

CABRI PFM REFORM CLOSING
WORKSHOP-
THE JOURNEY THAT WAS AND
STILL IS...

REFORMERS (TEAM SOUTH AFRICA)



OUTLINE

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- WHERE WE STARTED
- WHAT HAVE WE DONE?
- WHAT WERE OUR KEY OUTPUTS?
- WHO HAVE WE ENGAGED WITH DURING THIS TIME?
- WHAT LESSONS ARE WE TAKING AWAY FROM THIS?
- WHAT'S NEXT?
- CONCLUDING REMARKS FROM OUR AUTHORISER

CONTEXT

South Africa

61st / 137

The Global Competitiveness Index 2017-2018 edition



Key indicators, 2016

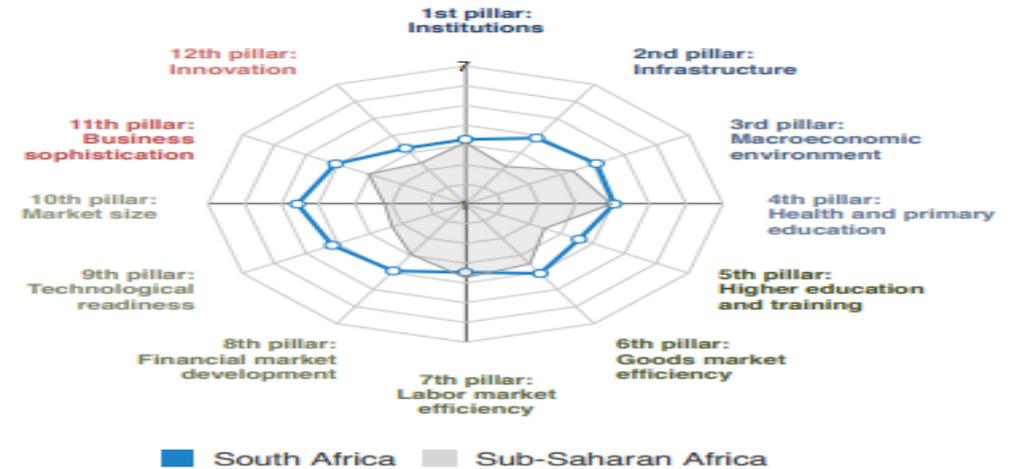
Source: International Monetary Fund; World Economic Outlook Database (April 2017)

Population millions	55.9
GDP US\$ billions	294.1

GDP per capita US\$	5,260.9
GDP (PPP) % world GDP	0.62

Performance overview

Index Component	Rank/137	Score (1-7)	Trend	Distance from best	Edition	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Global Competitiveness Index	61	4.3			Rank	52 / 144	53 / 148	56 / 144	49 / 140	47 / 138	61 / 137
Subindex A: Basic requirements	92	4.3			Score	4.4	4.4	4.4	4.4	4.5	4.3
1st pillar: Institutions	76	3.8									
2nd pillar: Infrastructure	61	4.3									
3rd pillar: Macroeconomic environment	82	4.5									
4th pillar: Health and primary education	121	4.5									
Subindex B: Efficiency enhancers	52	4.4									
5th pillar: Higher education and training	85	4.1									
6th pillar: Goods market efficiency	54	4.5									
7th pillar: Labor market efficiency	93	4.0									
8th pillar: Financial market development	44	4.4									
9th pillar: Technological readiness	54	4.6									
10th pillar: Market size	30	4.9									
Subindex C: Innovation and sophistication factors	39	4.1									
11th pillar: Business sophistication	37	4.5									
12th pillar: Innovation	39	3.8									



CONTEXT- LEVELS OF PUBLIC SECTOR INFRASTRUCTURE SPENDING

R billion	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	MTEF Total
	Outcomes			Estimates				
Energy	69.6	67.8	65.9	75.0	78.3	81.9	74.3	234.5
Water and sanitation	25.8	29.5	31.5	37.2	39.3	41.2	44.9	125.4
Transport and logistics	77.8	92.4	81.3	91.4	104.6	105.7	117.4	327.7
Other economic services	13.0	13.0	13.2	16.0	12.6	12.9	13.0	38.5
Health	10.0	8.7	10.3	11.0	11.2	11.9	12.5	35.6
Education	13.7	15.4	18.0	17.3	17.6	15.8	16.7	50.1
Human settlements ¹	17.0	17.1	18.3	18.3	20.0	21.1	22.3	63.4
Other social services	12.9	13.1	16.3	15.6	16.1	16.6	17.5	50.2
Administration services ²	5.0	5.2	6.5	7.9	7.1	7.2	7.5	21.7
Total	244.8	262.2	261.2	289.8	306.7	314.3	326.1	947.2
National departments	11.9	13.5	14.5	16.6	16.7	16.0	15.0	47.7
Provincial departments	55.2	56.4	60.6	62.3	64.1	65.1	68.9	198.2
Local government	47.1	53.2	54.7	58.2	56.7	59.1	63.9	179.6
Public entities ³	15.4	19.2	17.8	22.0	23.9	23.6	24.9	72.3
Public-private partnerships	3.9	4.0	4.3	4.8	5.1	5.5	5.9	16.5
State-owned companies ³	111.2	115.8	109.3	125.8	140.3	145.0	147.5	432.8
Total	244.8	262.2	261.2	289.8	306.7	314.3	326.1	947.2

1. Human settlements includes public housing to households and bulk infrastructure amounting to R63.4 billion over the MTEF period

2. Administration services include infrastructure spending by the Department of International Relations, the Department of Home Affairs, the Department of Public Works, Statistics South Africa and their entities

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

WHY WE STARTED

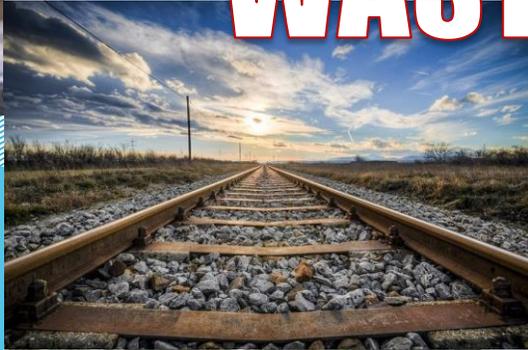




**BILLIONS
WASTED!!!**



Billions wasted on infrastructure projects
from bad planning, bureaucracy



**BILLIONS
WASTED!!!**



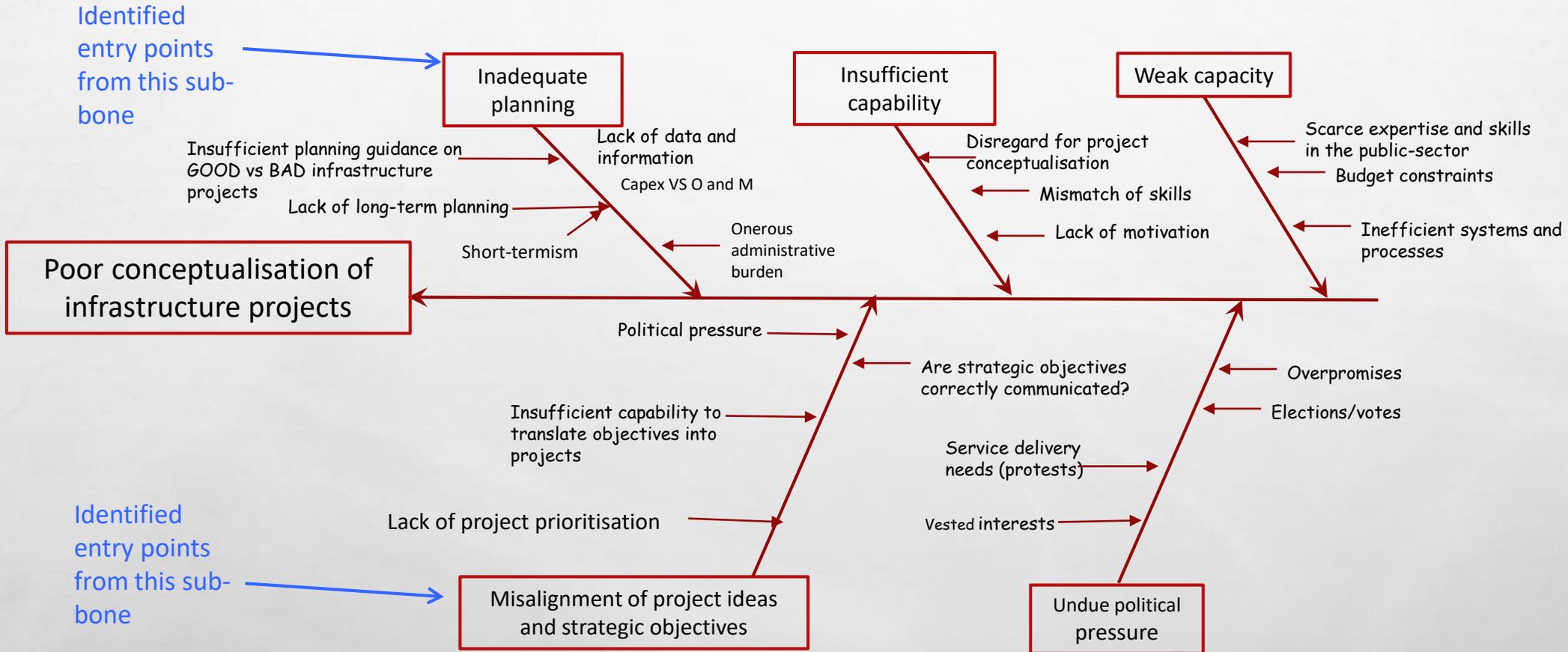
HOW DO WE SEE POOR CONCEPTUALISATION OF PROJECTS



COMMON CHALLENGES

- Poorly scoped projects
- Poor assessment of demand
- Misalignment of project ideas to strategic objectives
- Optimism bias
- Cost overruns
- Poor estimation of life-cycle costs – capital, operational and maintenance costs not adequately budgeted for.
- Underspending with a fourth quarter spike
- Disregard for capital planning guidelines

WHERE WE STARTED



WHAT HAVE WE DONE?

- Appraised absent members;
- We have managed to agree on the problem that we are trying to resolve;
- Briefed our Authoriser;
- Data collection;
- Developed a good infrastructure project criteria;
- Identified case studies that we could use to test our criteria against;
- We have used questionnaires (surveys) to assist in understanding the problem from other stakeholder's point of view;

WHAT HAVE WE DONE?

- We have used case studies to validate and understand what is a good project and what is a bad project;
- We had a trial run on the Budget Facility for Infrastructure;
- We have revised our fishbone;
- We have come up with the terms of reference (ToR) will be used to procure the service of an expert who can assist us with the solution to the problem we are trying to resolve;
- We reviewed the application of the AAA exercise in line with the revisions we have made to the fishbone. In drafting the ToR the survey outcomes, our good projects' criteria and lessons learnt from the BFI process.

KEY OUTPUTS: GOOD PROJECT CRITERIA

- Need analysis: is there a clear and articulated need?
- Policy alignment: is the project aligned with policy intent and objectives?
- Options analysis: why is this the most optimal solution? (To what extent have alternatives been considered)
- Value for money: Is the project worthwhile? Does the project raise welfare of the country or project area? Do the benefits to society outweigh the costs?
- Procurement model: has the right procurement model been chosen to deliver the project? (Public Private Partnership vs Conventional Procurement Model)
- Distributive impacts: who are the beneficiaries of the project and who bears the cost?
- Sustainability: is the project sustainable from an environmental, economic, social and financial perspective over the long term?

KEY OUTPUTS: CASE STUDIES

Inkosi Albert Luthuli Public-Private Partnership Project

- 800 + 46 burns unit-bed tertiary referral central hospital;
- Provides highly specialized services for Kwa-Zulu Natal and half of eastern cape province – population of over 12.5 million people;
- PPP contract for 15 years – contract ending Feb 2017;
- The total project cost is R4.5 billion;
- Impilo consortium provide medical equipment, non-medical equipment, filmless and paperless operation (EPR), full ICT service and hard and soft facilities management

KEY OUTPUTS: CASE STUDIES

Umzivumbu Water Project

- Supply domestic, irrigation and industrial water requirements within economic distance of the dam;
- Generate hydropower for local energy needs on the scheme and contribute to national renewable energy targets;
- The total project cost of the project is R20.1 billion;
- Phase 1 of the project includes the construction of the dam while phase 2 includes the construction of hydro power stations.

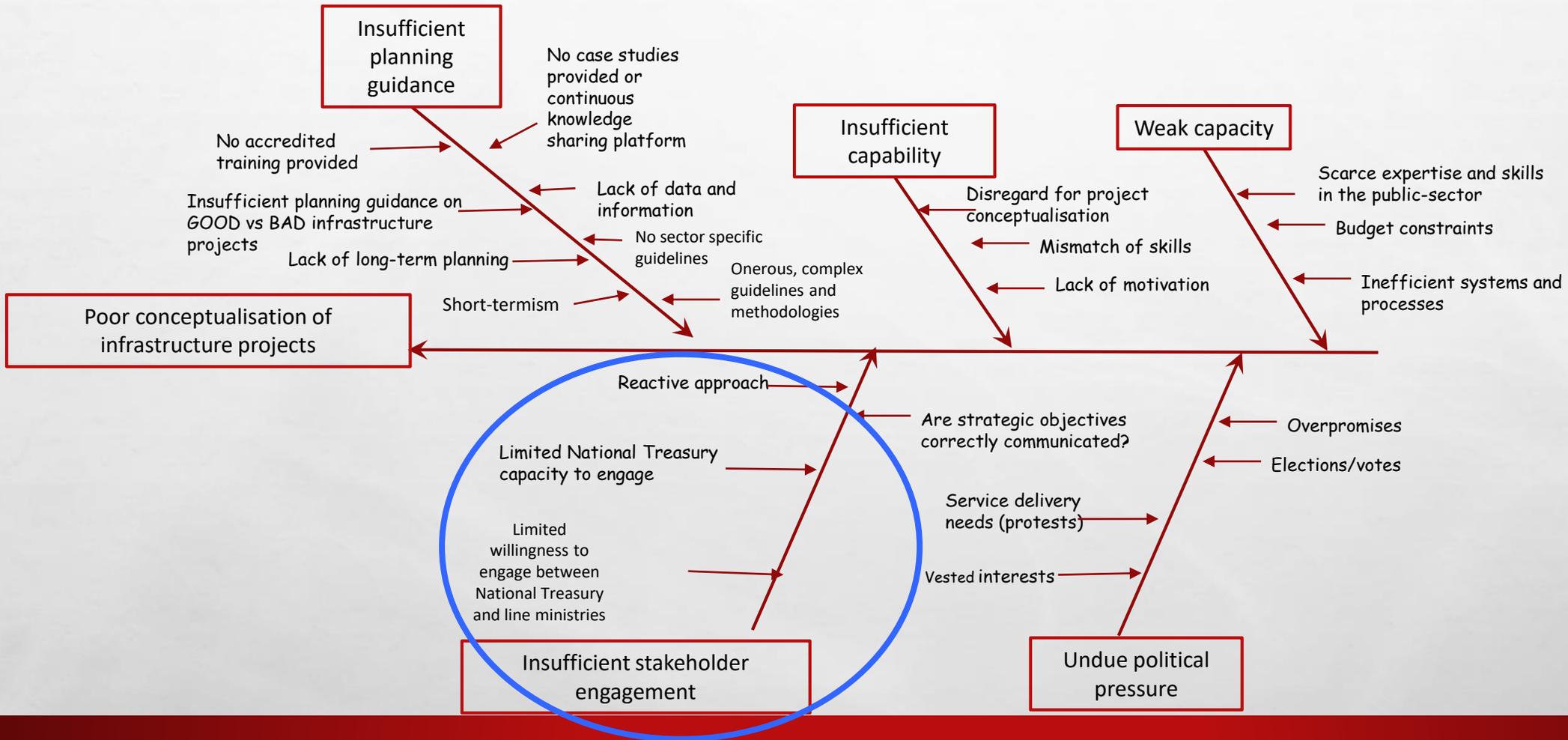
KEY OUTPUTS: CASE STUDIES

- Validating the good project criteria
- Identified gaps
- Applied the 3 E's methodology (equity, efficiency and effectiveness)
- Updated the good project criteria

KEY OUTPUTS: SURVEY

- We sent the survey out to about 30 respondents, including budget analysts within National Treasury and line departments. 13 responses were received.
- The survey results have been revealing and not exactly what the team expected:
 - No uniformity between guidelines sent by National Treasury i.e. capital planning guidelines, procurement guidelines, MTEF guidelines, Large infrastructure guidelines, etc.
 - Guidelines are generic and not sector specific enough.
 - National Treasury should be cognisant of other guidelines published by other departments.
 - A workshop to develop capacity and capability is required.
 - Simplify guidelines – language not necessarily understandable. Need to be clearer on what guidelines apply to i.e. all infrastructure? Only small projects? Or only large ones?
- The results of the survey were used to update the fishbone.

KEY OUTPUTS: REVISED GALJOEN



WHO HAVE WE ENGAGED WITH DURING THIS TIME?

- Internal National Treasury colleagues (Public Finance and Authoriser);
- Institutions that make use of the Capital Planning Guidelines that are published by the National Treasury;
- Budget Facility for Infrastructure stakeholders
 - Project sponsors
 - Research institutions
 - Development Finance Institutions
 - Academia
 - Key government institutions such as the Presidential Infrastructure Coordinating Commission

LESSONS LEARNT?



WHAT LESSONS ARE WE TAKING?

- Clearer understanding of the problem;
- Challenges are often a manifestation of 'hidden' underlying factors and understanding these requires a multi-faceted approach;
- To gain a better understanding of any problem, requires an iterative process to identify and validate the root causes;
- Implementing solutions without fully understanding the problem may render the solution ineffective;
- Analysing a problem with a solution in mind may limit the scope for innovation and openness to alternative solutions;
- The scale and the urgency of resolving a problem is a matter of perspective;
- Engaging and collaborating with others early on is likely to yield better outcomes and shared accountability.

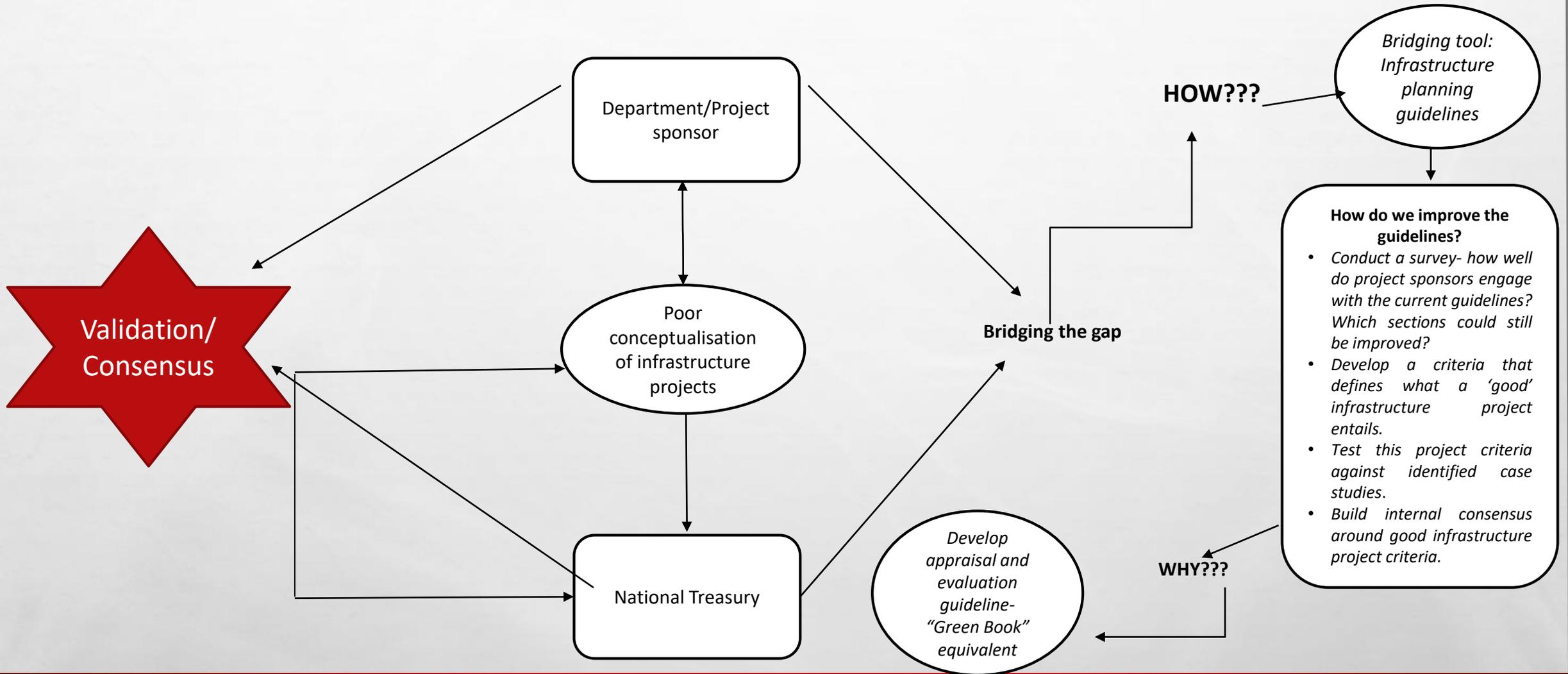
WHAT LESSONS ARE WE TAKING?

- Seeking consensus on broad principles is a step in the right direction and will likely show where areas of disagreements are;
- Learning from others and playing to each other's strength is likely to yield better outcomes than individual efforts;
- Alignment between various stakeholders is important for consistency and coherence;
- The process of change is slow and requires strong commitment by all, a champion and broad support at all levels;
- Lessons from the BFI process
 - Insufficient stakeholder involvement came out strongly. The need for early engagement was realised.
 - Project sponsors did not understand the technical terms in the guideline;
 - Training is essential;
 - Evaluation process needs to be given sufficient time;
 - There is great potential for working together with other government and creating good synergies;
 - The lack of expertise by project sponsors highlighted the need for a project development facility.

WHAT WILL WE DO DIFFERENTLY?

- Embed stakeholder engagements in our processes;
- Collaborate with key stakeholders in developing government-wide guidelines;
- Introduce training to build capacity across all spheres of government;
- Jointly develop guidelines with the user in mind;
- Willingness to coordinate and host discussions that are important for improving the conventional approach;
- Streamline the process.

WHAT WILL WE DO DIFFERENTLY?



WHAT'S NEXT?



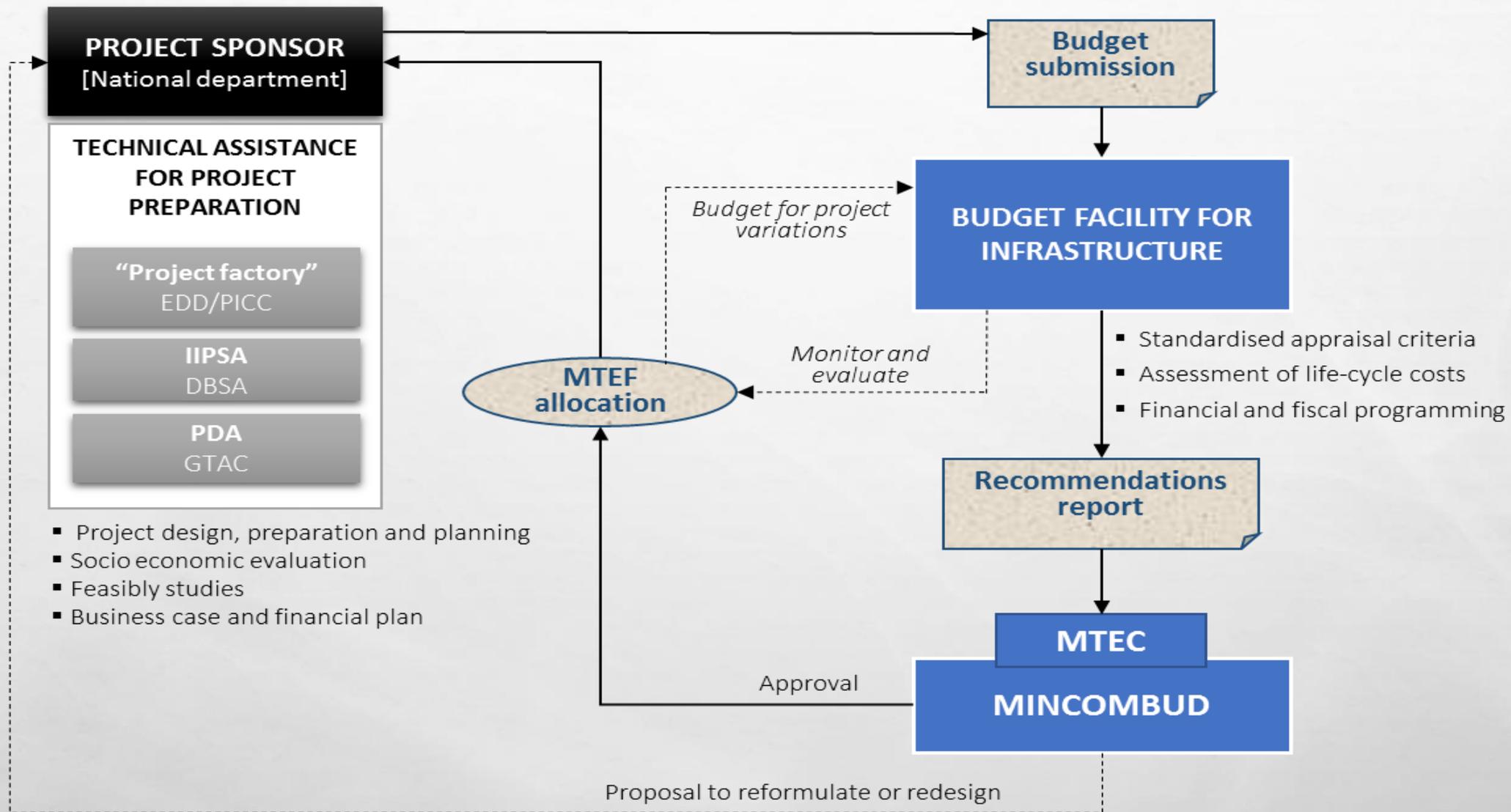
REFORM TO THE BUDGET PROCESS - THE BUDGET FACILITY FOR INFRASTRUCTURE

- The Budget Facility for Infrastructure is a reform to the budget process that creates an institutional process to support the execution of national priority projects by establishing specialised structures and criteria for committing fiscal resources to public infrastructure spending;
- The aim is to increase the rigour of technical assessment and budgeting for capital, operational and maintenance costs for large infrastructure projects;
- The facility will make recommendations regarding the commitment of funds from the fiscus with regards to new and existing large national priority projects.

THE BUDGET FACILITY FOR INFRASTRUCTURE (BFI)

The first step in establishing the facility is to develop a government-wide project appraisal and evaluation guideline – our “Rainbow Book” which will:

- Set out in a clear and accessible manner a standardised approach to the design and appraisal of budget submissions with simple and uniform methodologies;
- Set out the principles and criteria that should be used to reach decisions about the desirability of projects and ensure alignment across government;
- Ensure that full life-cycle costs of projects are explicitly considered in planning, adequately budgeted for and anticipated in future budgets;
- Training government officials - improve the capability of senior managers to understand the characteristics of large infrastructure projects, engage with the standard methods and technical aspects of project design and appraisal;
- All new proposals on policies, projects and programmes will be planned and appraised in line with the methodologies and techniques outlined in the guideline;
- The guideline will be issued as a regulation in terms of the Public Finance Management Act ensuring that it is a binding document across government;
- It will be on the basis of the guideline that budget authorities and decision makers will arrive at decisions about the desirability of projects;
- The main aim is to ensure rigour of analysis and standardisation in the appraisal process across government.



SCOPE OF WORK FOR DEVELOPING THE GUIDELINE

- To draw lessons from the experiences of other countries in the formulation and design of Appraisal and Evaluation Guidelines for government policy, projects and programmes;
- Based on a pre-selected list of relevant stakeholders and an agreed set of interview guidelines, to carry out consultations on current initiatives (SIDPM, IDMS, etc.) relevant to the formulation and development of the guideline;
- Drafting the framework for the Appraisal and Evaluation guideline comprised of the components, parameters and methodologies that will form part of the comprehensive guideline;
- A validation workshop with National Treasury to present the draft framework with the objective of obtaining feedback and building consensus before the drafting of the Guideline.

SCOPE OF WORK FOR DEVELOPING THE GUIDELINE CONT.

- Development of the draft comprehensive Appraisal and Evaluation Guideline in close consultation with designated National Treasury officials.
- Holding of a final consultative process with stakeholders when the draft Appraisal and Evaluation guideline has been produced and to incorporate outputs of the consultative process into the final Appraisal and Evaluation Guideline;
- Designing a sustainable training programme based on the Appraisal and Evaluation Guideline that will be used to train and build internal capabilities of core government officials.

CONCLUDING REMARKS FROM OUR AUTHORISER

It is important to encourage discussion amongst officials within government on infrastructure planning and capital budgeting. An improved public infrastructure management system requires:

- Improved coordination across levels of government;
- Transparent and rigorous procedures for capital budgeting;
- Better monitoring and control across different spheres of government;
- Closer integration between strategic planning and capital budgeting;

All these requirements are cross-cutting and involve multiple stakeholders. It is therefore critical that dialogue takes place to build consensus on the necessary reforms to improve public infrastructure management.

CONCLUDING REMARKS FROM OUR AUTHORISER

Technical rigour in project appraisal and selection

- Comprehensive investment appraisal, management and evaluation of projects;
- Ensuring good planning, selection and execution of capital projects;

Transparency

- Transparency at all stages of the investment cycle to eliminate rent seeking and corruption;
- Decision making and information on public investments must be accessible to all relevant stakeholders;

Democratic approach to identify social preferences

- Effective participation in making choices to undertake priority projects – process must be inclusive and participative;
- Enlightened participation - information should be availed to citizens and civil society on the relative costs and benefits so that they can engage in realistic debates about trade-offs, opportunity costs and value for money.