2026 POLICY BRIEF

FINANCIAL AND FISCAL COMMISSION

For an Equitable Sharing of National Revenue

Evaluating the contribution of public-private partnerships to public infrastructure delivery in South Africa

Executive Summary

Public-private partnerships (PPPs) have been globally recognised as a tool to crowd-in the private sector to help with the delivery of public infrastructure. In South Africa, PPPs have been embraced as a strategic tool for infrastructure development since the late 1990s, and have been integrated into key national strategies like the National Development Plan (NDP) and the National Infrastructure Plan (NIP) 2050. That being said, the use of PPPs for public infrastructure investment remains underutilised, contributing R50 billion (or just 2.2 per cent) of total public sector infrastructure investment between 2013/14 and 2022/23. This research, which forms part of the Financial and Fiscal Commission's Submission for the 2026/27 Division of Revenue, evaluates the contribution of PPPs in addressing the country's infrastructure challenges through regulatory analysis, investment trends and international case studies.

Findings indicate that South Africa's PPP framework lacks clarity, particularly regarding risk allocation. National Treasury Regulation 16 does not sufficiently differentiate PPPs from traditional procurement, leading to inefficiencies and unintended risk retention by the public sector. Additionally, private sector investment in infrastructure lags behind the country's Brazil, Russia, India, China and South Africa (BRICS) peers, with South Africa consistently attracting lower levels of private participation. Furthermore, a lack of transparency in contingent liabilities exposes the government to significant financial risk, as national and provincial departments remain highly vulnerable to default risks in PPP agreements. This misalignment with proper risk-sharing mechanisms undermines the financial sustainability of PPP projects.

THE FINANCIAL AND FISCAL COMMISSION

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The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between national, provincial and local spheres of government. This relates to the equitable division of government revenue among three spheres of government and to the related service delivery of public services to South Africans.

Through focused research, the Commission aims to provide proactive, expert and independent advice on promoting the intergovernmental fiscal relations system using evidence-based policy analysis to ensure the realisation of constitutional values. The Commission reports directly to both Parliament and the provincial legislatures, who hold government institutions to account. Government must respond to the Commission's recommendations and the extent to which they will be implemented at the tabling of the annual national budget in February each year.

The Commission consists of commissioners appointed by the President: the Chairperson and Deputy Chairperson, three representatives of provinces, two representatives of organised local government and two other persons. The Commission pledges its commitment to the betterment of South Africa and South Africans in the execution of its duties.

Lessons from Canada, Chile and Kenya highlight the importance of clear contractual framework delineating the roles and responsibilities of the participating parties, building institutional capacity and innovative financing mechanisms. To maximise PPP potential, South Africa must refine its regulatory approach, enhance transparency in contingent liabilities and foster a more enabling investment environment. Addressing these challenges can unlock greater private sector participation and improve infrastructure delivery.

Background

Across the globe, the PPP model has been used as a solution for governments under financial constraint to develop infrastructure. PPPs represent collaborative arrangements between the public and private sectors and can be designed to deliver public infrastructure and services. At their core, PPPs involve a long-term contractual agreement, whereby the private party assumes significant risk and management responsibility, covering the design, financing, construction, operation and maintenance of a public asset or assets. In return, private entities receive performance-based remuneration through government payments or user fees. The public sector's role includes project identification, procurement, financial support and performance monitoring to ensure value for money and service quality.

PPPs differ from traditional procurement in terms of risk allocation, financing and project lifecycle involvement. In traditional procurement, the public sector retains primary responsibility for the design, financing and construction of infrastructure projects. Financing is typically sourced from the available national fiscal resources or through public borrowing, and the public entity covers the operating costs. This model also often involves a series of separate contracts, leaving the public sector to bear the majority of the project risks, such as cost overruns and delays.

In South Africa, PPPs have been embraced as a strategic tool for infrastructure development since the late 1990s through their integration into key national strategies like the NDP and the NIP 2050. National Treasury's 2024 Budget Review document outlines government's expectation of increased capital investment in the medium term, driven, in part, by greater use of PPPs, to crowd-in the private funding needed for public infrastructure development. Against this backdrop, research was conducted as part of the Financial and Fiscal Commission's Submission for the 2026/27 Division of Revenue to examine the contribution of PPPs in addressing South Africa's public infrastructure challenges.

Research findings

In undertaking the analysis, a multi-faceted approach was used. This involved an assessment of South Africa's National Treasury Regulation 16 PPP framework, a trend analysis of infrastructure investment and the extraction of key lessons from case studies in Canada, Chile and Kenya.

The PPP concept is not well defined

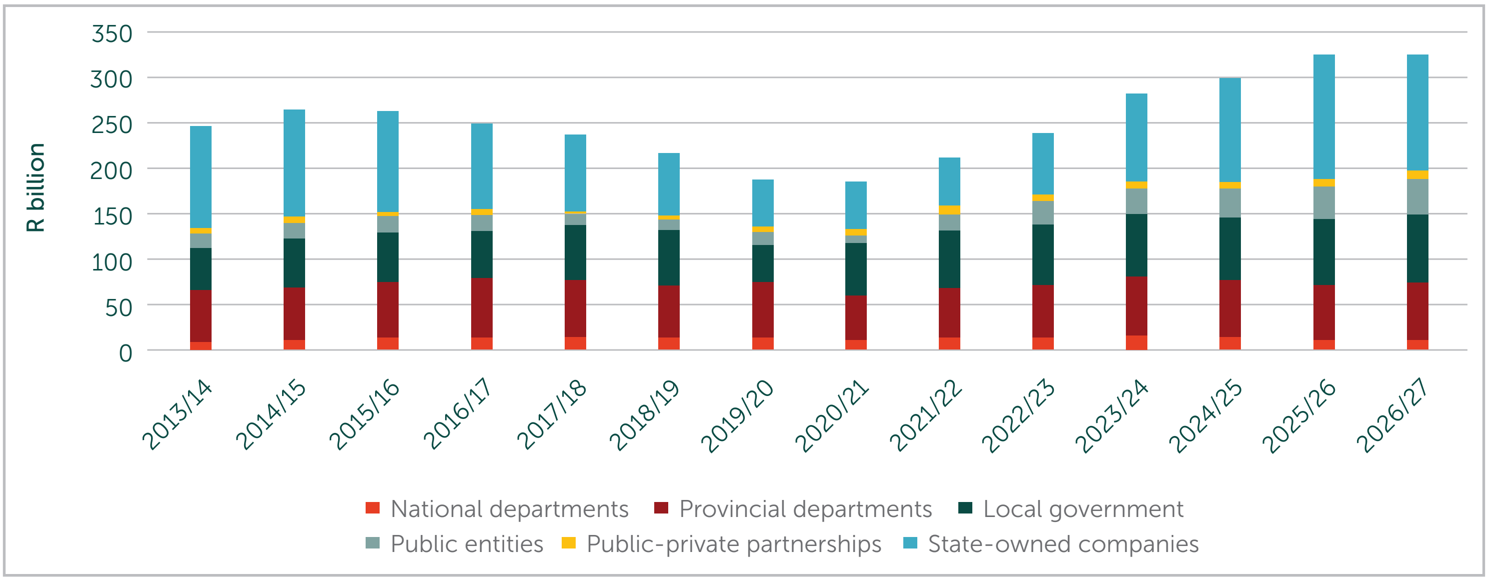
In South Africa, PPPs are primarily governed by National Treasury Regulation 16 under the Public Finance Management Act, 1999, for national and provincial government, and the Municipal Finance Management Act, 2003, at local government level. Within these frameworks, there is a lack of distinction between PPPs, traditional procurement contracts and other public-private financing models. The definition of PPPs under National Treasury Reguation 16 also states that a private party performs a function on behalf of a government institution and assumes "substantial financial risk". However, this definition does not specify the thresholds or criteria for this "substantial financial risk" that differentiates a PPP from other forms of public procurement agreements. This lack of a clear distinction leads to a situation where the public sector, through traditional procurement mechanisms, effectively bears a greater financial risk than intended. This occurs because the ambiguity between PPPs and procurement contracts results in the government paying more than is necessary, inadvertently retaining the "substantial financial risk" that PPPs are designed to transfer. Consequently, the intended risk transfer to the private sector is compromised, undermining the core principle of a PPP, and hindering their potential for efficient infrastructure delivery.

The contributions of PPPs to infrastructure investment have been limited

Despite government policy commitments to increasing PPPs, their actual contribution to public sector infrastructure spending remains marginal. Data from National Treasury reveals that, historically, subnational government (provincial and local government) has been the primary contributor to public infrastructure spending. Over the 2013/14 to 2022/23 financial years, subnational government spent R1.1 trillion on infrastructure, which represented 50 per cent of the total R2.3 trillion spent on public sector infrastructure over the period. This figure highlights that, despite government policies like the NDP emphasising the use of PPPs for infrastructure development, public sector infrastructure spending through PPPs amounted to close to R50 billion, or just 2.2 per cent, over the 2013/14 to 2022/23 period. This indicates a lack of significant progress in utilising PPPs for infrastructure projects, as well as how tightly regulated and managed PPPs can be.

During the 2024 Medium-term Expenditure Framework (MTEF) period, public sector infrastructure spending is estimated to reach R943.8 billion. Subnational government is projected to continue its dominant role, contributing R397.5 billion (or 42 per cent of total spending). In contrast, PPPs are expected to account for only R19.1 billion, or 2 per cent of the total. This again highlights a lack in evolution in government's approach to leveraging PPPs for infrastructure development.

Figure 1: Public-sector infrastructure expenditure contributions by type of institution



Note: Public entities are financed by capital transfers from the fiscus, and state-owned companies are financed from a combination of own revenue and borrowings.

Source: National Treasury Budget Review 2024.

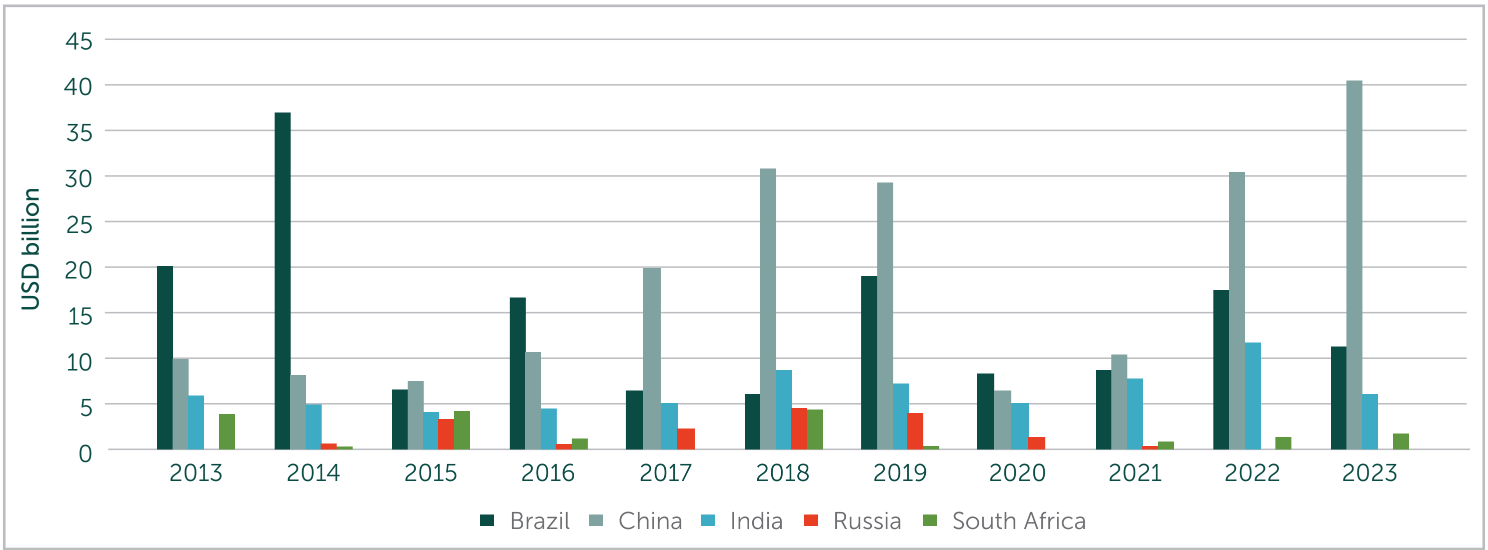
South Africa's private investment in infrastructure lags behind its peers

Figure 2 illustrates the value of private sector infrastructure investments that reached financial closure between 2013 and 2023 in BRICS countries. Between 2013 and 2023, private participation in infrastructure (PPI)[1] in South Africa has lagged behind its peers. While China consistently outperformed the group, reaching a peak of 40.38 billion US dollars in 2023, South Africa's investments were notably subdued throughout the period, with its highest value being 4.32 billion US dollars in 2018. This is in contrast to Brazil and India, which displayed stronger, albeit fluctuating, investment patterns.

[1] The World Bank describes the term "investment" as referring to private investment commitments at the time of financial close in energy, transport, water and sanitation, municipal solid waste, and information and communication technology (ICT)-backbone projects aimed at serving the public.

Brazil saw its highest investment in 2014 with 36.9 billion US dollars, while India peaked at 11.7 billion US dollars in 2022, showcasing steady growth and a consistent ability to attract private sector participation. South Africa has recorded minimal activity, often falling below 1.5 billion US dollars annually, except for 2015 and 2018. This limited activity highlights South Africa's ongoing challenges in creating an enabling environment for private sector investment in infrastructure compared to its BRICS counterparts.

Figure 2: Private participation in infrastructure in BRICS



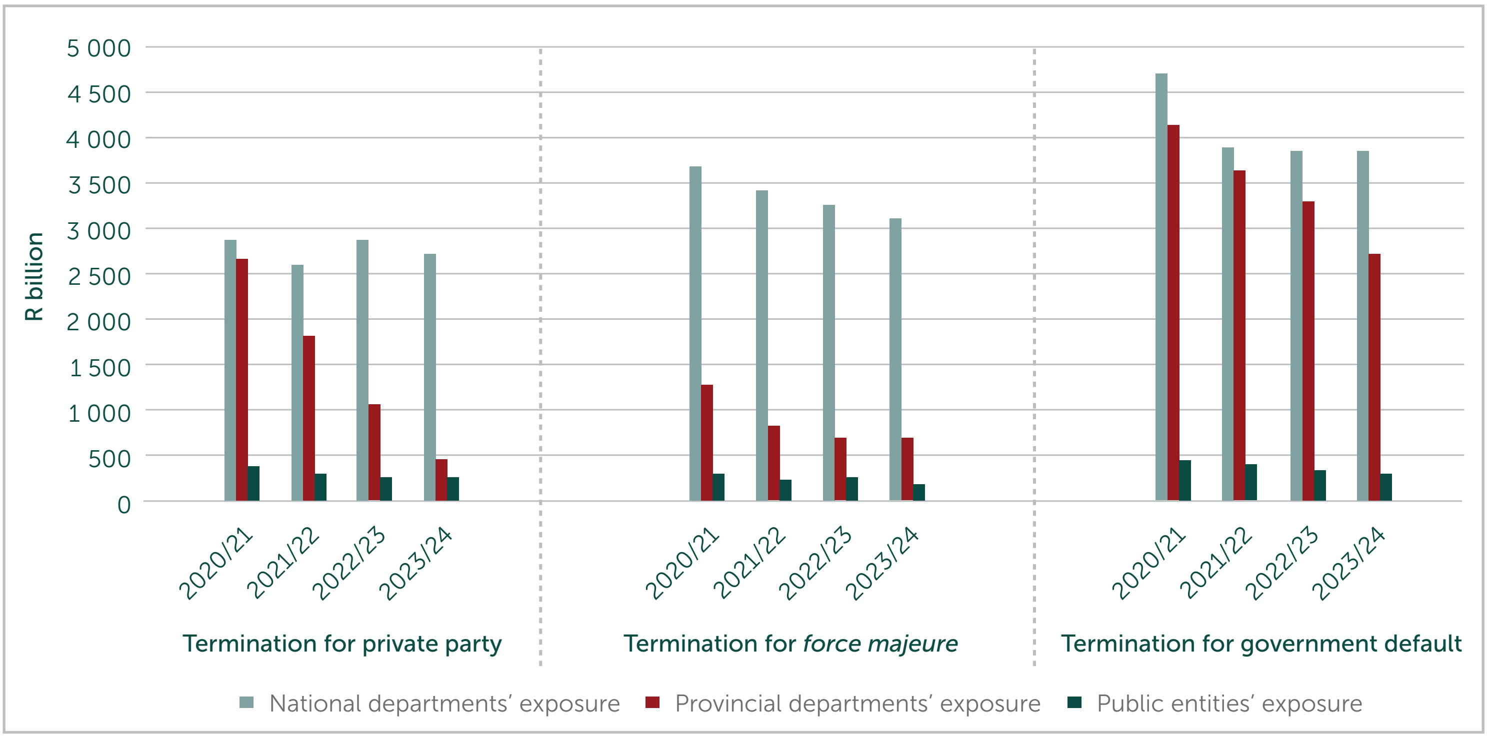
Source: World Bank Private Participation in Infrastructure Database

Lack of transparency around contingent liabilities

Figure 3 presents contingent liabilities by category for the South African government, specifically related to PPPs. It reveals that national and provincial government departments are highly exposed to the risk of termination of PPPs due to government default. This can be attributed to the fact that national and provincial departments are the primary contracting parties in PPP agreements due to their involvement in large-scale infrastructure projects. As a result, when the government defaults – whether due to non-payment or failure to meet contractual obligations – the financial burden falls directly on these departments. This high default risk suggests that many infrastructure projects, while labelled as PPPs, may not fully adhere to the risk-sharing principles inherent in true PPPs. Instead, they appear to align more closely with traditional procurement processes, where the government assumes a disproportionate share of the financial risk. This underscores the critical need for a clearer distinction between genuine PPPs and standard government procurement practices.

Furthermore, the high exposure to default could be attributed to potential flaws in the initial feasibility study phase of the project lifecycle. There is a concern that projects may be initiated based on misaligned priorities or driven by financial incentives rather than genuine public need. This leads to resource misallocation and unrealistic financial projections, ultimately jeopardising the successful delivery of PPP infrastructure projects.

Figure 3: Contingent liabities by category



Note: Municipalities are an autonomous sphere of government, so their liabilities are not part of the fiscus.

Source: National Treasury Budget Review 2024.

Lessons learnt from international case studies

International experiences with PPPs provide valuable insights into best practices and common pitfalls. Canada's success is attributed to a well-defined legislative framework, streamlined procurement processes and strong institutional support structures, which have fostered efficiency and public trust. Chile's asset recycling model has allowed reinvestment into new infrastructure projects without excessive reliance on public debt, demonstrating how innovative funding approaches can enhance sustainability. Kenya's decentralised PPP framework has enabled local governments to take the lead in infrastructure development, ensuring that projects align with regional needs and priorities. These case studies highlight the importance of clear regulatory frameworks, institutional capacity building and innovative financing mechanisms in fostering a successful PPP environment. South Africa can adapt these lessons to improve its own PPP framework and enhance infrastructure delivery.

Recommendations

The Commission recommends that:

1. ***To enhance efficiency and clarity for the use of public-private partnerships for public infrastructure delivery, the Minister of Finance, and the Minister of Public Works and Infrastructure should create a framework for public-private partnerships to replace the current fragmented approach.***

2. ***The Minister of Finance, and the Minister of Public Works and Infrastructure should collaboratively ensure contract enforcement and adopt robust risk-sharing mechanisms to improve and enhance the way infrastructure development projects that utilise public-private partnerships are monitored, managed and controlled.***

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