



Theme 1

Unlocking and leveraging public infrastructure funding for equality, sustainable growth and bringing improvement to the lives of citizens

Background

- South Africa has identified inclusive economic growth, industrialisation, employment and inequality as key priority areas in advancing its G20 presidency theme of solidarity, equality and sustainability.
- Public infrastructure serves as an important enabler to realising solidarity, equality and sustainability. It underpins the ability to drive inclusive economic growth, industrialisation, and employment, mitigates inequality. Investments in energy, telecommunications, transport networks and water supply are essential inputs to producing goods and services, and have a direct impact on growth. Infrastructure can also reduce the cost of delivering goods, facilitate the physical mobility of both people and products, remove productivity constraints and increase competitiveness.¹
- Infrastructure projects that connect countries and regions promote regional integration and cooperation, which facilitates trade, investment and economic collaboration. Cross-border infrastructure such as roads, railways and ports enhance connectivity, foster economic ties and open up new markets, contributing to regional stability and prosperity.²
- According to the World Economic Forum (WEF), almost 14% of global gross domestic product (GDP) is invested in infrastructure, with most divided across: (a) transportation infrastructure (roads, railroad, airports, ports); (b) electric power supply and distribution; (c) water supply and sewage; and (d) communications infrastructure.³
- Goal 9 of the Sustainable Development Goals (SDGs) promotes investment in resilient infrastructure, sustainable industrial development and technological progress to foster innovation, economic growth, social development and climate action. Investments in

¹ <https://blogs.worldbank.org/en/digital-development/how-does-infrastructure-support-sustainable-growth>

² <https://www.engineeringnews.co.za/article/the-importance-of-infrastructure-development-in-africa-2024-04-17>

³ <https://www.zurich.com/knowledge/topics/global-risks/the-risks-of-rapid-urbanization-in-developing-countries>



infrastructure – transport, irrigation, energy and information and communication technology – are crucial to achieving sustainable development and empowering communities in many countries.⁴

- Insufficient or poor infrastructure limits citizens' access to markets, livelihood opportunities and services such as clean water, education, health, transport and communications. In 2010, an International Labour Organization (ILO) report noted that although infrastructure development was not identified as a direct Millennium Development Goal (MDG) target or indicator, without it many of the targets would not be met. Sustainable infrastructure was not only an essential part of improving poor livelihoods, it also provided opportunities for creating jobs during development, operation and maintenance.⁵
- Infrastructure development is central to Africa's future. According to the African Development Bank (AfDB) it accounts for over 50% of the recent improvement in economic growth and has the potential to achieve even more. It can significantly contribute to achieving Africa's Agenda 2063 ambitions.⁵

Complication

Infrastructure gap

- Despite the importance of infrastructure development in Africa, infrastructure stock in most African economies is far below what is needed to support required levels of economic growth and development.⁵ The continent's large infrastructure deficit is holding it back. Africa's road access rate is only 34% compared to 50% in other parts of the developing world, while its transport costs are 100% higher. Where other parts of the developing world have 70%–90% access to electricity, Africa only has 30%. and Water resources are underused with only 5% of agriculture under irrigation. Africa's internet penetration rate is a mere 6% compared to an average of 40% elsewhere in the developing world.
- A recent World Bank study found that the poor state of infrastructure in many parts of Africa reduced national economic growth by two percentage points every year and cut business productivity by as much as 40%, making Africa the region with the lowest productivity levels in the world in spite of its enormous mineral and other natural resources.⁶
- Rapid population growth in Africa increases the demand for infrastructure such as roads, railways and ports, while the continent simultaneously faces major expenditure requirements in education and health.

⁴ <https://www.un.org/sustainabledevelopment/infrastructure-industrialization/>

⁵ https://www.afdb.org/sites/default/files/documents/publications/working_paper_160_-_infrastructure_investment_and_economic_growth_in_south_africa_a_granger_causality_analysis.pdf

⁶ [https://futures.issafrica.org/thematic/11-large-infrastructure/#:~:text=Infrastructure%20is%20a%20crucial%20driver,Sustainable%20Development%20Goals%20\(SDGs\).](https://futures.issafrica.org/thematic/11-large-infrastructure/#:~:text=Infrastructure%20is%20a%20crucial%20driver,Sustainable%20Development%20Goals%20(SDGs).)

- Poor governance, corruption and conflict have contributed to infrastructure projects not being effectively planned and implemented.

Infrastructure funding gap and their drivers

- To realise its potential, Africa needs to reduce its massive infrastructure deficit to both achieve structural transformation and market integration. Many countries have limited financial resources, which makes it difficult for them to finance the necessary infrastructure development. In 2020, African countries' national governments⁵ only financed 42,2% of infrastructure investment. Because of constraints in domestic revenue bases, African countries are compelled to tap into foreign finances.
- In early 2022, the AfDB estimated Africa's infrastructure investment gap to be more than US\$100 billion per year, affecting the living conditions of Africans and the continent's global competitiveness. The infrastructure deficit also makes it difficult for the continent to attract foreign direct investment, develop significant regional value chains, expand trade and fully participate in the global economy. One of the continent's biggest projects, the African Continental Free Trade Area (AfCFTA), will not succeed without infrastructure supporting transportation, electricity, information and communication technology services, education, and healthcare. In addition, an AfDB report estimates that inadequate water and sanitation infrastructure is costing the continent about 5% of GDP and high transport costs add 75% to the price of Africa's goods.⁷
- There are several challenges facing infrastructure investment in Africa. One of these is access to finance due to high costs, risk perception, currency risks, weak financial markets and a lack of sustainable financing instruments.⁸
- The World Bank analysis of the chasm between capital available and the number of bankable projects indicated that despite an annual investment need of US\$2,6 trillion, the pipeline of greenfield projects in emerging markets and developing economies is estimated at just US\$1,2 trillion. The Global Infrastructure Facility, a G20 initiative to build bankable projects by providing advisory services and project preparation, approved just US\$19 million for 25 project activities in 2022.⁹
- According to a 2021 report by Mercer, MiDA Advisors and Standard Bank, when considering African infrastructure investments many investors expressed concerns about weak legal environments, political uncertainties and difficulties accessing financial markets. However, a 2018 report by Moody's Investor Service finds that infrastructure

⁷ [https://futures.issafrica.org/thematic/11-large-infrastructure/#:~:text=Infrastructure%20is%20a%20crucial%20driver,Sustainable%20Development%20Goals%20\(SDGs\).](https://futures.issafrica.org/thematic/11-large-infrastructure/#:~:text=Infrastructure%20is%20a%20crucial%20driver,Sustainable%20Development%20Goals%20(SDGs).)

⁸ <https://afripoli.org/trade-infrastructure-financing-in-africa-an-exploration-of-geopolitical-funds-for-private-sector-participation#:~:text=One%20of%20the%20major%20challenges,by%20African%20private%2Dsector%20actors.>

⁹ <https://www.cgdev.org/blog/bottlenecks-africas-infrastructure-financing-and-how-overcome-them>

finance in Africa has a lower default rate than most developing countries and the United States. This suggests a clear gap between investor perceptions and realised outcomes in Africa.¹⁰

- Setting up and managing infrastructure development projects is a complex process that requires an interface and coordination among financial, tax, legal and corporate management structures, and specialist advisory services, all of which are often based and managed outside the project country. In addition to the generic challenges associated with funding infrastructure development in Africa, environmental, social and governance factors exacerbate the region's infrastructure gap.¹¹

Supreme audit institutions (SAIs) and public infrastructure

- Public infrastructure spend accounts for a large and important proportion of government expenditure, private sector capital allocation and foreign direct investment.
- Most countries in the Global South do not have adequate domestic financing resources to fund their infrastructure needs and are compelled to seek foreign sources of infrastructure funding.
- infrastructure financing carries significant risk due to the scale of funding required. To mitigate that risk, funders rely on information provided by assurance providers on the full cycle of infrastructure projects, from funding and initiation all the way to operation and maintenance.
- Despite the large infrastructure deficits in the Global South, real and perceived risk relating to infrastructure projects means funding flows remain constrained.
- Given that SAIs, as assurance providers, inform the trust that stakeholders such as funders have in the information presented by governments and in the practices employed, it is worth exploring how SAIs might play a stronger role in: (a) supporting their governments to understand, manage and mitigate the risks in their infrastructure programmes; (b) assisting funding institutions to appropriately assess infrastructure risk and structure funding in ways that do not undermine development and aggravate illicit financial flows; and (c) auditing donor funds and providing assurance on projects that use donor funds.
- Other questions are worth exploring to harmonise global valuation standards, ensure common standards for quantifying the risks and opportunities associated with infrastructure projects and reduce the friction associated with funding infrastructure projects.

¹⁰ <https://www.sciencedirect.com/science/article/abs/pii/S1042443124000209>

¹¹ <https://sdg.iisd.org/commentary/guest-articles/why-is-it-so-difficult-to-fund-infrastructure-development-in-africa/>

- Another need is to harmonise standards relating to transcountry infrastructure, as envisaged in Agenda 2063 and efforts such as AfCFTA.
- Digital infrastructure development has gained even greater significance with artificial intelligence (AI) and frontier technologies driving a greater divergence between nations that will forge ahead and those that will be left behind. A SAI's role is important in supporting the government to develop and maintain the digital infrastructure while also supporting appropriate investments given the rapid pace of technological development.
- The scale, complexity and cost of infrastructure auditing requires the SAI to adopt and leverage off AI and other frontier technologies that provide reasonable and adequate assurance while maintaining the costs within manageable parameters. A SAI's ability to provide stronger assurance has a direct impact on the risk associated with infrastructure programmes, which in turn has a knock-on effect on the cost of infrastructure funding.

Key questions

1. Did we overlook any aspect of the theme that has relevance for SAIs and the governments/citizens we serve?
2. What are the SAIs' current experiences of the challenges regarding this theme (practical examples that affect the citizen's experience)?
3. How are SAIs dealing with these challenges or what future solutions can be put on the table?
4. Which experts do SAIs use /benchmark with in dealing with these challenges – be specific with names and organisations?
5. What key success factors have been identified that SAIs can replicate to drive progress?

Preparation for the initial theme discussions on 5 and 6 February 2025

- Designate a focal point in your SAI for communication regarding the theme development process and send these details to SAI20-25@aqsa.co.za
- Prepare a concise country paper utilising the theme outline above as the framework
- Respond to the five key questions above.
- Submit the country paper, together with the responses to the key questions, to SAI20-25@aqsa.co.za on or before 28 January 2025