# OUTLINE

The Presentation covers the following

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Economic Reality</strong></td>
</tr>
<tr>
<td>2</td>
<td><strong>South Africa’s Infrastructure Investment Plan</strong></td>
</tr>
<tr>
<td>3</td>
<td><strong>Building a credible infrastructure pipeline</strong></td>
</tr>
<tr>
<td>4</td>
<td><strong>Sustainable Infrastructure Development Symposium</strong></td>
</tr>
<tr>
<td>5</td>
<td><strong>Strategic Infrastructure Projects</strong></td>
</tr>
<tr>
<td>6</td>
<td><strong>Financing Infrastructure Projects</strong></td>
</tr>
<tr>
<td>7</td>
<td><strong>Next Steps</strong></td>
</tr>
</tbody>
</table>
BACKGROUND
South Africa has de-industrialised Infrastructure / Construction Sector

• Mining was 15.5% of GDP in 1994, now only 8.1%.
• Agriculture down by 28%.
• Manufacturing has declined by 13%.

Source: CID (2018)
Notes: Product groupings or clusters are represented by the following colours: Textiles & Furniture (light green); Vegetables, Foodstuffs & Wood (yellow); Stone & Glass (light brown); Minerals (dark brown); Metals (red); Chemicals & Plastics (light purple); Transport Vehicles (dark purple); Machinery (blue); Electronics (turquoise); Other (dark blue).
## Insufficient Employment Creation

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2009</th>
<th>2019</th>
<th>Absolute change</th>
<th>Annualised % change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Labour Market Aggregates (‘000)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>14 386</td>
<td>16 362</td>
<td>1 976</td>
<td>1.30</td>
</tr>
<tr>
<td>Narrow Unemployment</td>
<td>4 342</td>
<td>6 657</td>
<td>2 315</td>
<td>4.37</td>
</tr>
<tr>
<td>Narrow Labour Force</td>
<td>18 728</td>
<td>23 019</td>
<td>4 290</td>
<td>2.08</td>
</tr>
<tr>
<td>Discouraged work seekers</td>
<td>2 338</td>
<td>3 574</td>
<td>1 236</td>
<td>4.34</td>
</tr>
<tr>
<td><strong>Target Growth Rate (TGR) annualised (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td>2.98</td>
</tr>
<tr>
<td>Employment Absorption Rate (%)</td>
<td></td>
<td></td>
<td></td>
<td>46.1</td>
</tr>
</tbody>
</table>
South Africa’s Current Economic Reality

Infrastructure / Construction Sector

- SA is far from NDP target for public sector infrastructure investment
- Investment by general government (GG) down 0.8% on average in real terms between 2014 and 2019. State owned enterprises (SOEs) down by 4.9% on average
- Massive underspending in infrastructure by all spheres of government and SOEs
- Construction Industry has been the most severely impacted on by the downgrade in the economy and COVID-19
- -14.2% Contraction in the Construction Sector (2x the next lowest – Manufacturing Sector)
- Highest job losses have been in the Construction Sector

Moody’s downgraded SA’s foreign and local currency sovereign credit rating to Ba1 – can further hamper economic recovery

<table>
<thead>
<tr>
<th></th>
<th>Moody’s</th>
<th>S&amp;P Global</th>
<th>Fitch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign currency</td>
<td>Ba1 (1 notch below)</td>
<td>BB (2 notch below)</td>
<td>BB+ (1 notch below)</td>
</tr>
<tr>
<td>Outlook</td>
<td>Negative</td>
<td>Negative</td>
<td>Negative</td>
</tr>
<tr>
<td>Local currency</td>
<td>Ba1 (1 notch below)</td>
<td>BB+ (1 notch below)</td>
<td>BB+ (1 notch below)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Total underspend (2014/15 - 2018/19) R’ bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOE</td>
<td>109,06</td>
</tr>
<tr>
<td>GG</td>
<td>38,29</td>
</tr>
<tr>
<td>TOTAL</td>
<td>147,35</td>
</tr>
</tbody>
</table>
South Africa’s Infrastructure Investment Plan
South Africa’s Infrastructure Investment Plan
*Flywheel in Infrastructure Investment and Implementation*

At the Cabinet meeting of 2 April 2020 President Ramaphosa gave clear direction that the Country is facing a recession of enormous proportions, and COVID-19 has placed South Africa in an even worse position. Closing economy for a five-week period will have dramatic impact on our Country and the World. We are essentially in a war situation.

The President further stated that we should also be able to identify the sector that can be the flywheel to get us out of this hole. The Flywheel is Infrastructure Investment and Implementation, through an immediate and purpose-driven Recovery Plan that will not only kick-start our economy but will also stimulate the Construction Sector which has been hit the hardest.

**SA’s Infrastructure Investment Plan** will lead to major job creation and at the same time address the essential service needs of communities in both our rural and urban areas, as infrastructure investment will focus on:

- Network Infrastructure, Agricultural Infrastructure, Human Settlements Infrastructure & Social Infrastructure;
- Building new and upgrading existing infrastructure;
- Repurposing redundant infrastructure; and
- Expediting the maintenance of neglected infrastructure.
The Implementation of the Plan

A New, Streamlined and Accountable Partnership

- Clear delivery targets related to value for money and need
- Transparency in relation to performance
- Accountability of professionals and contractors as well as government – if it can be done for private sector development, it can be done for public sector infrastructure
- Monitoring, review, insights and infrastructure intelligence
- Transformation and spatial justice will no longer be rhetoric
- Skills transfer, empowerment and job creation are at the forefront of the plan – it is not just part of the construction process but how we upskill our nation
- Use new technology and the green economy
KEY FOCUS AREAS

Focus areas for the infrastructure investment plan

- Building a robust and credible infrastructure pipeline
- Infrastructure Financing
- Development of the National Infrastructure Plan 2045
- Rural Development innovative activities
- Restructuring EPWP to include mainstreaming, Women’s Maintenance Teams and Social Compacts
- Monitoring, Evaluation, Insights and Intelligence
Building a credible Infrastructure Pipeline
Infrastructure Projects Process Flow
The New Way of Working

Infrastructure Projects are Commercially Viable
Projects require Blended Financing
Infrastrucure Projects to be funded solely by the Fiscus

Infrastrucure Projects are Commercially Viable
Send to Infrastructure Fund for Funding ito criteria set by ISA
National Treasury to allocate funding to Departments, SOEs, Infrastructure Grants, etc.

Comprehensive Infrastructure Project Pipeline
Assessment of Infrastructure Projects terms of SIDS Methodology
Infrastructure Investment Management & Oversight over the IF
National Infrastructure Plan

INFRASSTRUCUTURE SOUTH AFRICA
PICC Technical Task Team
BFI Project Assessment Process

INFRASSTRUCUTURE MECHANISMS
Legal, Technical & Financial Mechanisms
Ease of Doing our Business in the Built Environment Space
Performance and Payment Expedited
Intergovernmental Co-operation & Enforcement at All Costs
Infrastructure Value Chain & Priority Implementation Mechanisms
Construction Implementation Matrix System, etc.

Monitoring, Evaluation and Review
& Comprehensive Information Management System for Infrastructure
Gazetting & Monitor Strategic Integrated Projects (SIPs) process ito the Infrastructure Development Act, No 23 of 2014

PROJECTS READY FOR FUNDING
Commercial Banks, MDBs, DFIs

If an Infrastructure Project/Programme is to be prioritised it will be classified and gazetted as a SIP in terms of the Infrastructure Development Act. Department, Province, Municipality or SOE will then be able to utilise the expedited mechanisms. ISA, through the Presidential Coordinating Commission Structures will then facilitate the process to expedite delivery.
SA’s Economic Growth Recovery Plan
A Unique & Innovative Approach to Infrastructure

Mechanisms to Expedite Implementation
- Legislative reforms
- Streamlined Processes
- Performance and Payment Expedited
- Enforcement
- Matrix Construction Management System
- Intergovernmental coordination
- Universal Urban Management Income Grant

Unlock National Priorities
- Network Industries
- Agriculture & Agro-Processing
- Human Settlements
- + Potential to Add More Categories

Development Impact
- Job creation
- Spatial inclusivity
- Transformation
- Addressing needs
- Infrastructure Value Chain

SA Inc & Cross-border Infrastructure Projects
- Promote Regional Integration & Sectoral Integration
- Infrastructure Interdependencies

Sustainability
- NDP, NSDF & new NIP
- Sustainable Development Goals
- Technology Innovation
- 4th Industrial Revolution throughout the Infrastructure Lifecycle

Institutional Implementation Capacity
- Capacity of State to Manage Catalytic Projects
- Leverage Private Sector Expertise
- Mechanisms to fast-track implementation
- Training & Capacitation

MDBs, DFI’s, etc. Leverage Public & Private Sector Funding + Realign Public Sector Infrastructure Funding
- Innovative funding mechanisms
- Blended finance tools
- Government Budget for Infrastructure
- Infrastructure Grants

IMMEDIATE-TERM PROJECTS & PROGRAMMES
MEDIUM-TERM PROJECTS & PROGRAMMES
LONG-TERM PROJECTS & PROGRAMMES
RESTRACTURE EPWP, TRAINING & CAPACITATION ACROSS THE INDUSTRY

Prioritise Infrastructure Implementation to Stimulate the Recovery of Construction Sector

UNIQUE & INNOVATIVE, COMPREHENSIVE INFRASTRUCTURE PROJECT PIPELINE

SA’s infrastructure recovery plan draws extensively from the SIDS Approach and adds innovative, inclusive & transformative elements.

The national priorities include network industries, agriculture and agro-processing, human settlements and more.

Development impact focuses on job creation, spatial inclusivity, transformation, and addressing needs through infrastructure value chain.

SA Inc and cross-border infrastructure projects emphasize regional integration, sectoral integration, and infrastructure interdependencies.

Sustainability targets the NDP, NSDF, new NIP, sustainable development goals, technology innovation, and the 4th industrial revolution throughout the infrastructure lifecycle.

Institutional implementation capacity involves enhancing state capacity for managing catalytic projects, leveraging private sector expertise, fast-tracking implementation, and training and capacitation.

MDBs, DFI’s, etc., leverage public and private sector funding to innovate funding mechanisms, blend finance tools, and realign public sector infrastructure funding.

Implementations include legislative reforms, streamlined processes, performance and payment expedited, enforcement, matrix construction management system, intergovernmental coordination, and universal urban management income grant.

MDM’s, DFI’s, etc., leverage public and private sector funding to realign public sector infrastructure funding.

Much has been drawn from the SIDS Approach and added to as the methodology is innovative, inclusive, and transformative.

ISA is a single point of entry for all infrastructure processes, implementing the infrastructure priorities in SA’s economic growth recovery plan, including mechanisms comprehensive project pipeline.
The Journey towards building a pipeline of projects for the SIDS required a SA Inclusive Approach, engaging with government in both national and provincial departments, partnering with our State Owned Entities and Agencies and crowding in the international MDBs and DFIs.
Building a Credible Infrastructure Pipeline
As at June 2020

- 276 Projects submitted, 88 projects post feasibility stage

- Total investment value of more than R2.3 TRILLION
  - Estimated gap of funding required R502 BILLION

- Reported employment opportunities ~ 1.88 million (direct & indirect)

**Sector allocation of projects submitted**

- Human Settlement: 71
- Transport: 64
- Water and Sanitation: 42
- Other: 34
- Agriculture and Agro-processing: 33
- Energy: 25
- Digital: 7

*Other*
- 11 - Environmental
- 1 – Tourism
- 1 – Mining
- 21 – still to be allocated
Geographic Spread of Project Pipeline
As at June 2020

<table>
<thead>
<tr>
<th>Province</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>KwaZulu-Natal</td>
<td>57</td>
</tr>
<tr>
<td>Gauteng</td>
<td>40</td>
</tr>
<tr>
<td>Eastern Cape</td>
<td>38</td>
</tr>
<tr>
<td>Limpopo</td>
<td>37</td>
</tr>
<tr>
<td>Western Cape</td>
<td>23</td>
</tr>
<tr>
<td>National</td>
<td>19</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>18</td>
</tr>
<tr>
<td>Free State</td>
<td>16</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>16</td>
</tr>
<tr>
<td>North West</td>
<td>12</td>
</tr>
</tbody>
</table>
STRATEGIC INTEGRATED PROJECTS
Building a Credible Infrastructure Pipeline

50 SIDS Projects Gazetted as SIPs

Focus on 50 SIDS Projects to be expedited under the IDA and are gazetted as Strategic Integrated Projects (SIPs)

- **50 Projects** post feasibility stage
- **Total investment value of more than R340 BILLION**

<table>
<thead>
<tr>
<th>Sector allocation of projects submitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Settlements</td>
</tr>
<tr>
<td>Transport</td>
</tr>
<tr>
<td>Water &amp; Sanitation</td>
</tr>
<tr>
<td>Energy</td>
</tr>
<tr>
<td>Agriculture &amp; Agro-processing</td>
</tr>
<tr>
<td>Digital infrastructure</td>
</tr>
<tr>
<td>Project Description</td>
</tr>
<tr>
<td>----------------------------------------------------------------</td>
</tr>
<tr>
<td>Vaal River System incorporating Phase 2 of the Lesotho Highlands Water Project</td>
</tr>
<tr>
<td>uMkhomazi Water Project</td>
</tr>
<tr>
<td>Phase 2 of the Mokolo and Crocodile River Water Augmentation Project</td>
</tr>
<tr>
<td>Olifants River Water Resource Development Project - Phase 2</td>
</tr>
<tr>
<td>Vaal-Gamagara</td>
</tr>
<tr>
<td>Mzimvubu Water Project</td>
</tr>
<tr>
<td>Rehabilitation of the Vaalharts-Taung irrigation scheme</td>
</tr>
<tr>
<td>Groot Letaba River Water Development Project - Nwamitwa Dam</td>
</tr>
<tr>
<td>Berg River Voelvlei Augmentation Scheme</td>
</tr>
<tr>
<td>Rustfontein Water Treatment Works</td>
</tr>
<tr>
<td>OrangeRiet Canal increase of bulk raw water supply</td>
</tr>
</tbody>
</table>
### SANSA Project Break down per annum

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 2020/21</td>
<td>R1 557</td>
</tr>
<tr>
<td>Year 2020/22</td>
<td>R1 572</td>
</tr>
<tr>
<td>Year 2022/23</td>
<td>R1 345</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>R4 474</strong></td>
</tr>
</tbody>
</table>

**Note:** Require Policy/Regulatory decision/resolution
SECTORAL ALLOCATION

Energy: SIP 20 and Agriculture & Agro-processing: SIP 23

Energy sector
- Emergency /Risk Mitigation Power Purchase Procurement Programme (2 000 MW): R50 000
- Embedded Generation Investment Programme (400 MW): R6 400
- Small IPP Power Purchase Procurement Programme (100MW): R1 800

Agriculture & Agro-Processing
- Marine Tilapia Industry (Eastern Cape): R5 124
- Natural Dehydrated Foods (Mpumalanga): R2 320
SECTORAL ALLOCATION

Human Settlements: SIP 24

Project Breakdown

- N2 Nodal Development (Eastern Cape) - R44 000
- Mooikloof Mega Residential City (Gauteng) - R34 000
- Greater Cornubia (KwaZulu-Natal) - R25 800
- Matlosana N12 West (North West) - R8 933
- Lufhereng (Gauteng) - R6 200
- Vista Park II & III (Free State) - R3 636
- Green Creek (Gauteng) - R2 600
- Malibongwe Ridge (Gauteng) - R2 546
- Hospital Street - Newcastle (KZN) - R368
- Phola Heights - Tembisa Social Housing Project (Gauteng) - R256
- Kwandokuhle Social Housing Project (Mpumalanga) - R193
- Hull Street Social Housing Project Phase 1 (Northern Cape) - R144
- Willow Creek Estate (Mpumalanga) - R133
- Forchville ext 11 (Gauteng) - R114
- Germiston Ext 4 (Gauteng) - R85
- Sondela Phase 2 (Gauteng) - R66
- Jeppестown Social Housing Project (Unity House) (Gauteng) - R34
- Joe's Place (Gauteng) - R18
# SPECIAL PROGRAMMES GAZETTED AS SIPs

**Rand Value:**

**Jobs (Construction & Operations): 294 000**

<table>
<thead>
<tr>
<th>SIP</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>Rural Bridges ‘Welisizwe’ Programme (first deployment: Eastern Cape, Kwa-Zulu Natal and Free State)</td>
</tr>
<tr>
<td>26</td>
<td>Rural Roads Upgrade Programme (phase 1: Limpopo, Mpumalanga, Eastern Cape, KZN and North West)</td>
</tr>
<tr>
<td>27</td>
<td>Upgrading and Repair of Township Roads in Municipalities</td>
</tr>
<tr>
<td>28</td>
<td>PV and Water Savings on Government Buildings Programme</td>
</tr>
<tr>
<td>29</td>
<td>Comprehensive Urban Management Programme</td>
</tr>
<tr>
<td>30</td>
<td>Digitising of Government Information</td>
</tr>
<tr>
<td>31</td>
<td>Innovative Building Materials and Removal of Alien Vegetation</td>
</tr>
<tr>
<td>32</td>
<td>National Upgrading Support Programme</td>
</tr>
<tr>
<td>33</td>
<td>Solar Water Initiatives</td>
</tr>
<tr>
<td>34</td>
<td>Student Accommodation</td>
</tr>
<tr>
<td>35</td>
<td>SA Connect</td>
</tr>
<tr>
<td>36</td>
<td>Salvokop Precinct</td>
</tr>
</tbody>
</table>
The **Infrastructure Vision, Objectives and Implementation Strategy for South Africa** is to be determined and set up front. This will then ensure both stability and consistency in the planning, investment, implementation and maintenance of infrastructure in the short, medium and long term. It will also restore the confidence of the private sector and the construction industry. The Vision will further bring certainty to communities who have been needing basic infrastructure for many years.

**Process**

3 Year Delivery Plan

5-10 Year Delivery Plan

25 Year Plan

Conversion of NIP to A Delivery Plan

Detailed timelines deliverables and targets

Assessment of interrelated & interdependent infrastructure networks

Capacitation, Training and Empowerment

Measure Progress, Success and/or Failure - Intelligence

Verification of delivery versus demand

Impact, Best Practice and Lessons Learnt

Practice Notes to move the Infrastructure Paradigm

**National Infrastructure Plan 2045**

**Process**
INFRASTRUCTURE FINANCING
Strategic Partners and Engagements

The Inclusive South African Journey continues with our International Partners
Infrastructure Fund
Unlocking private sector investment for public sector infrastructure programmes

- Memorandum of Agreements signed by National Treasury, DBSA and Infrastructure South Africa
- R100 billion over the next 10 years
- Private sector participation
Blended Finance to drive the NDP Targets

Including Global Goals such as the SDGs & AU2063 Agenda for South Africa

Blended finance involves unlocking economic and social infrastructure through (i) the use of different financial instruments (e.g. a mix of senior debt and subordinated debt) and/or (ii) structuring financial instruments, with different cost of funding rates such that when these are blended together, they result in a lower average cost of funding.

Blended finance structures can be implemented in order to facilitate the participation of lenders in:

- Social infrastructure projects; Infrastructure projects with some level of market risk exposure (e.g. lack of off-take arrangements); and
- Infrastructure projects with inadequate cash flows (e.g. low debt service cover ratios) to attract the requisite funding.

Source: "Better Finance, Better World. Consultation Paper of the Blended Finance Task force; Blended Finance Task Force (2018) – Graph adapted Including Global Goals such as the SDGs & AU2063 Agenda for South Africa
Illustration of a Traditional to a Blended Capital Structure

Innovative finance capital structure for Infrastructure investments in South Africa

<table>
<thead>
<tr>
<th>Typical Project Finance Capital Structure</th>
<th>Blended Finance Capital Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CAPITAL STRUCTURE (ILLUSTRATION)</strong></td>
<td></td>
</tr>
<tr>
<td>▪ 70% (senior debt):</td>
<td>▪ 50% (senior debt):</td>
</tr>
<tr>
<td>▪ 30% (equity)</td>
<td>▪ 20% (subordinated debt):</td>
</tr>
<tr>
<td></td>
<td>▪ 30% (equity)</td>
</tr>
</tbody>
</table>

Some Structures include:

- Interest rate subsidy instruments
- Capital Grants
- Debt tranching (incl. First loss facilities)
Financing Instruments and Mechanisms

To Unlock Infrastructure

Examples

- **Project Bonds**
  - Advantages... longer tenors & Access to a More Diverse Pool of Investors (e.g. pension funds)
  - It provide green jobs and provide climate resiliency. Advantages include securing significant funding at concessional cost of funding. Allowing institutional investors and green climate funds access to sustainable investments.

- **Green Infrastructure Bonds**

- **Performance Bonds/Construction Guarantee Instruments**

- **Project Preparation Funding**
  - Transform the construction industry through the increased participation of BEE contractors, performance bonds products targeting BEE O&M and EPC contractors
  - Well prepared projects are necessary to reach a bankable stage and to be successfully implemented. The costs for preparation range between 1% to 4% of the total project cost and can further increase from 12% to 15% for mega infrastructure projects. A Preparation roundtable to attract investors will be conducted

- **B-BBEE Funding**
  - The use of blended finance instruments for example through the optimization of concessional funding, inclusive of grant funding, and BEE warehousing structures.
Next Steps
Implementation of the Infrastructure Investment Plan

**Next steps**

- Operationalisation of the Infrastructure Fund has been achieved.
- Development of the National Infrastructure Plan is work in progress.
- Oversight and monitoring of the implementation of the Strategic Integrated Projects
  - SIP Coordinating committee has been established
- Development of robust and credible infrastructure pipeline. First phase complete.
- Investor roadshows to mobilise financing for infrastructure projects is ongoing.
- Advertise for Technical Advisory Committee is work in progress.
- Developed a Social Facilitation Methodology.
- Establishment of Infrastructure South Africa is work in progress.
- Process for Green Infrastructure Bonds – is work in progress.
- Quarterly report to Cabinet to be presented to October 2020.