



Development Bank
of Southern Africa

The background of the slide is a composite image. The top right shows silhouettes of three construction workers on a site at sunset. The bottom left shows a large, leafless tree in front of a building under construction. A large, curved, light-colored graphic element separates the top and bottom sections.

Mpumalanga Public-Private Infrastructure Indaba

17 October 2012

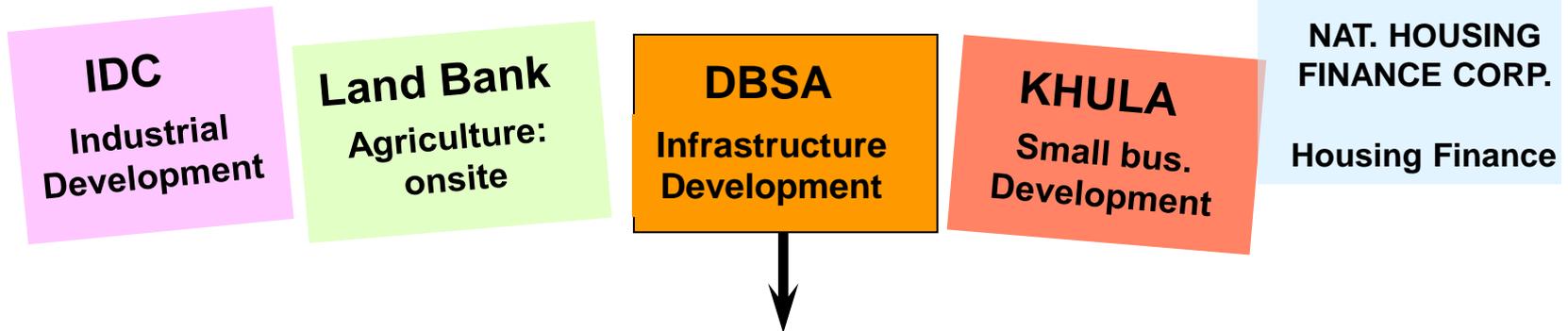
**Lwandle Malumbete
DBSA Mpumalanga Business
Unit**

Outline of presentation

1. Introducing the DBSA
2. Problem statement
3. Strategic context
4. Key issues in financing infrastructure
5. DBSA experience and current value propositions for infrastructure funding
6. Key messages and conclusion

DFI Landscape

DFI's: Development Finance Framework



- **Wholesale development finance institution:**
 - **DBSA: part of the family of 5 DFI's**
 - **DBSA - Act of 1997:**
 - ❖ **To promote economic development and growth, human resources development & institutional capacity building in the region;**
 - ❖ **To support sustainable development projects and programmes in the region**

DBSA's Mandate

To provide:

- Infrastructure funding;
- Technical assistance linked to projects and programmes; and
- Other development assistance.

DBSA Lending Support to Mpumalanga as at 2 April 2012:

<R1.0 bn loan book>

[Munis – 57%, SOEs – 42.3%, Pvrte Schools 1.12%]

Water projects >70%

Our sectoral focus areas

**DBSA strategy focuses on sector programmes aligned to national priorities,
i.e.:**

- a) Education
- b) Human settlements
- d) Transportation
- e) Operations and maintenance
- f) Water and sanitation
- g) Health
- h) Energy
- i) ICT
- j) Rural development

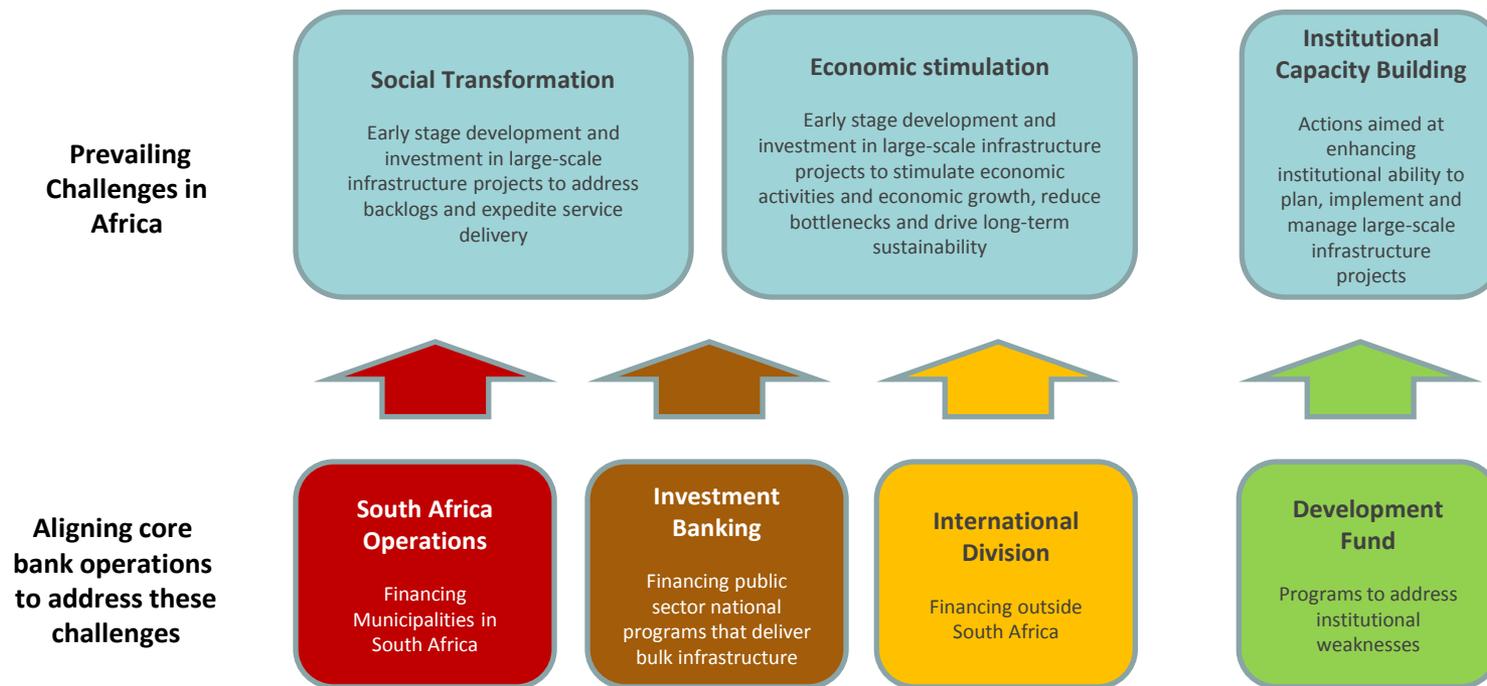
Rationale

Historical

- The Development Bank of Southern Africa (DBSA) (www.dbsa.org) is wholly owned by the SA government, and was established in 1983 to perform a broad economic development function within the homeland dispensation that prevailed
- Since the new democratic order in 1994, the role of the Bank has evolved to accelerate both economic and social infrastructure development for the benefit of all citizens in both South Africa and SADC region

Current

- Today, the DBSA is uniquely positioned to support the development challenges in South Africa. Its client facing operations is structured to unlock value across three broad prevailing challenges: social transformation; economic stimulation and institutional capacity building



DBSA at a Glance – Financial Highlights

Ratings

- Preservation of premium ratings, will facilitate anticipated business growth and long-term sustainability

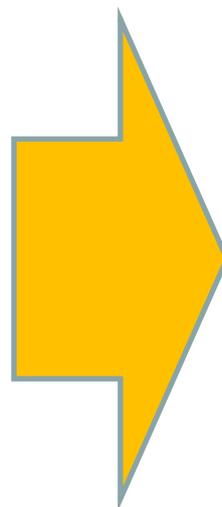
Credit Ratings	Fitch	Moody's	S&P
Long Term	AAA(zaf)	A3	BBB+
Short Term	F1+(zaf)	Not rated	A-2

Funding Structure

- The DBSA is exempt from South African income tax and raises funds to finance its operations from a diverse range of sources
- The Bank is a self-funding development finance institution raising capital from the following sources:

Sources of funding

- Internally generated sources
- Bond issues and private placements with select investors in both domestic and international capital markets
- Lines of credit with supranational and major bilateral development finance institutions as well as commercial banks
- Increase in callable capital from ZAR 4.8b to ZAR 20b approved by National Treasury and Minister of Finance



Main development investments

- Development loans
- Equity investments
- Development initiatives

Problem statement



- South Africa faces serious development challenges.
 - Huge infrastructure investment backlogs.
 - The country also faces a challenge of huge backlogs in the access to basic services, e.g. for water only 88.6% have access, (CS 2007).
 - Mpumalanga not exempt from these needs.
- Challenge of delivering projects.
 - Weak institutional state of intermediaries.
 - Bankability of some projects.
- Need for innovative funding instruments and implementation mechanisms.

Strategic Context

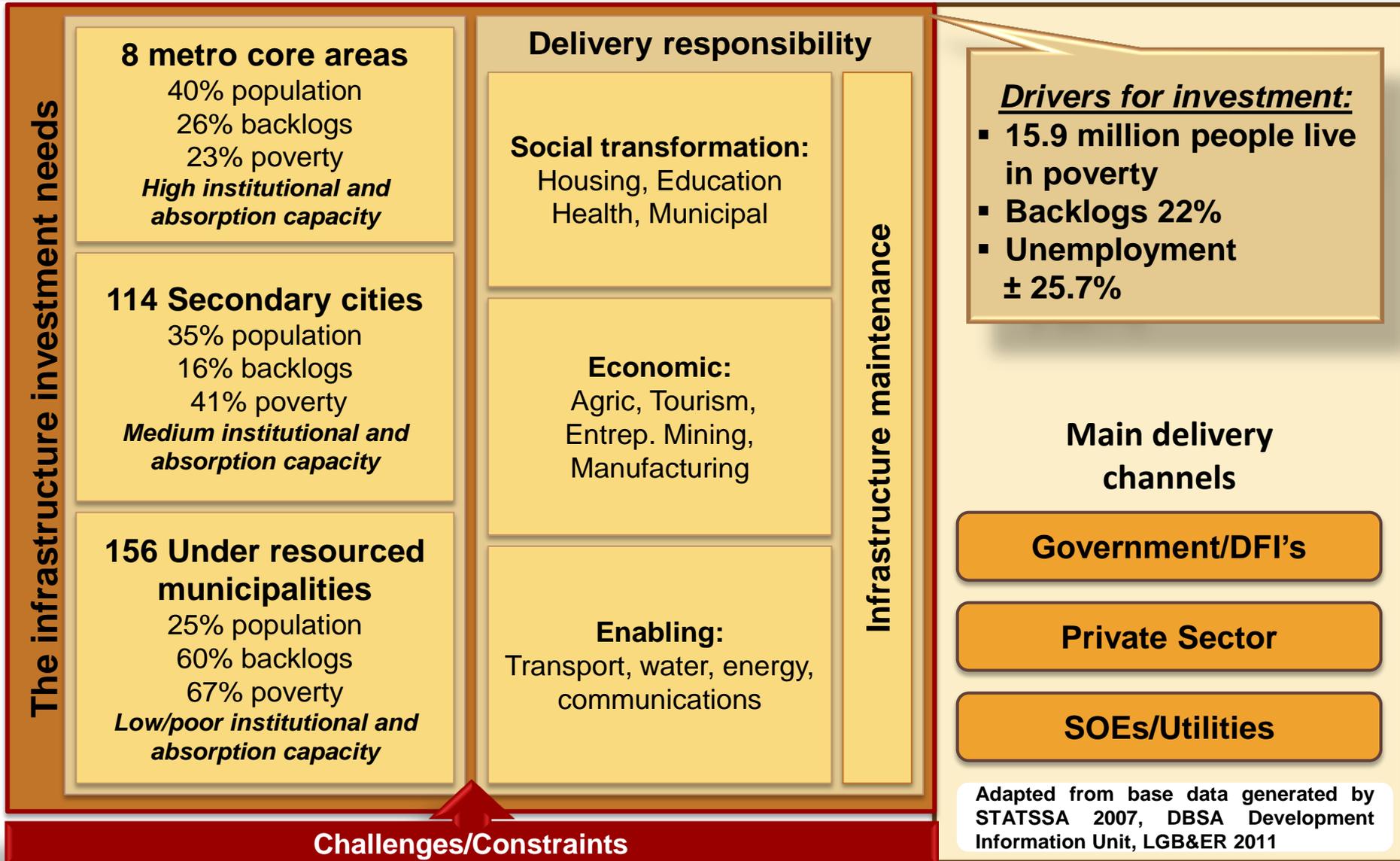
- Government adopted an Infrastructure Plan that is intended to transform the economic landscape of South Africa.
- The infrastructure plan analyses areas of the country that are not served with water, electricity, roads, sanitation and communication.
- Seventeen Strategic Integrated Projects (SIPS) have been developed and approved.
- The SIP 6 initiative, the Integrated Municipal Infrastructure Project, seeks to develop national capacity to assist the 23 least resourced municipal districts to address all the maintenance backlogs and upgrades required in water, electricity and sanitation.
 - In Mpumalanga, the primary focus is on Ehlanzeni District (Thaba Chweu, Mbombela, BB/Ridge, Umjindi, and Nkomazi local municipalities)
- The DBSA has been identified as the Principal Implementing Agent for SIP 6.

Strategic Context....cont'd



- We recognise and embrace the need for a new approach to development planning, funding, implementation and management which is aimed at:
 - Accelerating service delivery and strengthening institutional support to municipalities through integrated value offerings; and
 - Initiating actions to support government priority sectors within the DBSA mandate.
- It is our understanding that the realisation of sustainable development requires an integrated comprehensive development support package.
- Impact of disaggregated planning, e.g.:
 - High implementation costs and hidden costs for govt

External environment: South African developmental landscape



Capital Expenditure Summary 2011-2015: Financing Requirements and Gaps

<p>Social Infrastructure</p> <p>Main intermediaries:</p> <ul style="list-style-type: none"> <input type="checkbox"/> National & Provincial Government <input type="checkbox"/> SOEs <input type="checkbox"/> Utilities <input type="checkbox"/> Municipalities 	<ul style="list-style-type: none"> ▪ Health, ▪ Housing ▪ Education ▪ Municipal infrastructure 	<p>Estimated total backlog – <i>R1.04 trillion</i></p>	<p>Planned Government spending - <i>R617 billion</i></p>	<p>Financing gap – <i>R419 billion</i></p>	<p>Asset Management:</p> <ul style="list-style-type: none"> • R312 billion maintenance backlog • R845.6 billion spent over next 5 years on infrastructure will widen O&M gap • Estimated O&M expenditure over lifetime of asset = 5 times the original asset value • 92% of all SA municipalities spend <5% of OPEX on maintenance 	
<p>Enabling Infrastructure</p> <p>Main intermediaries:</p> <ul style="list-style-type: none"> <input type="checkbox"/> SOEs (e.g. Eskom, TCTA, Transnet, ACSA) <input type="checkbox"/> Government <input type="checkbox"/> Private Institutions 	<ul style="list-style-type: none"> ▪ Energy ▪ Water ▪ Transport: Ports, Air, Roads ▪ ICT 	<p>Estimated total backlog – <i>R1.5 trillion</i></p>	<p>Planned Government Spending – <i>R 883 billion</i></p>	<p>Financing gap – <i>R600 billion</i></p>		
<p>Economic Infrastructure</p> <p>Main intermediaries:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Private Sector <input type="checkbox"/> PPPs <input type="checkbox"/> SOEs 	<ul style="list-style-type: none"> ▪ Public Sector ▪ PPPs 	<p>Estimated total backlog – <i>R 740 billion</i></p>	<p>Planned Government Spending – <i>R 380 billion:</i></p>	<p>Financing gap – <i>R360 billion</i></p>		

Delivery framework

Aim

To contribute towards creating a south Africa with adequate socio-economic infrastructure for improved quality of life for all and promotion of economic growth and development.

Instruments

Investment support initiatives in socio-economic infrastructure

Technical assistance for capacity building

Intermediaries

Municipalities

Provinces

Provincial and municipal entities

Educational institutions

Project development and preparation

Sectors

The Division provides support through intermediaries in order to achieve the DBSA's objectives of reducing poverty and stimulating economic growth

The Division supports project planning and preparations Interventions.

Electricity
Water
Sanitation,
Drainage
Roads
O&M

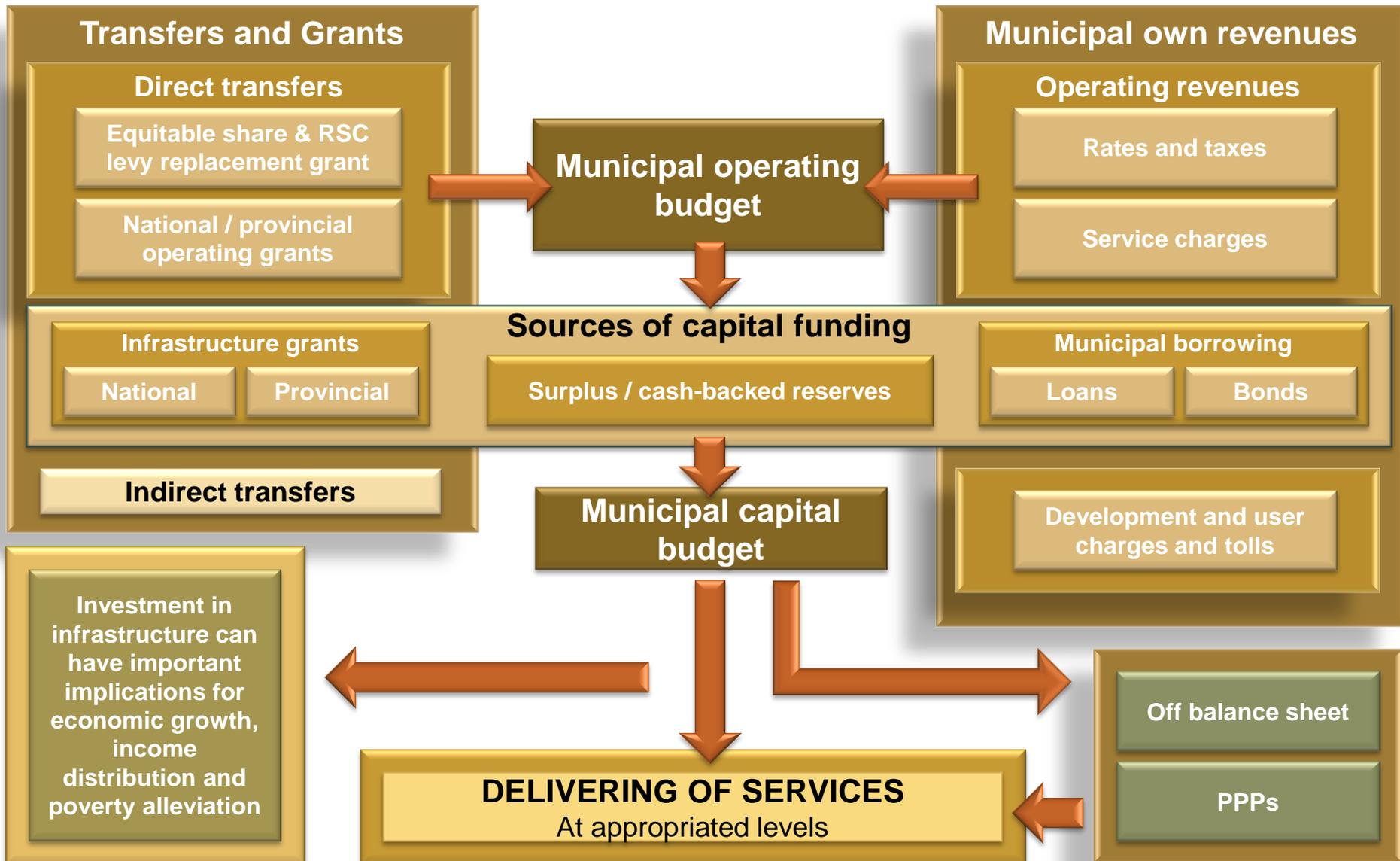
Education
Energy
Roads,
Housing
Health

Water,
Education,
Agriculture

FET
Colleges,
Universities
Private
schools

Planning, advisory services, project management and monitoring, resource mobilisation

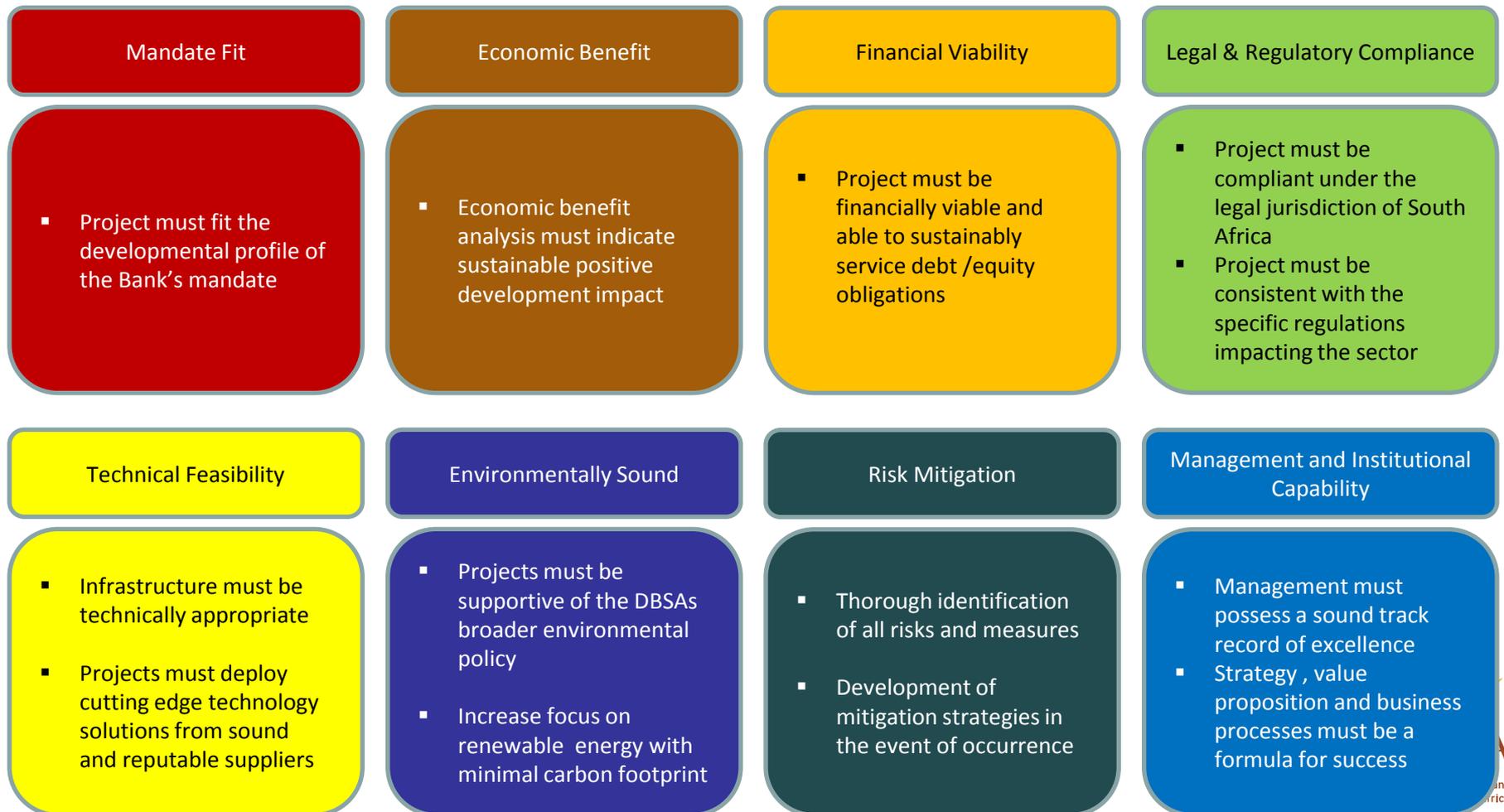
Funding framework



Investment Requirements

Assessment criteria

- Key assessment criteria used to appraise potential investments create balance between development impact but also financial sustainability, and can be summarised under the following assessment areas:



DBSA Value Proposition



Phases



I

II

III

IV

V

DBSA's Role

<p>[Project Linked Technical Assistance] DBSA to provide technical assistance and advisory services for programme/project preparation.</p>	<p>[Financier] DBSA to act as mandated lead arranger, financier and underwriter.</p>	<p>[Implementation Support] DBSA to provide technical support for project management and implementation.</p>	<p>[M&E] DBSA to assist with monitoring & evaluation during implementation to ensure efficiency and effectiveness of the programme.</p>	<p>[O&M] DBSA to assist with preparation and development of asset management plans.</p>
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Recognition borne out of need for fast-tracking delivery at scale and Leveraging DBSA role as lead arranger driven by government imperatives.

Additional value offerings

Project Development Phases

Business development and project origination

Project planning and preparation

Project management and implementation

Portfolio management

Completion and hand over

Operations and maintenance

Division's Role

Technical assistance and advisory services, expertise, facilitation on project identification And feasibilities.

Technical assistance and advisory services for programme/ detailed project packaging and preparation. Mobilising resources, lead arranger, advisor and under writer role.

Financing, technical support, project management services.

Project management and monitoring, technical skills and advise.

Expertise, asset management plans, operations plans, facilitation.

Skills, facilitation, arranging, strengthening capacity, execution.

Recipients/Intermediaries

- Under resourced municipalities
- Provincial
- Utilities
- Educational Institutions

- Metro
- Secondary municipalities
- Under resourced municipalities
- Provincial
- Utilities
- Educational Institutions

- Metro
- Secondary municipalities
- Under resourced municipalities
- Provincial
- Utilities
- Educational Institutions

- Metro
- Secondary municipalities
- Under resourced municipalities
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- Utilities
- Educational Institutions

Funding sources

All levels of government
(especially municipalities)

Borrowing

- An analysis to assess financial viability of the organisation and the institutional capacity of the organisation to manage assets and generate a revenue stream sufficient to allow for the repayment of debt.
- Undertaken by a credit rating agency appointed by the municipality or by individual financial institutions.

All levels of government

Bonds

- Long term nature- can go up to more than 30 years.
- Issuer able to negotiate interest rate, payments, repayment period to meet own and investors' needs.
- Diversify investors (spread risks).
- Priced against government bonds, a true reflection of market pricing.
- Potentially reduce the cost of borrowing for a well run municipality.

All levels of government

PPPs

- Different types of PPPs that involve models for risk sharing.
- In a better position to raise debt and equity to finance the project.
- Crowd in private sector expertise and experience in the construction of the infrastructure.
- The development of PPPs for economically justifiable projects eases the pressure on the municipality's budget and allows for better allocation of funds towards addressing social needs of the community.
- PPPs good way to generate more revenues from municipalities' existing assets.

SOEs/Utilities

**Private Infrastructure
Funds**

- Private or listed equity funds focused on infrastructure investments.
- Strong liquidity awaiting investment opportunities.
- Lower equity returns than for financial sponsors.
- Typically take part in a consortium.
- Medium- to long-term investment strategy.
- Fund sizes are smaller than for financial sponsors

SOEs/Utilities

Financial sponsors

- Private equity funds with shorter exit strategy.
- Normally look for short-term investments with a clear exit strategy.
- High equity returns (+20 percent) may limit ability to bid competitively, but have been achievable in certain opportunities.

DBSA experiences



- Need for creativity due to the lack of projects that are bankable, or financially viable.
- Experience has highlighted various constraints to water sector finance as perceived by different stakeholders, under the following headings:
 - Politics and governance;
 - Supply chain challenges;
 - Project Development (preparation);
 - Technical, administrative, and financial capacity (e.g. ability to spend);
 - Cooperation and coordination/partnering; and
 - Financial risk.
- Addressing the challenges of project preparation and financial risk is most critical as they would address the other factors
- Lack of appropriate balance/structuring between funding indigent areas and areas where revenue can be generated.

In terms of a previous municipal analysis...

Province/Local Municipality/ District Management Area	Water		Sanitation		Electricity		Refuse		Total		Rank
	Without access		Without access		Without access		Without access		Total Without Acc		
	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	
Year	Number	% Of Prov	Number	% Of Prov							
MP322: Mbombela Local Municipality	56,123	17.1	11,962	15.1	20,284	12.1	97,177	17.7	185,546	16.5	1
MP325: Bushbuckridge Local Municipality	14,037	4.3	21,263	26.9	12,384	7.4	118,986	21.6	166,670	14.8	2
MP312: Emalahleni Local Municipality	48,256	14.7	6,186	7.8	42,155	25.1	44,837	8.2	141,434	12.6	3
MP324: Nkomazi Local Municipality	11,649	3.5	13,579	17.2	19,287	11.5	53,598	9.7	98,113	8.7	4
MP315: Thembisile Local Municipality	8,297	2.5	1,102	1.4	2,706	1.6	58,262	10.6	70,367	6.3	5
MP307: Govan Mbeki Local Municipality	44,695	13.6	1,400	1.8	9,879	5.9	13,309	2.4	69,283	6.2	6
MP316: Dr JS Moroka Local Municipality	10,232	3.1	1,138	1.4	2,463	1.5	50,695	9.2	64,528	5.7	7
MP301: Albert Luthuli Local Municipality	10,605	3.2	2,985	3.8	10,472	6.2	38,912	7.1	62,974	5.6	8
MP303: Mkhondo Local Municipality	14,668	4.5	4,997	6.3	9,181	5.5	17,207	3.1	46,053	4.1	9
MP313: Steve Tshwete Local Municipality	30,532	9.3	2,525	3.2	4,825	2.9	7,653	1.4	45,535	4.0	10
MP302: Msukaligwa Local Municipality	19,296	5.9	2,023	2.6	8,508	5.1	9,970	1.8	39,797	3.5	11
MP321: Thaba Chweu Local Municipality	10,795	3.3	1,716	2.2	5,488	3.3	11,051	2.0	29,050	2.6	12
MP305: Lekwa Local Municipality	15,169	4.6	1,743	2.2	5,386	3.2	6,379	1.2	28,677	2.5	13
MP304: Pixley Ka Seme Local Municipality	4,921	1.5	921	1.2	4,016	2.4	9,230	1.7	19,088	1.7	14
MP323: Umjindi Local Municipality	8,350	2.5	947	1.2	3,774	2.2	3,668	0.7	16,739	1.5	15
MP311: Delmas Local Municipality	7,496	2.3	1,533	1.9	3,004	1.8	3,559	0.6	15,592	1.4	16
MP306: Dipaleseng Local Municipality	5,990	1.8	2,572	3.3	2,638	1.6	2,757	0.5	13,957	1.2	17
MP314: Emakhazeni Local Municipality	7,139	2.2	516	0.7	1,311	0.8	2,707	0.5	11,673	1.0	18
MPDMA32: Ehlanzeni	85	0.0	0	0.0	0	0.0	6	0.0	91	0.0	19
Mpumalanga	328,335	100.0	79,108	100.0	167,761	100.0	549,963	100.0	1125167	100.0	-

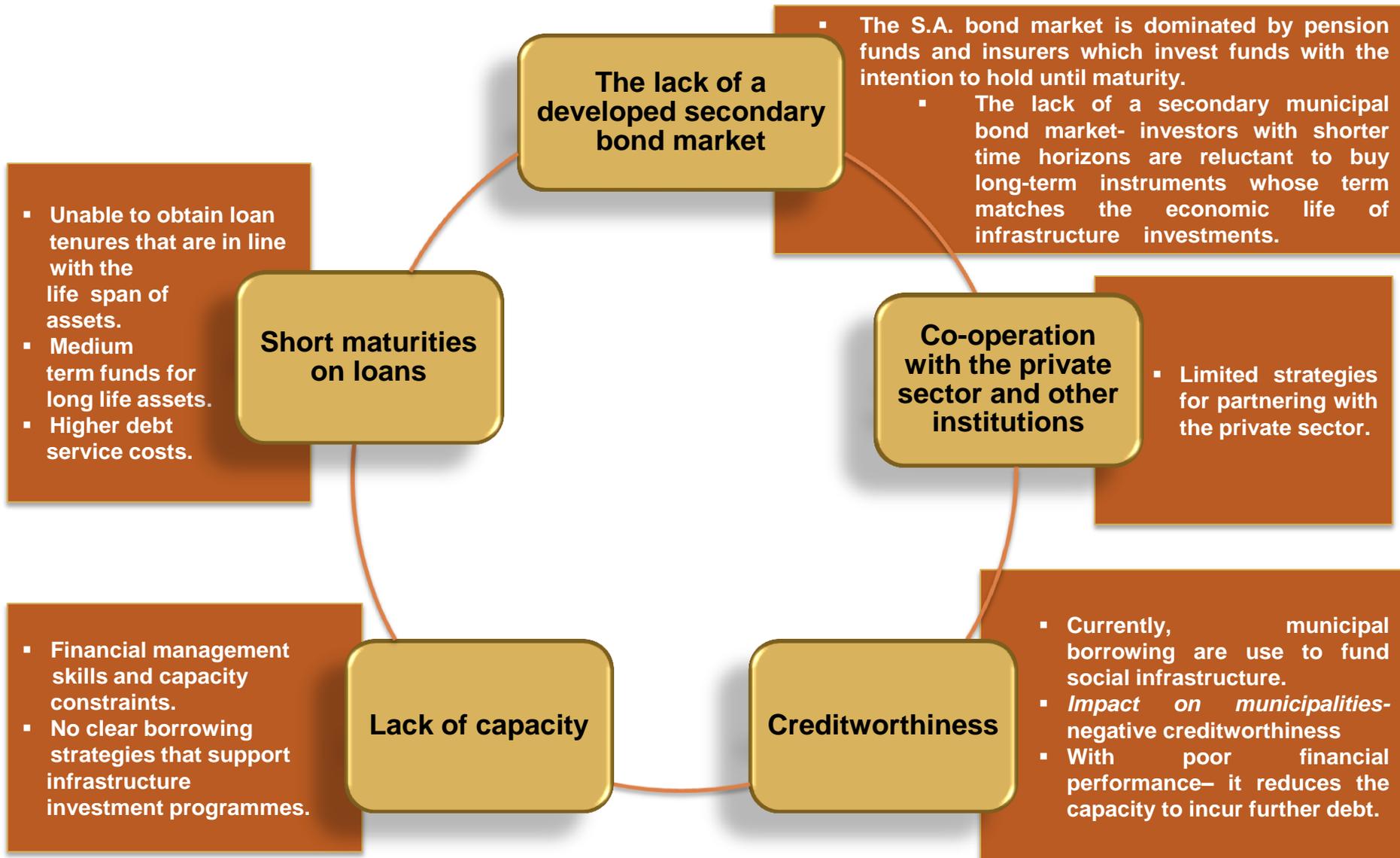
Calculated By E Naude of the DBSA Based On Global Insight Information Supplied By DPD, DBSA

Normal approaches would take a long period to eradicate backlogs.

Some challenges at local level which require stakeholder partnerships ...

		AG Opinion	Cash Flow Position (+- last FY year)	Licensed distributor	MISA Presence
Municipality					
Gert Sibande District					
Albert Luthuli		qualified 2010 - financial distress	positive - but grants not spent	Yes	
Msukaligwa		Unqualified 2011	negative	Yes	X
Mkhondo		qualified 2009	positive - but grants not spent	Yes	X
Pixley ka Seme		disclaimer 2011 - financial distress	negative and unverifiable	Yes	
Lekwa		qualified 2010	negative but very little grant income	Yes	X
Dipaleseng		qualified 2010	positive	Yes	X
Govan Mbeki		unqualified 2011	positive - high grant income	Yes	
Nkangala District					
Victor Khanye		unqualified 2011	positive	Yes	
Emalaheni		qualified 2010	negative	Yes	
Steve Tshwete		Unqualified 2011	positive	Yes	
Emakhazeni		unqualified 2011	negative		
Thembisile		disclaimer 2010	positive		X
DR JS Moroka		disclaimer 2010	positive		X
Ehlanzeni District					
Thaba Chweu		disclaimer 2010 - financial distress	negative	Yes	X
Mbombela		unqualified 2011	positive - healthy collection rates	Yes	
Umjindi		disclaimer 2010 - financial distress	negative despite high grant income	Yes	
Nkomazi		unqualified 2011	positive	Yes	
Buschbuckridge		unqualified 2010	positive		

The municipal debt market is being limited by the following factors:



NB: compliance to National Treasury Circulars

Relevant NT Circular	Incremental Criteria Relevant to Frontloading
Circular 51	<ul style="list-style-type: none"> • Projects to comply fully with conditions set out in the conditional grant framework • Borrowing should ideally only finance 40% of total programme/project costs • Only 75% of conditional allocations for the outer two years to be pledged • Municipality must derive demonstrable benefits from pledging arrangements • Municipalities cash flow position must be in order • Positive MIG spending history • LM's capacity to implement accelerated projects • No other/additional security to be given by the LM's for frontloading loans • Indication of interest rate discount given by financiers
Circular 54	<ul style="list-style-type: none"> • Revision of Rates, Tariffs and Other charges to be in line with NT directives
Circular 55	<ul style="list-style-type: none"> • Municipalities Operation and Maintenance budget to be ramped-up in line with the recommendations contained in Circular 55
Circular 58	<ul style="list-style-type: none"> • Period of pledge may not extend beyond 30 June 2015 • VAT claimed by a LM is treated as own income
Circular 59	<ul style="list-style-type: none"> • 5% of grant allocations available for Project Management support to LM's • NERSA's guideline for municipal tariff increases is 11.03% • Grant transfers from NT to the LM,s the VAT is zero – rated • Grant funds expenditure by the LM's is subject to normal VAT provisions



energy

Department:
Energy
REPUBLIC OF SOUTH AFRICA

Key messages/concluding remarks (1)

- Some projects are complex and fraught with risks, e.g. water (political, technical, etc) [Structuring therefore important]
- Political support (Council Resolutions) [create certainty in market]
- Affordability to municipality and consumer (also balanced with pricing to recover costs)
- Institutional capacity to implement and maintain
- Budgetary provision: operation and maintenance costs
- Proper assessment of options
- Social acceptability of service
- Compliance with MFMA and other regulatory requirements (e.g. Blue Drop)

Key messages/concluding remarks (2)



- Funding negotiations can be lengthy (project dependent)
 - It is important to plan well in advance and have a multi-year funding strategy
 - E.g. for conditional grant bridge financing (frontloading), 2 stage approval process, namely with DBSA and National Treasury
- For more affluent areas
 - Consider normal loans due to better recovery rates
- For low-income areas with poor recovery rates
 - Consider MIG frontloading (interest charge included in MIG allocation)
- Some initiatives under way to support delivery in Mpumalanga through partnerships with MPG and SOEs and municipalities

Get in touch with us...

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Thank you!

