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Infrastructure posed for lift off or another false dawn

Craig Lemboe and Claire Bissek

Successive administrations, including the Government for National Unity (GNU), have stressed the need for infrastructure investment to form a cornerstone of the country's economic development. Yet the latest data tells us that very little is actually happening on the ground.

The National Development Plan (NDP) targets gross fixed capital formation (GFCF) rising to 30% of GDP by 2030 compared to just under 18% in 2012 when the NDP was published. Instead, since then the ratio has fallen to 14.5%. Currently, government and public entities' capital expenditure (capex) is only about 4% of GDP compared to the NDP target of 10%.

Stats SA's latest GDP figures reveal that last year, real investment in civil construction (large infrastructure) was down 5.1% on an annual basis - even worse than the 2.1% contraction in 2022 and the 1.7% contraction in 2023. Moreover, spending on construction works in real terms has sunk to levels last seen in 2007/2008.

This is not an economy that is putting its weight (or money) behind infrastructure.

The first quarter FNB/BER Civil Confidence Index for 2025 released late last week continues this trend. After increasing to an eight-year high of 50 in the third quarter of 2023, the index slipped to 48 in the final quarter of 2024 and yet further to 45 in the first quarter of this year.

This means that only 45% of civil contractors (in the sample these are the largest contractors and those that do work for the private sector) are satisfied with prevailing business conditions. By comparison, the index hovered around 80% - 90% in the mid-2000s.

This is what "turning South Africa into a construction site" would look like – the catchy slogan first coined by the minister of public works and infrastructure Dean Macpherson. The sad reality is that despite all the talk about infrastructure-led growth, sentiment in the construction industry is still downbeat and order books are relatively bare.

In the latest budget speech, there was again much fanfare about how infrastructure is a “key pillar” of the country’s growth strategy; “the bedrock of economic development, a key source of jobs, and an avenue to scale up service delivery”.

As such, the state is setting aside the R1 trillion for infrastructure over the next three fiscal years. However, not only is this woefully insufficient, but the public sector also has a poor track record when it comes to spending its infrastructure budgets.

In 2023/2024, the public sector underspent on infrastructure by R23.8bn – more than 8% of the budget allocation. State-owned enterprises (SOEs) and the local government sector undershot their budgets by 17%. The worst performers were the key sectors targeted under Operation Vulindlela’s structural reform programme: transport and logistics (R22.3bn or 23% under budget), water and sanitation (R16.3bn or 37.2%) and energy (R8.6bn or 15.8%).

As the country’s fiscal constraints have tightened, the government has realised it has little alternative but to crowd in the private sector to fund and build public infrastructure.

Finally, after a very slow start, there is a sense that the government is significantly scaling up its infrastructure programme and that reforms, including alternative financing arrangements, are taking shape. These include:

- Cumbersome regulations governing private public partnerships (PPPs) have been simplified and will take effect on June 1.
- The department of transport is close to finalising the creation of a private sector participation unit to be housed in the Development Bank of Southern Africa. Requests for information (RFI) have been sent out to gauge the market’s appetite for investing in rail and port infrastructure and operations. A similar RFI process will be launched for the passenger rail sector in May. Procurement is, however, expected to start only at the end of August 2025.
- The National Water Resources Infrastructure Agency (NWRIA) is another new mechanism to unlock off-budget funding, through commercial and development finance, to address SA’s water crisis.
- In 2025/2026, four windows of the Budget Facility for Infrastructure (BFI) are being introduced instead of just one annually. The BFI facilitates national priority public projects of R1bn or more that require fiscal support to cover a viability gap.
- Later this year, the Independent Power Producers’ Office will issue a RFI for a multi-line energy transmission package. The aim is to enable the private sector to play a key role in the expansion of the transmission network as it has done in the generation of renewable electricity.

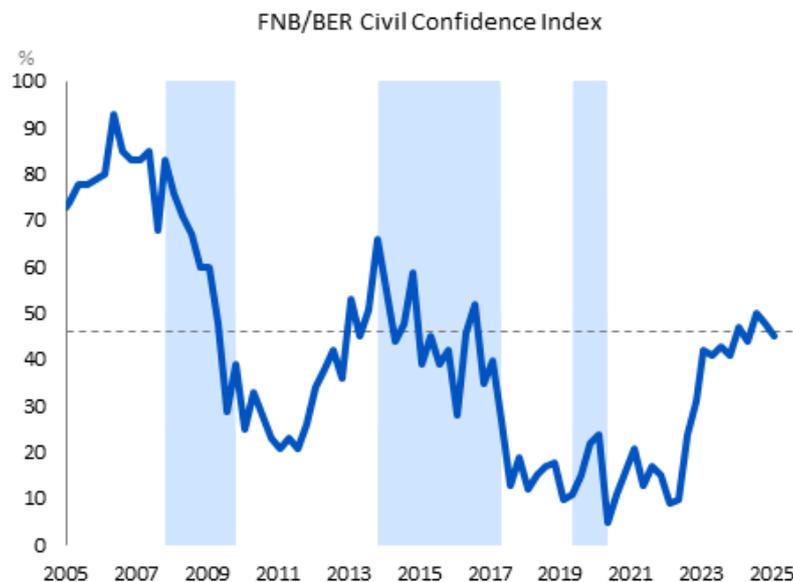
This is encouraging. However, the proof of the pudding is in the eating and this (infrastructure) pudding has been in the oven too long.

There are some quick gains that could lift infrastructure investment and the mood of contractors:

- address crime and corruption in the industry (the so-called construction mafia)
- ensure tenders are appropriately specified and the rules are clear and transparent. This will reduce the delays in adjudication and legal disputes
- ensure that state entities spend a greater portion of their infrastructure budgets
- the state should stop wasting time and money writing reports; just start by fixing the potholes, paving the roads, and finishing the bridges.

As long as basic infrastructure is allowed to crumble, South Africa will not only struggle to attract other types of meaningful investment but is likely to see continued disinvestment from the worst-affected areas, mainly poverty-stricken rural towns. Fixing this issue requires the utmost urgency. The government dare not disappoint the country again.

Figure 1: SA far from a construction site



Source: BER Analysis

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CONTACT US

Tel: +27 (21) 808 9119

Email: bissekerc@sun.ac.za

More analysis at www.ber.ac.za

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