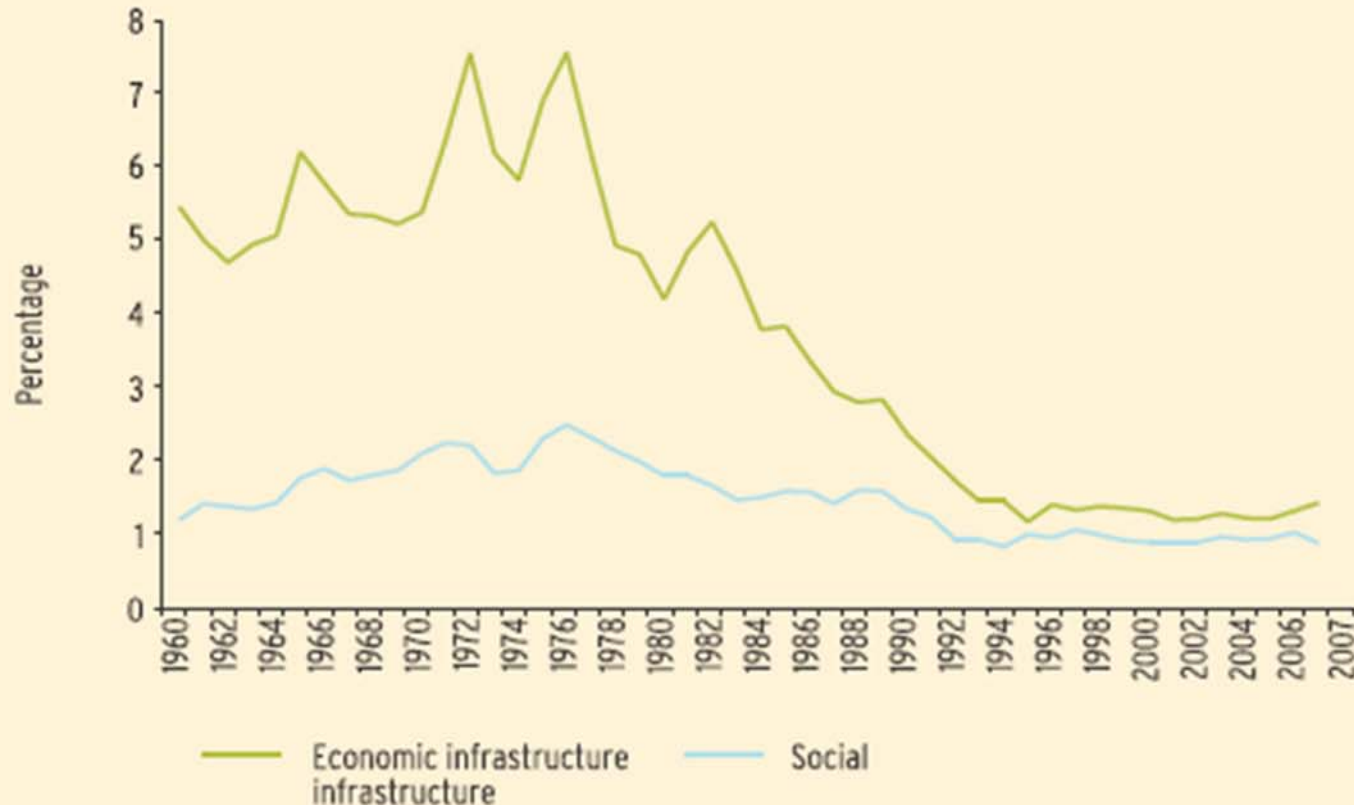
# Infrastructure Primary Focus Areas

Water & Waste	Urban Renewal
Social (Health & Edn)	Energy
Transportation	Tourism
Fin. & Capital Mkts	Information & Communication Tech.
Rural, agric, fisheries & forestry	Manuf., retail & commercial
Environmental	Mining

Source: DBSA, 2008

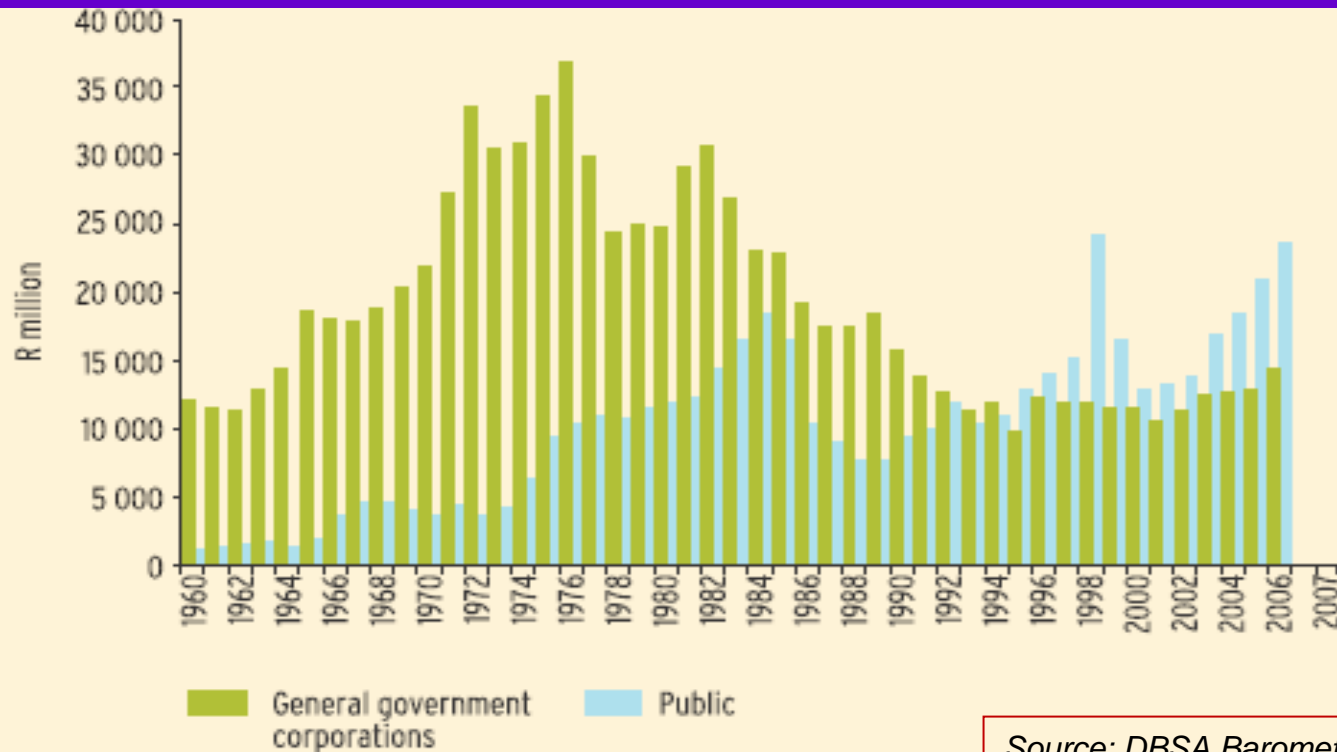
# Public Infrastructure: 1960 - 2007

As Percentage of GDP



# Capital Formation, 1960 - 2007

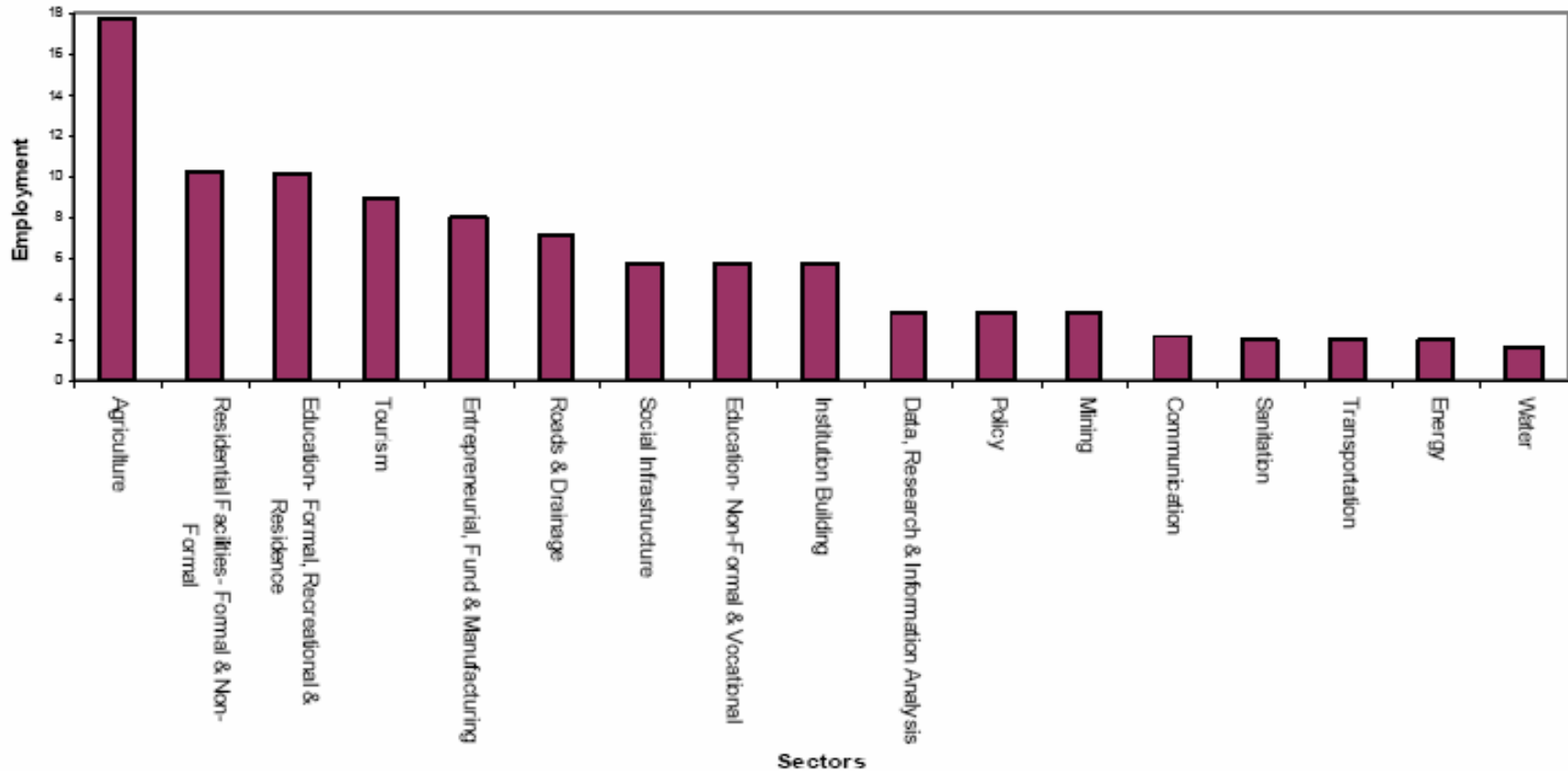
Public Capital Expenditure is vital for sustainability...



Source: DBSA Barometer, 2008

# Example – Employment Multipliers

Employment per R1 million investment

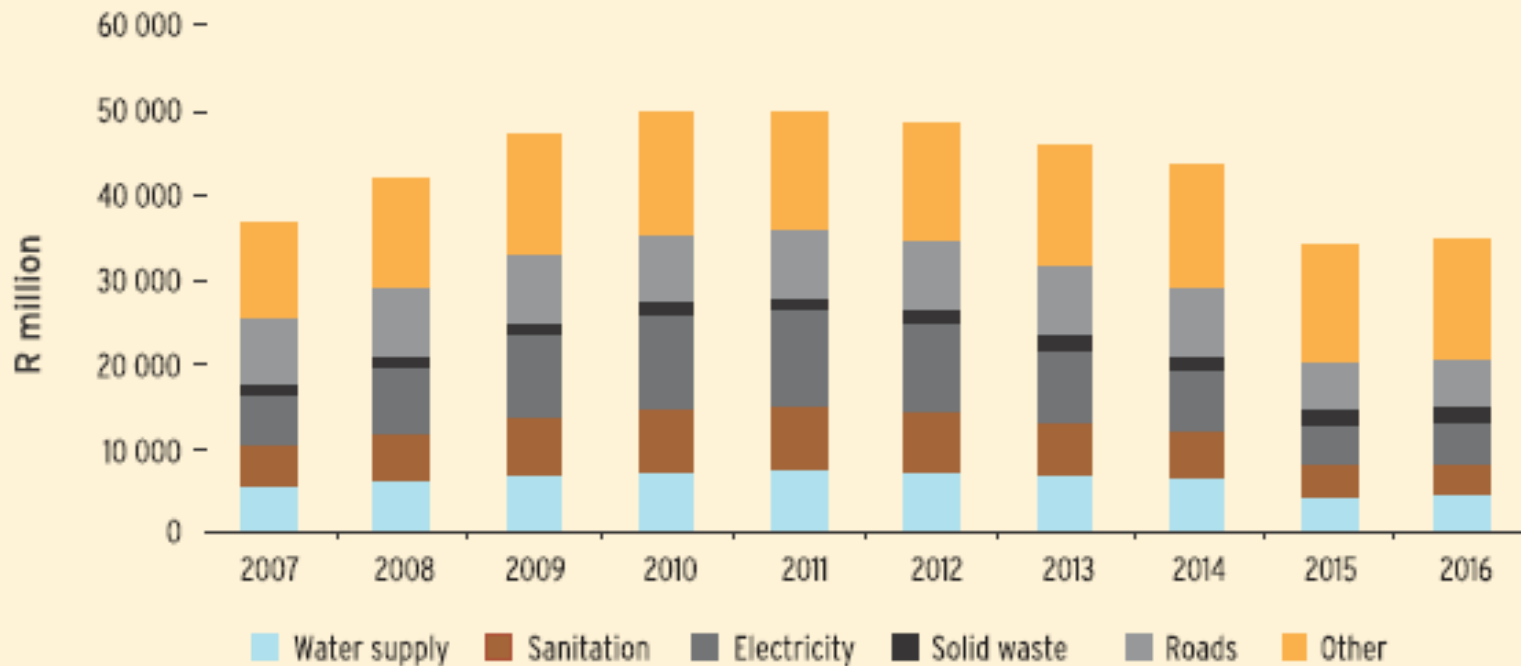


Source: DBSA, 2008

# Capital Expenditure Requirements to address Backlogs

Cumulative Sum: over R400 billion

Source: MIF

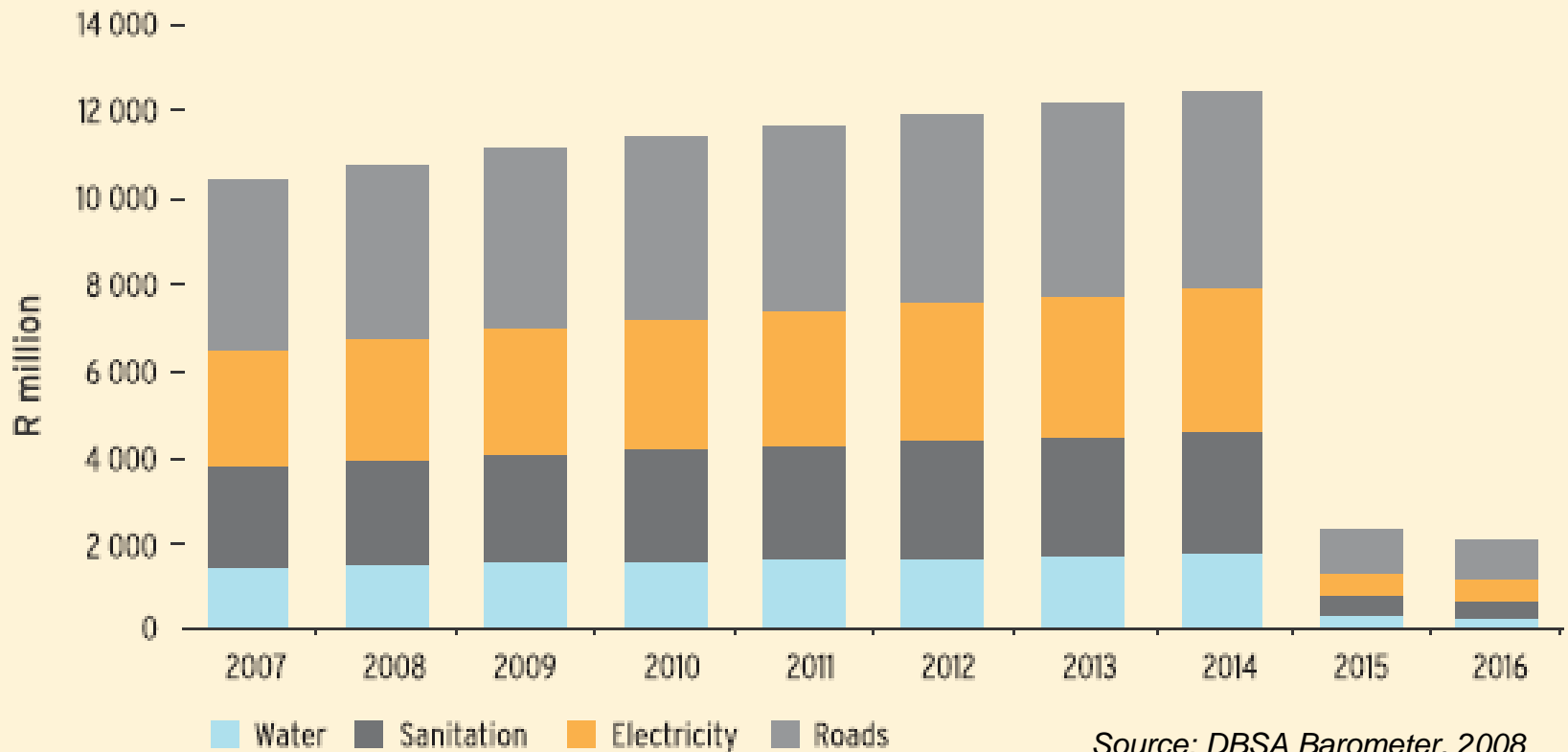


Source: DBSA Barometer, 2008

# Capital Exp for Housing Backlogs

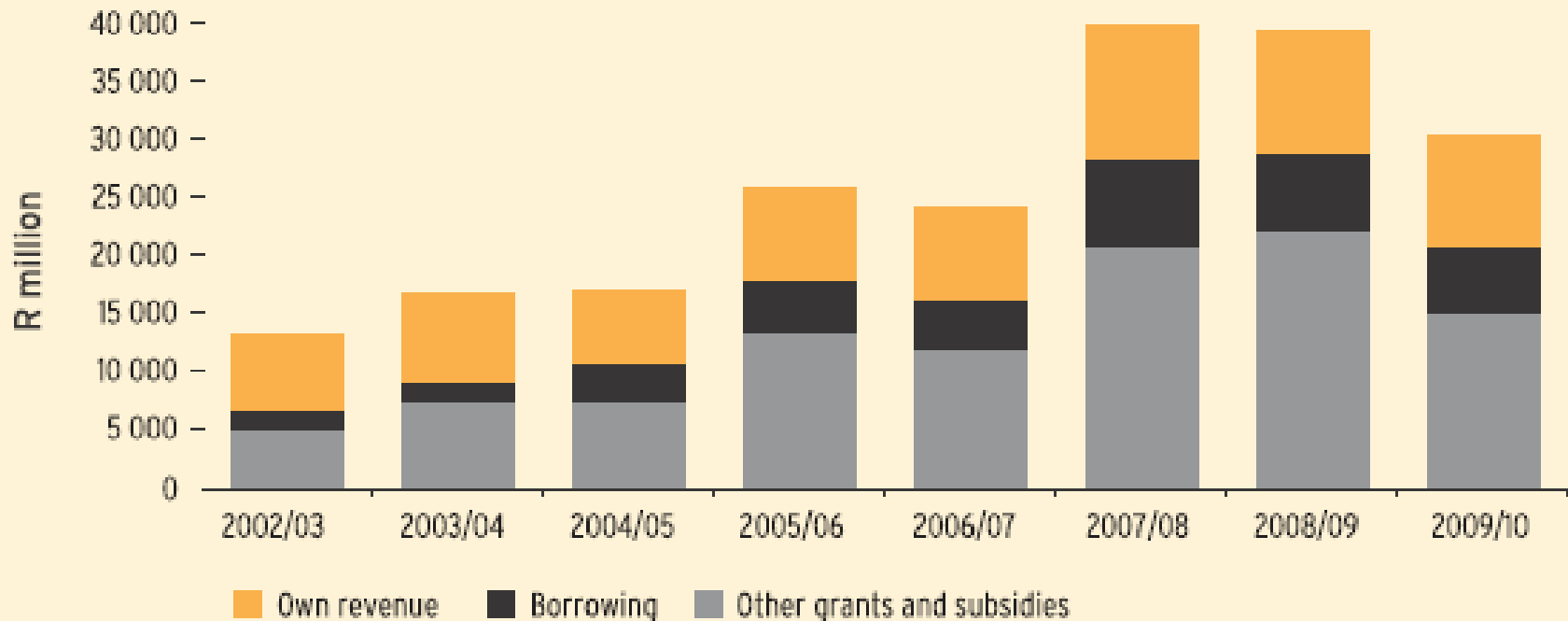
Cumulative Sum: over R120 billion

Source: MIF



# Current Funding Sources – Budgeted

The Approach needs rethinking!

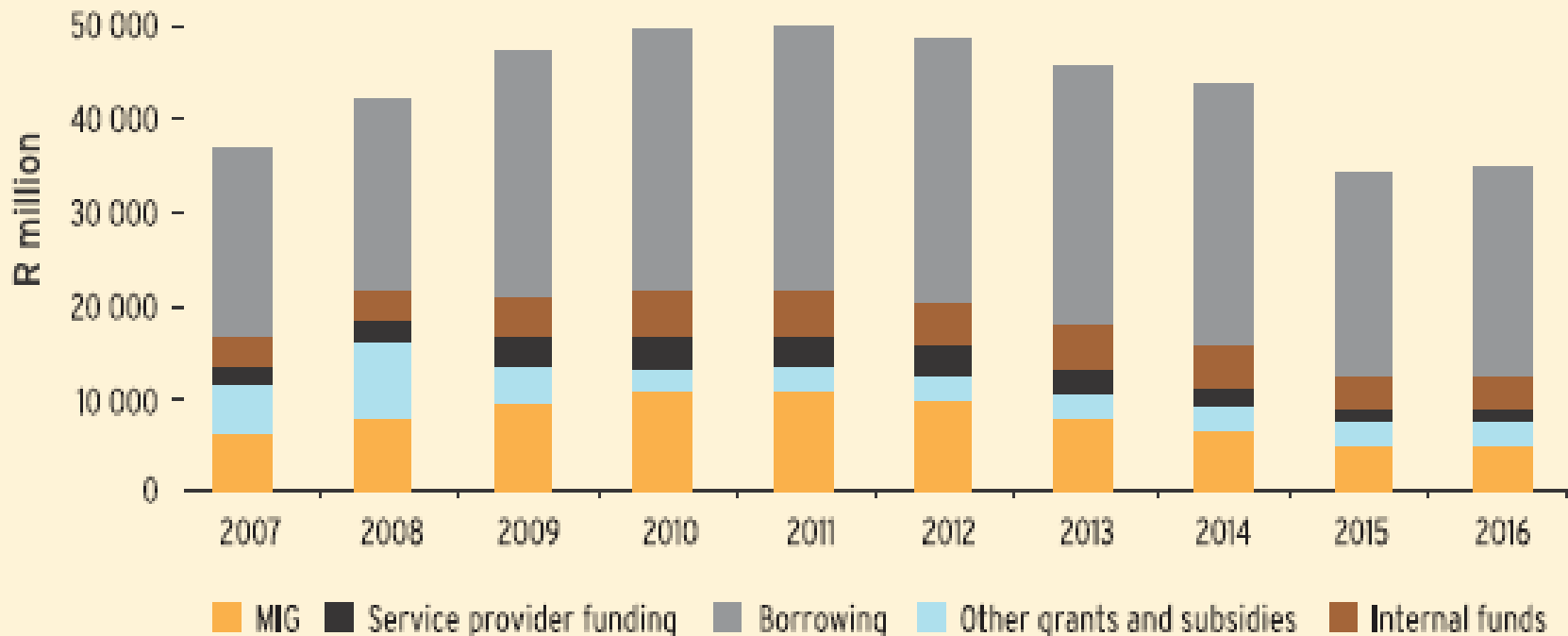


Source: National Treasury 2006: Local Government Budgets and Expenditure Review 2001/02 - 2007/08

Source: DBSA Barometer, 2008

# Predicted/Planned Funding Sources

Borrowing Requirements Rising over the next decade....



Source: DBSA Barometer, 2008

# Underlying Infrastructure Challenges

- Limited financial capacity
  - Problem largely on the Opex side for maintenance
  - Tension between MTEF & lifespan of infrastructure assets
- Imprudent Allocation of funds
  - Large emphasis in budget allocation on commissioning of new projects & not on maintenance
- Loss of intellectual assets
  - Loss of key technical staff, implications for institutional memory; high turnover, loss of mentors; no proper career progression strategy
- Dearth of guidelines, norms & standards
  - Need for documenting good & bad practice; benchmarking, and early warning signal indicators
- Inadequate legislation
  - No prescription on maintenance in legislation

## Critical Success Factor:

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- 1. Price (cost–recovery) should be aligned with economic costs;**
- 2. Initial financing structure should be optimal;**
- 3. Institutional and governance issues need to be clear upfront.**

# The Medium Term View

Note that:

1. It is near impossible for SA to prosper without the Sub-Saharan Africa developing simultaneously;
2. The more we invest in 'national infrastructure', the more migration we will invite....
3. We need to address the issue of the Sub-Saharan Africa simultaneously.
4. Fortunately, the resource base is available....

# Comparative Statistics: USSSA and USA



24,241.9	<b>Land Area (sq.km)('000's)</b>	9,632
800	<b>Population Size (million)</b>	301.6
991.5	<b>GDP (2008 current prices) (US\$)</b>	14,264.6
1,239.4	<b>GDP per capita (US\$)</b>	47,296.2
20.8	<b>GNS (% GDP)</b>	11.9
51	<b>Life expectancy</b>	78
22.4	<b>FDI (% GDP)</b>	17.5
-1.8	<b>Current Account (% GDP)</b>	-4.7

# Concluding Remarks

- SA economy has been hit by the global meltdown
- State capacity remains a critical factor
- Private sector strength is the country's most important capability.
- Government is likely to channel large resources to urban infrastructure over the next decade.
- SA's construction sector is unlikely to be hit as hard as that of some other countries.
- Cost-consciousness is bound to rise rapidly, locally and internationally.

*Thanking you for your attention*

***The End***

***For Subscription & Advisory Services contact:***

**abedian@pan-african.co.za**

**Tel: 011 883 8036/7**

**Fax: 011 883 8038**



# Definition of Infrastructure

- **Economic Infrastructure:** Capital stock that produces services to facilitate economic production and household consumption = electricity, roads, ports, water and waste, tourism & telecommunications, mining etc
- **Social Infrastructure:** Provision of services such as health, edn etc which increases economic activity (direct) and enhances broader developmental outcomes (indirect)

Source: DBSA, 2008

# MTEF Spending

TABLE 17: MTEF BUDGETS AND SPENDING 2006 (R MILLION)

	2006/07	2007/08	2008/09
Technical assistance (budgeted)	50 000	63 800	122 985
Conditional grants (budgeted)	-	231 200	407 015
Actual expenditure on technical assistance	-	3 757	11 086
Actual expenditure on conditional grants	-	41 242	49 474
<b>Underspending</b>			
Technical assistance	50 000	60 043	111 899
Conditional grants	-	189 958	357 941
<b>Underspending</b>	<b>%</b>	<b>%</b>	<b>%</b>
Technical assistance	100	94	91
Conditional grants	-	82	88

Source: DBSA Barometer, 2008

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