



Promoting Industrialisation in SADC through Quality Infrastructure SADC Industrialisation Week 2017

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WHY IT MATTERS



Importance of infrastructure for trade and growth has long been recognised...

“Good roads, canals, and navigable rivers, by diminishing the expense of carriage, put the remote parts of the country more nearly upon a level with those of the neighborhood of the town. They are upon that, **the greatest of all improvements.**”

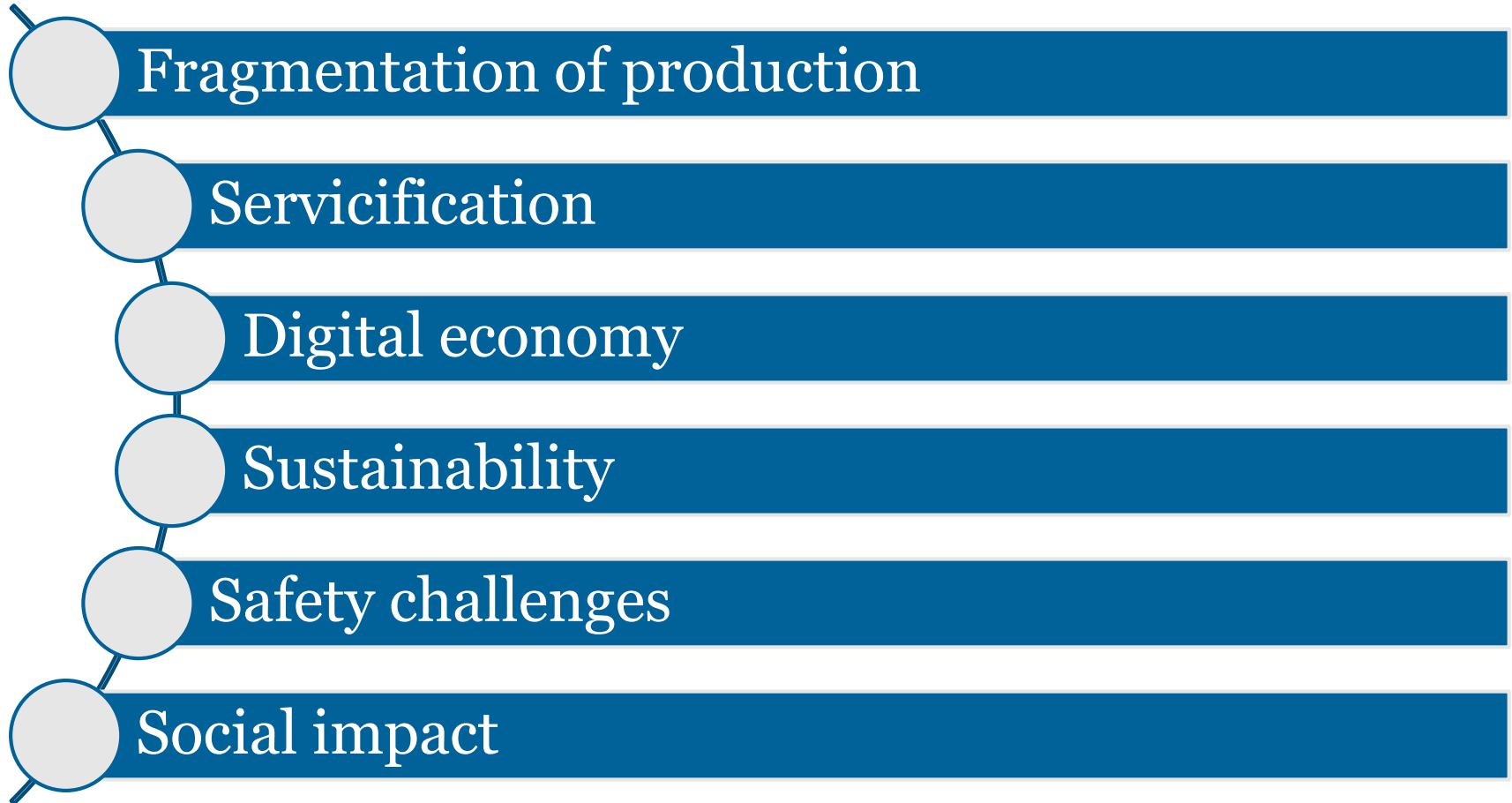
Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of the Nations*



The Provider: Adam Smith as professor.



...but in the 21st century infrastructure strategies are more complex.





Discussions focus on bridging the gap: How much is needed?

- **Globally**, USD **3.7 trillion** is needed per annum to meet infrastructure investments needs to 2030. At current levels of spending, USD 1 trillion gap (OECD).
- In **Africa**, infrastructure requirements estimated at **USD 93 billion** per year, of which roughly half are being met: USD 44 billion gap annually (World Bank AfDB).
- For **SADC** Regional Infrastructure Development Master Plan (RIDMP), capital requirements is estimated at **USD 500 billion over 15 years** (2012-2027). This amounts to investments needs of **USD 33.3 billion per year**.

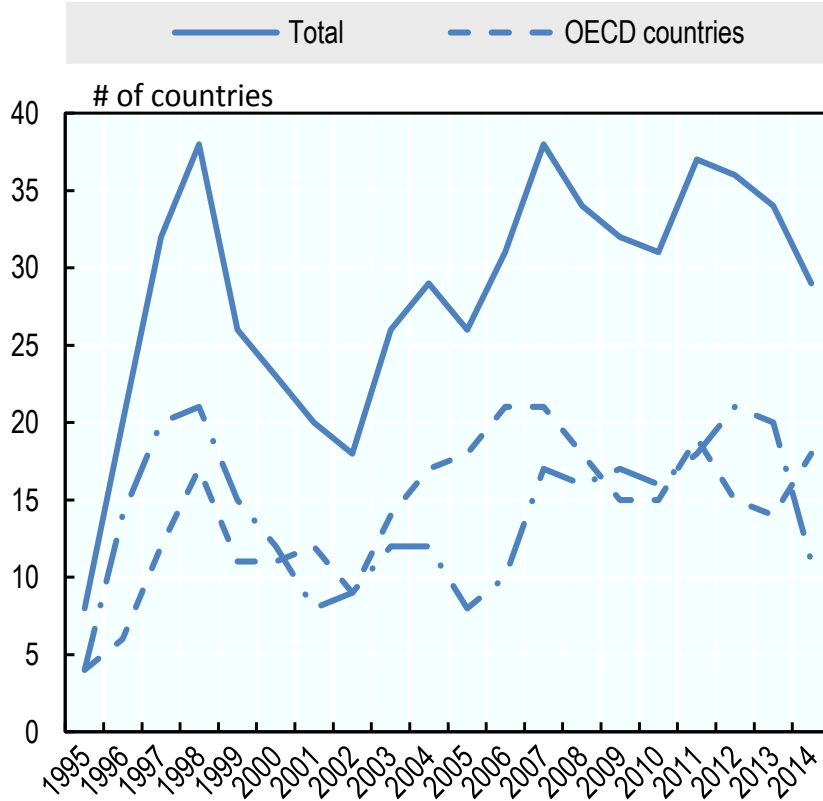
Global infrastructure investment needs to 2030¹

| | Base case | Downside | Upside |
|----------------------------|------------------|-------------------|-----------------|
| Total need through to 2030 | USD 57 trillion | USD 57 trillion | USD 57 trillion |
| Government spending | 3% of GDP | 2% of GDP | 3.5% of GDP |
| Total gap | USD 8.4 trillion | USD 24.6 trillion | Zero |
| Annual gap | USD 500 billion | USD 1.5 trillion | Zero |



And who pays? Mobilising private investments

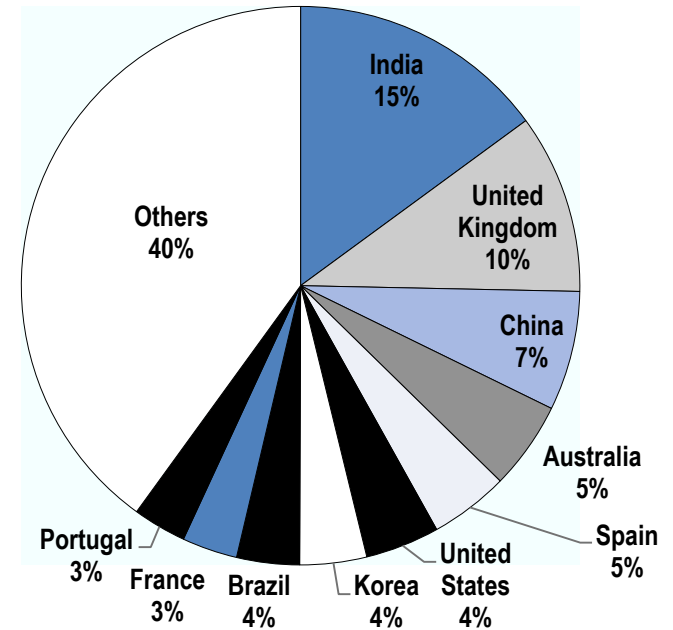
Nombre of countries recurring to PPI



Around 30 countries recur to PPI every year in the recent past

Geographic distribution

Data in constant 2014 international dollars, 1995-2014.

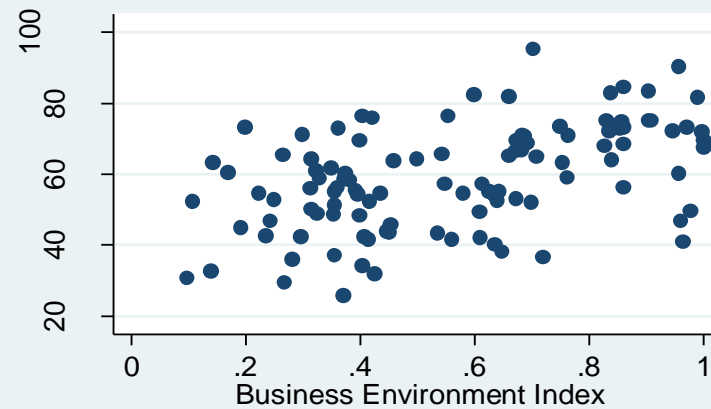
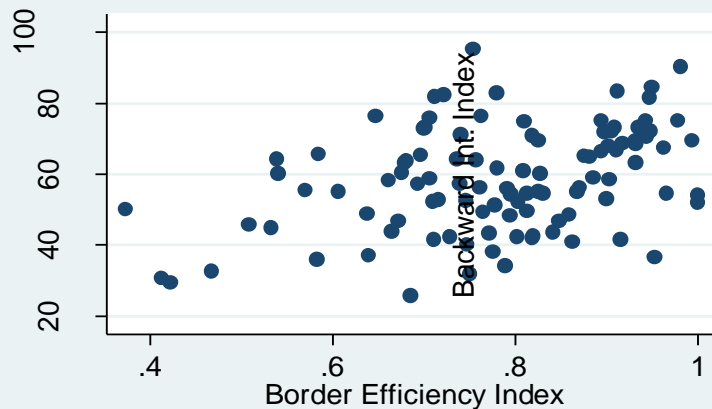
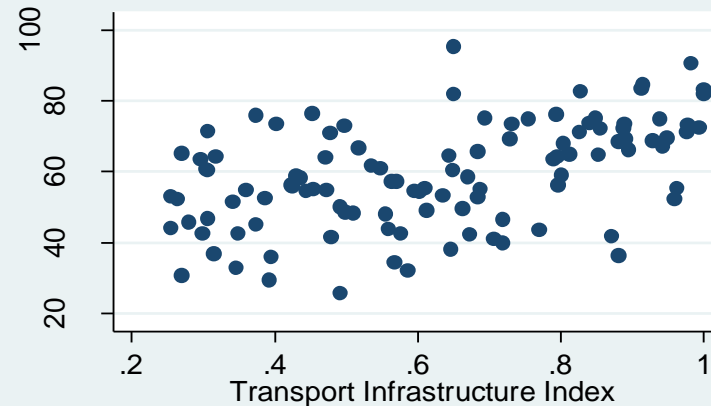
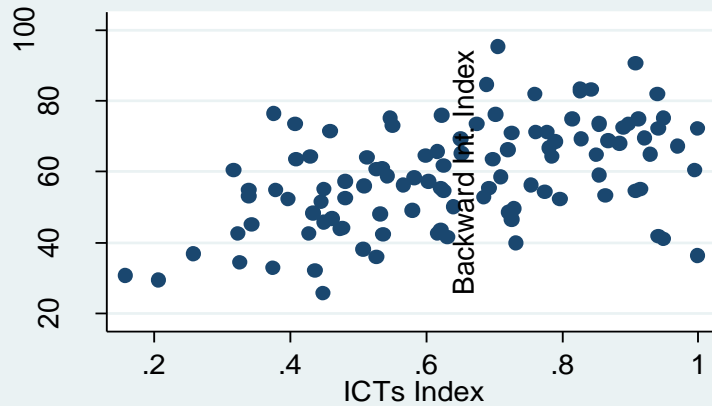


Overall, similar concentration in terms of number of deals



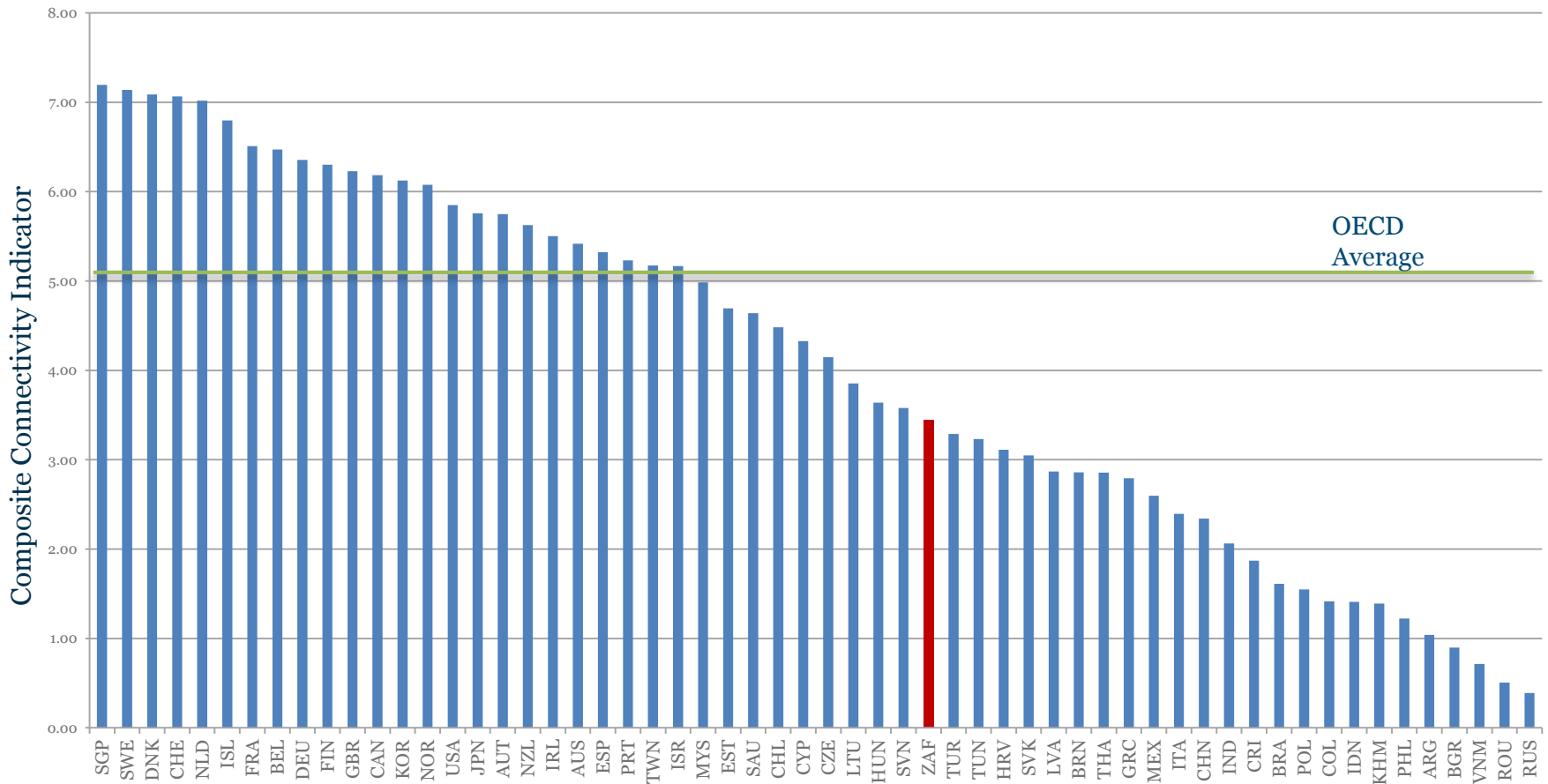
Robust relationship between connectivity infrastructure and linkages to value chains

Y Axis measures Imports of intermediates as a % of total Imports



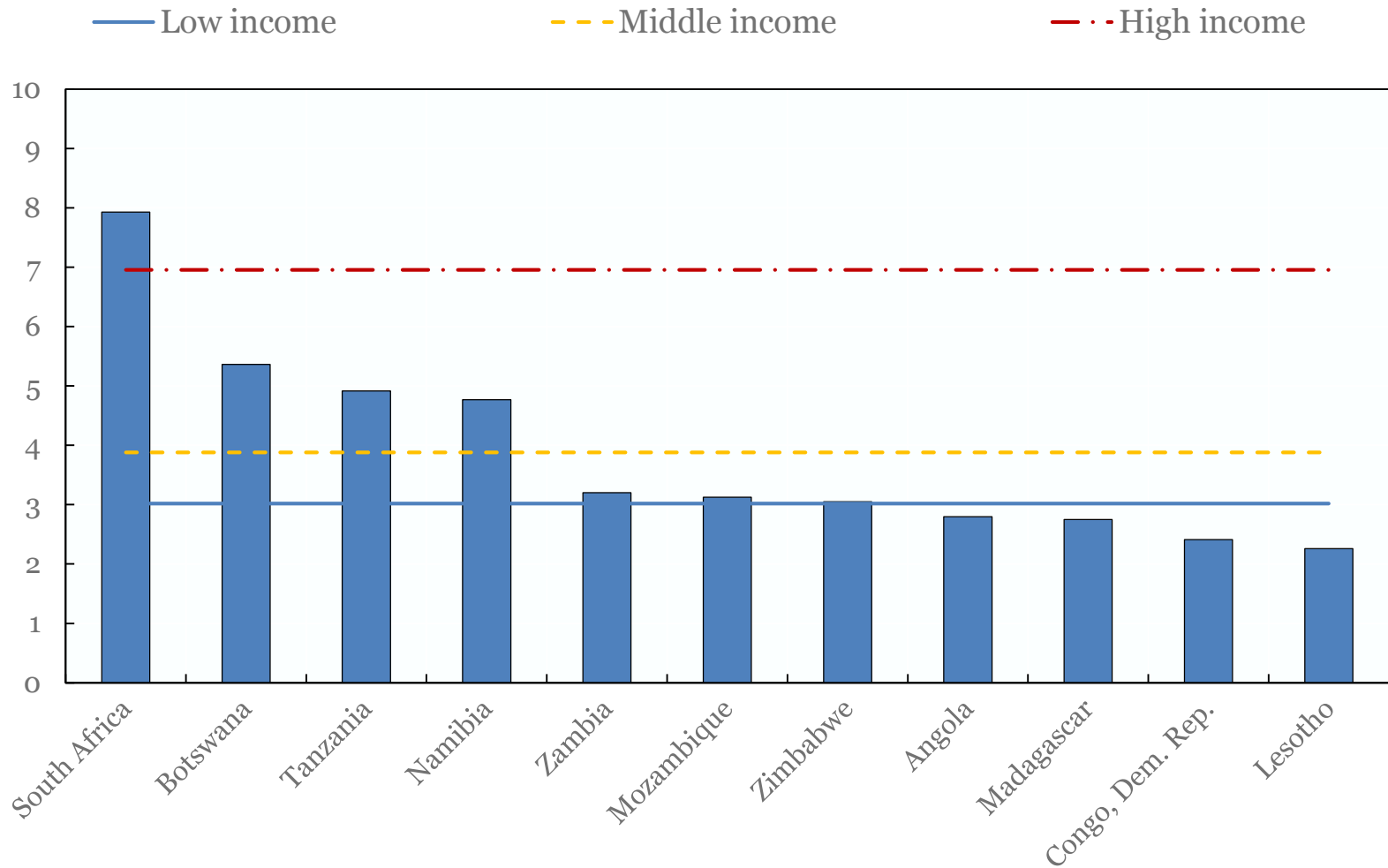


South Africa has better connectivity than other large emerging economies, but still room for improvement





Limited regional connectivity can hold SADC's potential back: GVCs have a strong regional basis



Source: OECD based on World Bank (2014)



WHAT IT TAKES: GOVERNMENT AND INVESTORS

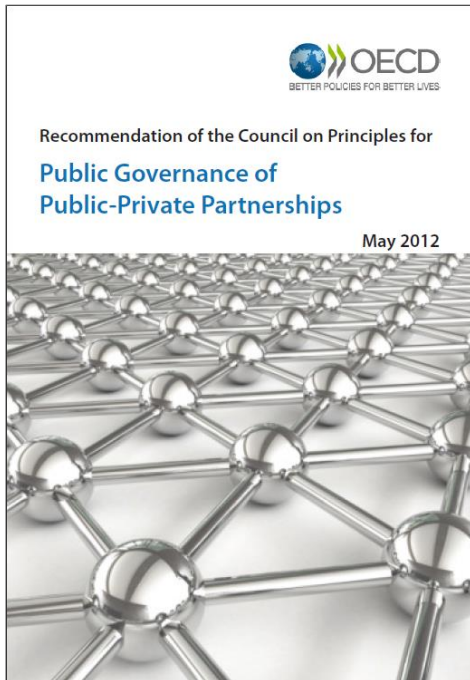


Infrastructure Governance at the OECD

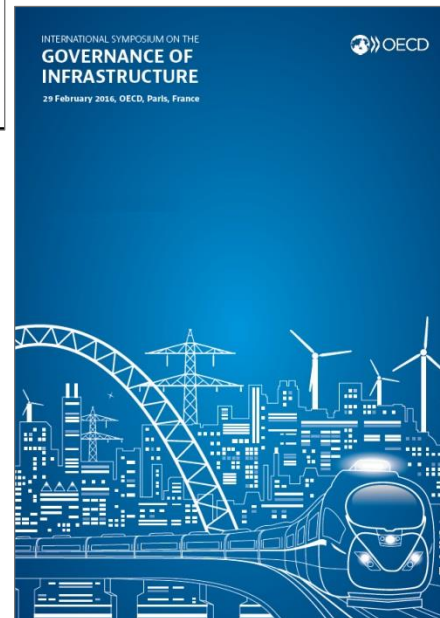
OECD (2012),
Public
Governance of
Public Private
Partnerships



Network of
Senior
Infrastructure
Officials



OECD (2015),
Towards a
Framework for
the
Governance of
Infrastructure



OECD(2017)
Getting
Infrastructure
Right: A
Framework for
Better
Governance



10 dimensions of good infrastructure governance

1. Develop a strategic vision for infrastructure

- Long-term: where region should be in, say, 20 years
- Mean to go beyond silos – integrated strategies
- Requires to balance multiple objectives

2. Manage threats to integrity

- Adequate conflict of interest policies
- System of internal controls and reporting mechanisms

3. Choose how to deliver infrastructure

- Most efficient delivery mode
- Ensure value-for-money and affordability



10 dimensions of good infrastructure governance

4. Ensure good regulatory design

- Reduce uncertainty of the "rules of the game"
- Create confidence

5. Integrate a consultation process

- Identify and meet user's needs
- Enhance the legitimacy amongst the stakeholders

6. Co-ordinate infrastructure policy across levels of government

- Reduce gaps, overlaps, or contradictions
- Alignment of strategic priorities
- Economies of scale



10 dimensions of good infrastructure governance

7. Guard affordability and value for money
 - Ensure affordability for the public and the users
8. Generate, analyze and disclose useful data
 - Evaluation, transparency and accountability
9. Make sure the asset performs throughout its life
 - Maintaining value for money through the performance of the asset
10. Make infrastructure systems resilient, adaptable to new circumstance, and future proof
 - Socio-economic and environmental impacts
 - Functional dependencies of critical infrastructure



OECD Guidelines for Multinational Enterprises

- Comprehensive government-backed international instrument for Responsible Business Conduct
- Contains **recommendations from governments to businesses** operating in or from adhering countries
- Currently has **46 adherent countries** from all regions, representing over 80% FDI outflows Endorsed by business, trade unions and civil society
- Unique implementation mechanism, including through the role of **National Contact Points (NCPs)**



Dimensions of OECD Guidelines for MNEs

Human Rights

Employment and Industrial Relations

Environment

Combating Bribery, Bribe Solicitation
and Extortion

Consumer Interests

Science and Technology

Competition

Taxation



Panel discussion

1. What are the most **critical dimensions of quality infrastructure** that could be given more attention in the SADC region?
2. What are **the key constraints or bottlenecks** towards enhancing the quality of infrastructure investments in SADC?
3. What are **concrete steps or action items** that relevant stakeholders can take, **both public and private**, at **local, national, regional levels**?



Thank you for your attention

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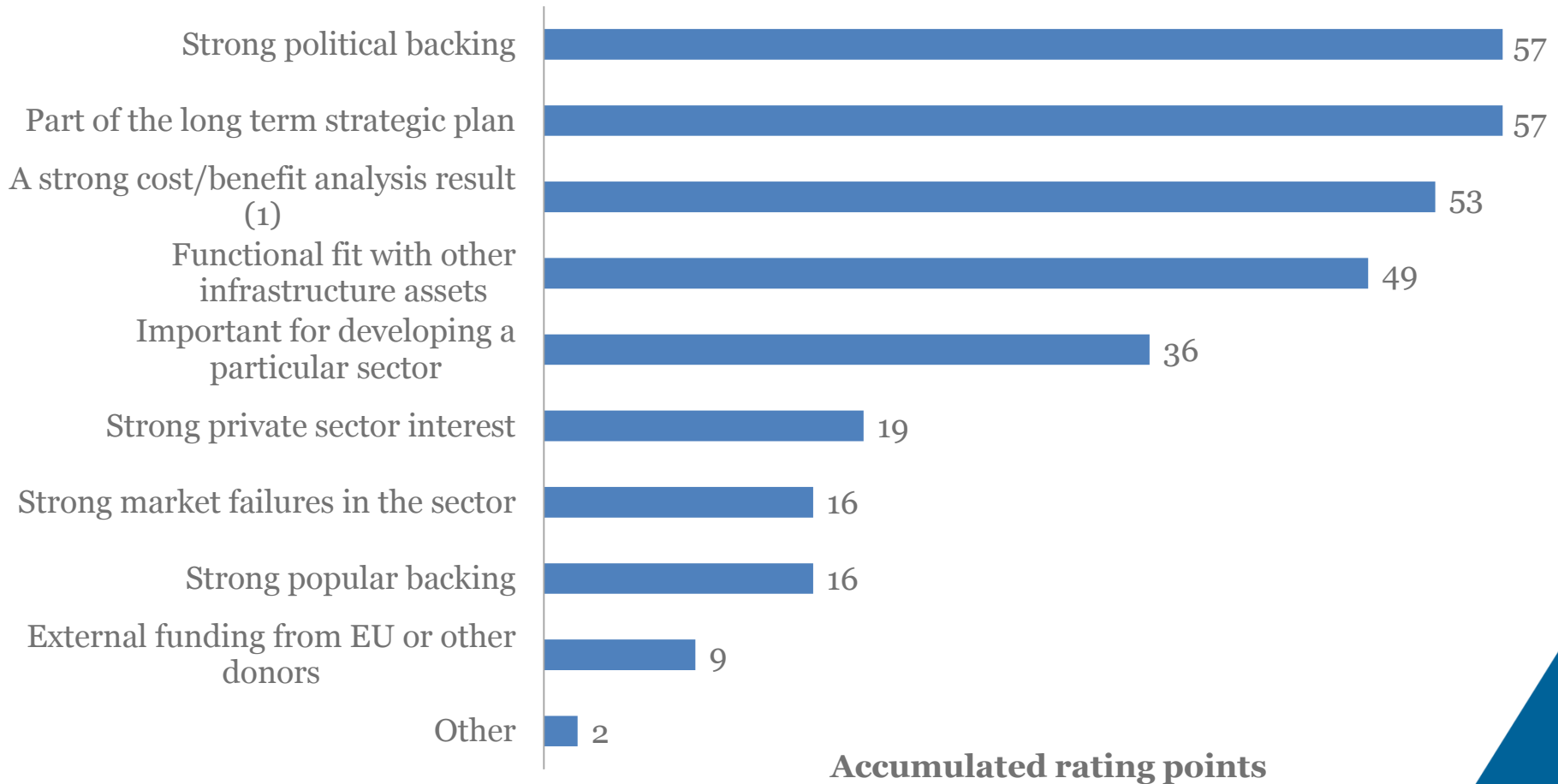
G7 Ise-Shima Principles for Quality of Infrastructure Investments

1. **Economic life-cycle cost, safety and resilience** against natural disaster, terrorism and cyber-attach risks
2. Capacity building, transfer of expertise and know-how for **local communities**.
3. Addressing **social and environmental impacts**
4. Alignment with the aspect of **climate change and environment** at the national/regional levels
5. Enhancing **effective resource mobilisation** including through PPPs



Political motivation are often behind infrastructure investment decisions

Determinants for project funding



1. i.e. strong absolute value for money/socioeconomic benefit



Integrated long-term strategic infrastructure plans are missing in many countries

About half surveyed countries have a LT integrated strategic infrastructure plan, but many countries still rely only on sectorial infrastructure plans

| Countries with LT strategic infrastructure plan | Countries with only long-term sectorial infrastructure plans |
|---|--|
| Australia | Belgium |
| Austria | Chile |
| Hungary | Czech Republic |
| Italy | Estonia |
| Japan | France |
| Mexico | Germany |
| New Zealand | Ireland |
| Republic of Korea | Norway |
| Spain | Slovenia |
| Sweden | Switzerland |
| Turkey | |
| United Kingdom | |
| South Africa | |

Note: Total respondents: 24. Other forms of strategic planning include medium term (6-7 years), sector and regional plans.

Source: OECD (2016), OECD Survey of Infrastructure Governance



Robust coordination mechanisms across levels of government are lacking

Do national PPP units or Infrastructure Units in the Central Government strengthen the capacities of sub-national governments (municipalities, regions, states) to design and run PPP or infrastructure projects in general?

| Yes | No |
|------------------------|----------------------|
| Australia* | Austria |
| France* | Chile |
| Germany* | Denmark |
| Italy* | Estonia |
| Republic of Korea* | Finland |
| Spain* | Hungary |
| United Kingdom* | Japan |
| Czech Republic | Luxembourg |
| Ireland | New Zealand |
| Turkey | Norway |
| | Slovenia |
| <u>Non-OECD</u> | Sweden |
| Philippines* | Switzerland |
| South Africa | Mexico ^{na} |

Note: Total respondents: 23; * Without mandate.

Source: OECD (2016), OECD Survey of Infrastructure Governance



Ensuring absolute value for money from infrastructure projects is not always formalised

Is there a formal process/legal requirement for ensuring absolute value for money from infrastructure projects?

| Yes in all cases | In all cases above a certain value threshold | On an ad hoc basis | Only PPP Projects | No |
|------------------|--|--------------------|-------------------|------------|
| Australia | Hungary | Czech Republic | France | Austria |
| Germany | Ireland | Denmark | Mexico | Chile |
| Italy | Japan | Finland | | Estonia |
| United Kingdom | New Zealand | Switzerland | | Luxembourg |
| | Norway | Belgium | | Slovenia |
| | Republic of Korea | | | Spain |
| | Turkey | | | Sweden |
| | | | | |
| | Non-OECD | | | |
| | South Africa | | | |
| | Philippines | | | |



The lack of data impedes accurate analysis and evaluation of projects

Is there a central, systematic and formal collection of information on financial and non-financial performance of infrastructure?

| Yes | No |
|-----------------|-----------------|
| Australia | Austria |
| Finland | Belgium |
| Japan | Chile |
| Mexico | Czech Republic |
| New Zealand | Denmark |
| Korea | Estonia |
| Spain | France |
| | Germany |
| | Ireland |
| | Italy |
| | Luxembourg |
| | Norway |
| | Slovenia |
| | Sweden |
| | Turkey |
| | Switzerland |
| | United Kingdom |
| | Hungary |
| Non-OECD | Non-OECD |
| Philippines | South Africa |

Who collects information on financial and non-financial performance of infrastructure?





Performance throughout the life of an asset requires more attention

Is there a formal policy ensuring that the relevant line ministry or agency conducts performance assessment of each project?

| Yes | No |
|------------------------|-----------------------|
| Czech Republic | Australia |
| Finland | Austria |
| Germany | Belgium |
| Ireland | Chile |
| Italy | Denmark |
| Japan | Estonia |
| Mexico | France |
| New Zealand | Luxembourg |
| Korea | Norway |
| Spain | Slovenia |
| Turkey | Sweden |
| United Kingdom | Switzerland |
| <u>Non-OECD</u> | Hungary ^{na} |
| Philippines | |
| South Africa | |

Note: Total respondents: 25

Source: OECD (2016), OECD Survey of Infrastructure Governance