Policy Brief

Assessing the Efficiency of Provincial Infrastructure Programmes: The case of health, education and public transport

20 March 2019

EXECUTIVE SUMMARY

Government has cut funding to key provincial infrastructure programmes over the 2018 Medium Term Expenditure Framework (MTEF). However, successful delivery of infrastructure projects is critical for service delivery and economic growth. Empirical findings show that there is a positive relationship between infrastructure investment and economic growth if infrastructure delivery is efficient and effective. Using a combination of approaches, this study investigates whether provincial governments can maximise infrastructure outputs with less money. The findings confirm the widely held belief that provincial infrastructure delivery is suboptimal. Infrastructure procurement and implementation are riddled with inefficiencies. The findings from the survey conducted with contractors also show evidence of fiscal misappropriation, including corruption, across all tender sizes issued by government. Contractors make a larger percentage of the contract value as an informal payment to secure smaller contracts relative to larger contracts. The lack of critical skills in the provincial Departments of Health, Education and Public Works is one of the major constraints to efficient infrastructure delivery. To address these inefficiencies, the study calls for the strengthening of oversight over consultants and contractors. In addition, holding the implementing agent accountable for funds spent on infrastructure projects of Departments is also likely to improve efficiencies. Finally, the study calls for a review of the existing human resource capacity requirements in the provincial infrastructure sector. It recommends the development of clear infrastructure performance evaluation frameworks, greater scrutiny of variation orders, and publishing of the criteria to be measured in monitoring and evaluating infrastructure grants.

Background

Over the 2018 Medium Term Expenditure Framework (MTEF), reductions in the Education Infrastructure Grant (EIG) are R3.47 billion in 2018/19 and R3.8 billion in 2019/20, while the baseline reductions to the Health Facility Revitalisation Grant (HFRG) are R100 million in 2018/19 and R200 million in 2019/20. The Provincial Roads and Maintenance Grant (PRMG) also faces cuts of R1.2 billion over the next two years.

However, the successful delivery of infrastructure projects is critical for service delivery and economic growth if delivered efficiently and effectively. Good infrastructure also improves human welfare and helps to achieve some human development goals.

Provincial governments are mainly responsible for investing in and maintaining infrastructure. These infrastructure programmes typically concern health, education, housing and road maintenance. Provinces fund these key infrastructure programmes through conditional grants received from national government. National sector departments act as the transferring entities and play a crucial role in ensuring that provincial governments implement their infrastructure programmes. National Treasury issues instruction notes on planning, procurement and implementation of infrastructure delivery to achieve value for money and cost efficiency.

Delivery of infrastructure projects by provinces, however, is suboptimal, typically characterised by cost overruns, low productivity and poor quality. This is often the result of poor planning, weak procurement processes, corruption, and insufficient governance and oversight, amongst other things. Government's ability to leverage infrastructure as a policy instrument to reduce poverty, inequality and unemployment, and to generate growth, is thus undermined.

This policy brief addresses crucial questions in respect of infrastructure in the education, health and transport sectors:

- In the prevailing fiscal context, how can provincial governments achieve the same level of infrastructure delivery with less money?
- Is it possible that government can maintain existing levels of infrastructure delivery with more efficient use of funds, achieved by reducing waste and eliminating fiscal misappropriation?

The reduction of service delivery backlogs in these sectors in the context of fiscal constraints will depend on the optimal use of resources. Should widespread waste, inefficiency and corruption prevail, government's long-term objectives of addressing poverty and inequality through infrastructure development would be compromised.

Research Findings

The key findings emanating from the study are discussed below.

Intergovernmental delivery of provincial infrastructure

The way in which infrastructure is delivered in provinces contributes to its suboptimal delivery. Infrastructure programmes are implemented by provincial departments of public works (DPWs) or other implementing agents (IAs) on behalf of provincial sector departments, rather than by the departments themselves. The DPWs outsource projects to IAs such as the Development Bank of South Africa (DBSA). This adds further complexity to the accountability cycle. Misalignment between the various entities involved in decisions about budgeting and infrastructure delivery implementation result in unintended consequences such as project costs overshooting planned expenditure; timeframes for the delivery of infrastructure being exceeded; and poor quality of infrastructure delivered. The Auditor-General holds provincial sector departments accountable for infrastructure delivery and not implementing agents. This removes the incentive for the implementing agents to act responsibly, since they are not held accountable for decisions taken.

Policy reforms to improve provincial infrastructure delivery efficiency

To remove bottlenecks that have slowed down infrastructure delivery at subnational level, national government rolled out the Integrated Delivery Management System (IDMS) in 2012. While the IDMS improved infrastructure management by improving efficiencies in the planning, budgeting, procurement, delivery and maintenance of infrastructure projects, it assumed sector departments had the internal capacity and skills to implement the new reforms. This proved not to be the case. In addition, procurement by departments was not managed holistically. This meant that if a provincial department undertook 200 infrastructure projects, each project was treated as a stand-alone and required a separate tender process. This resulted in the awarding of 200 contracts, each was separately managed, creating a cumbersome and slow process.

National Treasury then released the Standard for Infrastructure Procurement and Delivery Management (SIPDM) in 2016. This standard deals with infrastructure procurement in terms of its merits and allows projects to be packaged in large volumes, thereby improving efficiencies. However, sector departments have been slow to implement these procurement reforms, seemingly because of a shortage of capable personnel. Consequently, infrastructure delivery challenges relating to procurement and management of the infrastructure project cycle remain unresolved.

Provincial infrastructure allocations and spending efficiency

Infrastructure grants have been targeted at reducing funding as a result of the tight fiscal framework, and the need for government to reprioritise budget spending in the national resource envelope. Funding cuts to conditional grants affect most provinces, especially with respect to the Health Facility Revitalisation Grant (HFRG) and the Education Infrastructure Grant (EIG). To adjust to these cuts, provinces will need to adjust their plans by delaying projects or finding ways to increase operational efficiencies. In the absence of improved efficiencies, it is likely expenditure cuts will increase existing backlogs in provinces, impacting on government’s ability to address poverty and inequality.

Despite provincial infrastructure allocations being insufficient to reduce backlogs significantly over the short- to medium-term, provinces still consistently underspend on provincial infrastructure grant allocations. Provincial underspending with respect to the HFRG is problematic - only 91% of the total allocation on average was spent during the 2011/12 to 2016/17 period. The analysis shows that, in addition to underfunding, a key weakness that is holding back provincial infrastructure delivery is underspending of allocated budgets.

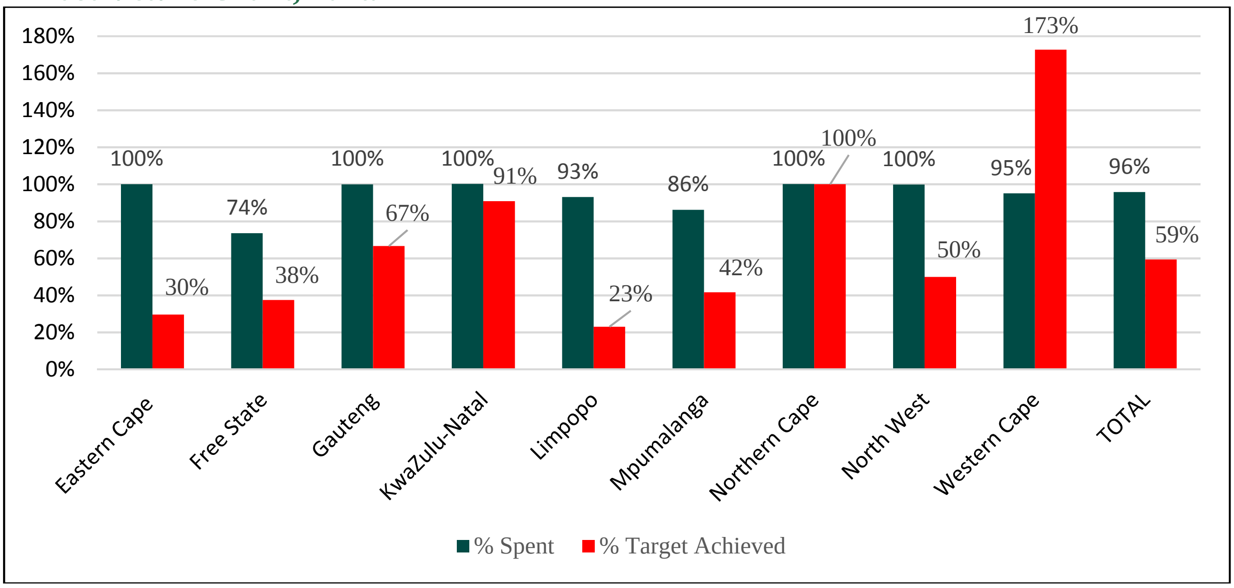
Table 1: Average provincial spending percentage on infrastructure grant allocations, 2011/12 – 2016/17

	Education Infrastructure Grant	Health Facility Revitalisation Grant	Provincial Roads Maintenance Grant
Eastern Cape	95%	96%	98%
Free State	87%	86%	91%
Gauteng	100%	84%	87%
KwaZulu/Natal	100%	100%	96%
Limpopo	95%	87%	90%
Mpumalanga	101%	89%	100%
Northern Cape	96%	92%	100%
North West	94%	96%	78%
Western Cape	97%	92%	100%
All provinces	**96%**	**91%**	**94%**

Source: FFC calculations and National Treasury database

If provinces plan properly, 100 per cent spending of departmental budgets should equate to achieving 100 per cent of their output targets. However, most provinces are significantly underperforming in this respect. Eastern Cape provincial education department, for instance, spent 100 per cent of its Education Infrastructure Grant allocation in 2016/17, but only achieved 30 per cent of its target in building schools. These trends suggest government is not getting value for money from its investment in school infrastructure.

Figure 1: Proportional provincial spending and service delivery on Education Infrastructure Grant, 2016/17



Source: FFC calculations and National Treasury database

Corruption and inefficiencies in infrastructure delivery

The research findings show that 47% of contractors surveyed report time overruns on 20-50 per cent of infrastructure projects. Time overruns tend to affect all contractor companies irrespective of their years of operation, although those that have been in operation for longer experienced time overruns for a larger percentage of projects. The biggest time overrun risk factor is cash flow problems which account for 67 per cent of all cases. Other factors that affect time overruns are delays in government approvals (14.5 per cent), additions to project scope (10 per cent), and third party delays (7 per cent).

Ninety-one per cent of respondents either disagreed or strongly disagreed that the government tender process is open and transparent, while 57 per cent either agreed or strongly agreed that corruption is most prevalent during the procurement and tendering phase of the project cycle. Seventy-six per cent of contractors reported that payments ranging from 3 to 12 per cent of the contract value were made to secure a government contract, while only 14.5 per cent of contractors said no informal payment or inducement was made to secure a government contract. In total, 41% of contractors also believe that government corruption poses the biggest obstacle in the business environment.

Table 2. Elements of business environment posing greatest obstacle

Greatest obstacles	Frequency	Per cent	Cumulative
Access to finance	18	25.71	25.71
Inadequate skilled workforce	3	4.29	30.00
Government corruption	29	41.43	71.43
Time constraints	13	18.57	90.00
Collusion	1	1.43	91.43
Payment on time	6	8.57	100.00
Total	70	100.00	

Source: FFC Survey (2018)

Infrastructure delivery and incentives for fiscal misappropriation

Three case study departments in the provincial education sector (Western Cape, Free State and Limpopo) and interviews with key national stakeholders confirm the survey findings that key weaknesses in provincial infrastructure delivery are predominantly located in the procurement and implementation stages of the project cycle. There are key oversight gaps in the service delivery chain, and incentives are not properly aligned to achieve cost effectiveness. Some examples that demonstrate these weaknesses in the service delivery chain are:

- Implementing agents such as the DPWs heavily rely on consultants to design and cost infrastructure projects. However, often the remuneration of these consultants is calculated as a percentage of the total project costs which creates an incentive for consultants to increase the project scope and complexity.
- Due to the remoteness of some infrastructure sites, the project manager visits these sites only every two to four weeks. The lack of ongoing oversight creates opportunities for contractors to use inferior materials and conceal defects.

Conclusion

The findings of the study confirm widespread inefficiencies in the delivery of infrastructure projects in most provinces, with provincial spending on education infrastructure and road maintenance being the least efficient. Weak procurement processes, poor oversight, separation of the planning, procurement and implementation functions, over reliance on consultants and lack of adequate capacity in sector departments and DPWs are some of the key reasons for the inefficiencies.

In addition to fiscal misappropriation, inefficiencies associated with time overruns on infrastructure projects are widespread. The study findings also show that incentives for fiscal misappropriation are particularly evident during the procurement and implementation stages. To address these inefficiencies, the study calls for strengthening of oversight over consultants and contractors. In addition, holding the IA accountable for funds spent on infrastructure projects will more closely align the incentives of the IA with that of the provincial sector department. The new procurement reforms implemented by the National Treasury are a step in the right direction, but unless sector departments are capacitated with infrastructure procurement skills and built environment professionals, these new reforms are unlikely to achieve their desired results.

Recommendations

The Commission recommends that:

1) *The national Departments of Basic Education, Health and Public Transport develop clear performance evaluation frameworks for the provincial infrastructure grants under their control*

2) *The National Departments of Education, Health and Public Transport exercise greater scrutiny over variation orders when the value of these rises above acceptable levels of the project cost*

3) *The Minister of Finance, through National Treasury, determine and publish the criteria to be measured in monitoring and evaluating infrastructure grants, and*

4) *The assessment criteria regarding infrastructure cuts be published.*

Enquiries:

Financial and Fiscal Commission
Montrose Place (2nd Floor), Bekker Street,
Waterfall Park, Vorna Valley, Midrand,
Private Bag X69, Halfway House 1685
www.ffc.co.za
Tel: +27 11 207 2300
Fax: +27 86 589 1038