

GROWING A FOCUSED, SUSTAINABLE AND DEVELOPMENTAL DBSA



DBSA ROLE IN MUNICIPAL INFRASTRUCTURE DEVELOPMENT AND FINANCING

DFI DAY: 7 MARCH 2018



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Overview of the DBSA

DBSA Mandate

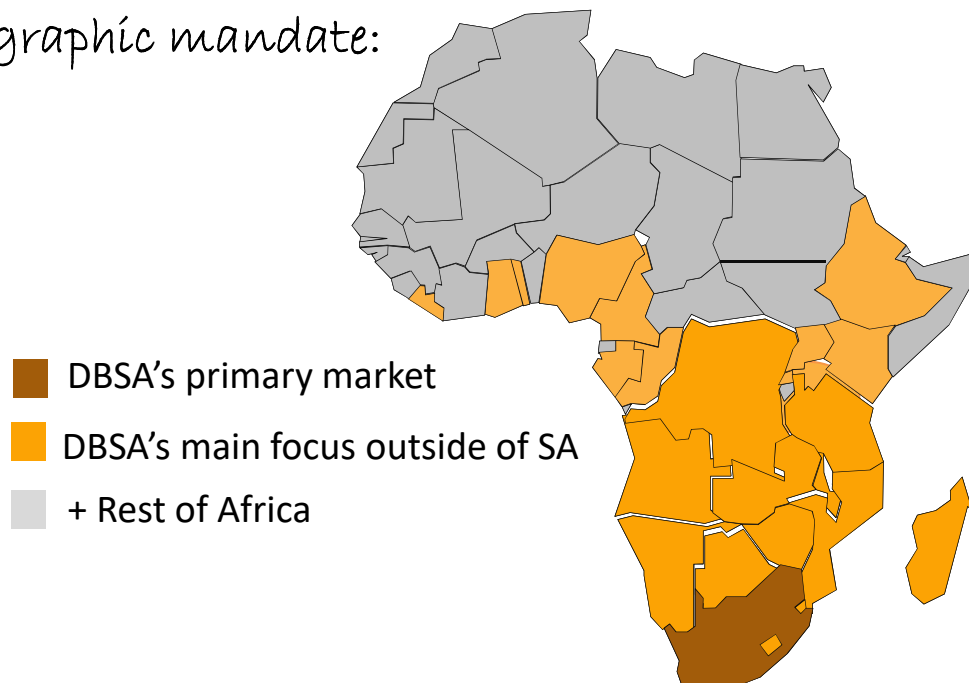
Vision:

A prosperous and integrated resource-efficient region, progressively free of poverty and dependency

Mission:

To advance development impact in Africa by expanding access to development finance and effectively integrating and implementing sustainable development solutions

Geographic mandate:



Priority Sectors:

- Primary →**
- Energy
 - Transport
 - ICT
 - Water
- Secondary →**
- Health
 - Education

DBSA's Strategic response...we'll deliver even greater levels of development impact, but through a broader set of product offerings

Mission:

Promote economic growth, improve quality of life and advance regional integration via infrastructure investment

Strategic Ambition:

Catalyse R100Bn annually in infrastructure by 2019-20, while maintaining financial sustainability

Paths to Victory:

Continue core long-term infrastructure lending activities

De-risk project finance structures to crowd-in third party funding

Greater investment in early-stage programme and project development

Develop structured products and funding structures to unlock infrastructure and crowd-in 3rd parties

Establish project management offices and focus on maintenance of public infrastructure

Sources of Competitive Advantage:

Strategic partnerships

Greater risk-return trade-off and longer tenors

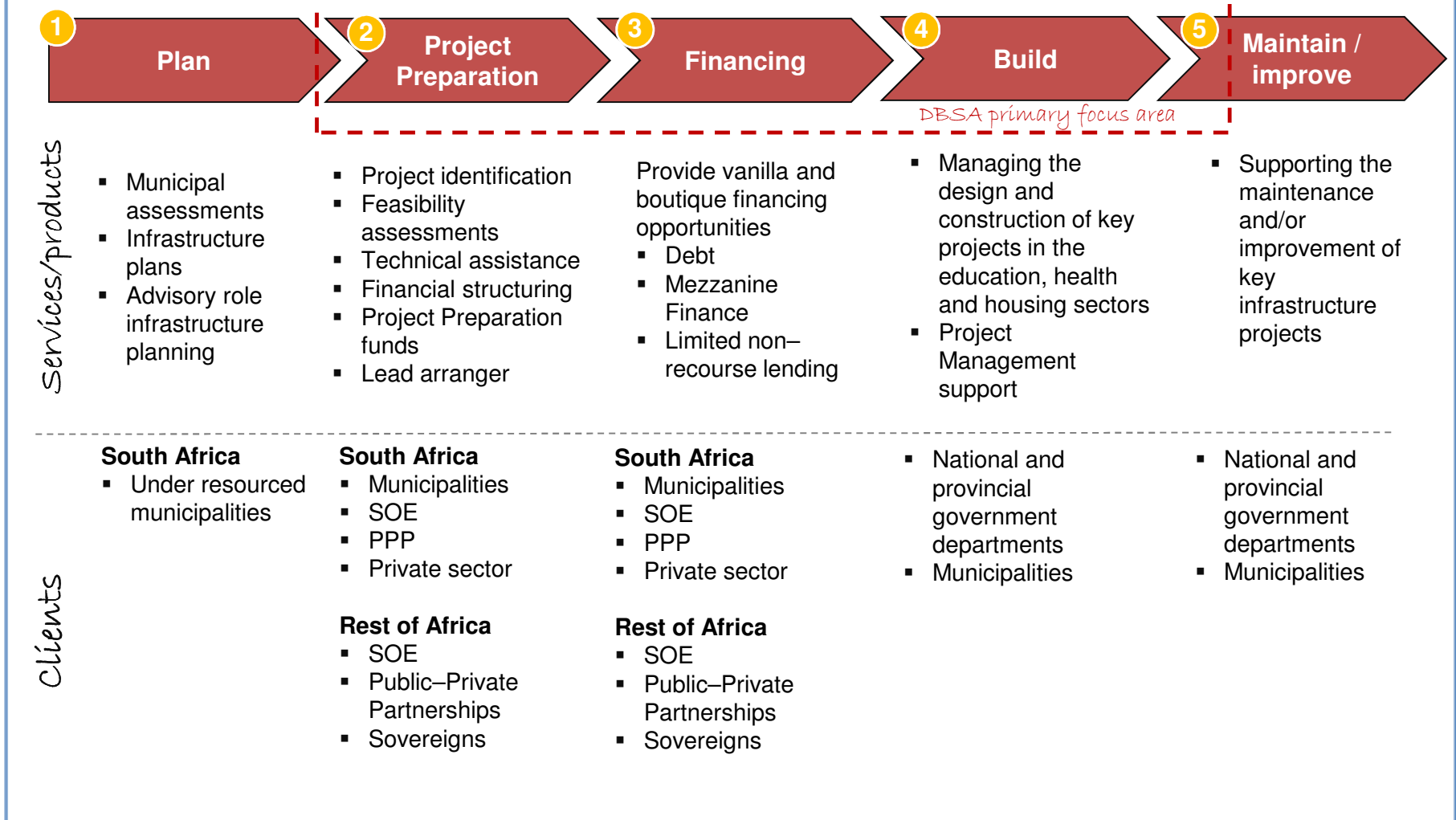
Integrated infrastructure solutions, including early-stage risk and delivery capability

Access to concessionary financing

Integrated Product Suite



End-to-end Integrated infrastructure suite, from pre-feasibility through finance, to implementation



THE TOP FIVE MUNICIPAL FUNDING CHALLENGES

Key Issues in Local Government funding

- **Small number of municipal borrowers:** Only a limited number of intermediate cities come to market despite planning to borrow and inability of under-resourced municipalities to take up loan funding
- **Lack of infrastructure planning** capacity and lack of alignment between infrastructure investment and financial planning
- The country is currently experiencing **low growth & high unemployment** levels, coupled with both low business and consumer confidence, leading to tremendous pressure on individual households – **unaffordability of services.**
- **Tariffing are often not cost reflective** thus leading to lower margin on consumer services and in some cases even under-recovery. This was exacerbated by the high Eskom tariff increases a number of years in succession.
- **High electricity & water losses** due to poor maintenance of infrastructure, theft and vandalism – resulting in high losses of revenue
- **Poor credit control.** In many instances the credit control policies are in place but due to non-enforcement they do not render the required results. This leads to **low debtors' payment levels.**

SA Municipal Long Term Debt Landscape

Muni category	Metros	Total Debt Q3 2016/17 R'000	Share of total debt	Budgeted revenue 2016/17* R'000	Debt to revenue ratio	Total Debt Q4 2016/17 R'000	Share of total debt	Budgeted revenue 2016/17* R'000	Debt to revenue ratio
A	BUF	460 137	1%	5 943 457	8%	445 768	1%	5 695 174	8%
	NMA	1 339 624	2%	9 401 671	14%	1 318 032	2%	8 436 433	16%
	MAN	1 159 914	2%	6 641 229	18%	1 150 611	2%	5 682 226	20%
	EKU	5 217 532	8%	32 374 950	16%	5 050 855	8%	31 802 534	16%
	JHB	21 830 203	34%	44 394 466	49%	20 103 896	32%	42 148 551	48%
	TSH	10 502 441	17%	29 790 048	35%	11 312 131	18%	28 967 387	39%
	ETH	9 256 431	15%	31 358 677	30%	8 835 985	14%	30 226 889	29%
	CPT	6 394 107	10%	35 822 027	18%	6 219 207	10%	35 083 231	18%
	Total Metros	56 196 389	89%	195 726 525	29%	54 436 485	88%	188 042 425	29%
B	Other Muni's	6 570 240	10%	109 474 617	6%	6 985 287	11%	101 418 830	7%
C	Districts	715 216	1%	17 854 390	4%	621 468	1%	15 496 108	4%
	Total all muni's	63 481 845		323 055 532	20%	62 043 240		304 957 363	20%

Source: NT Municipal Borrowing Bulletin

* Excluding capital transfers

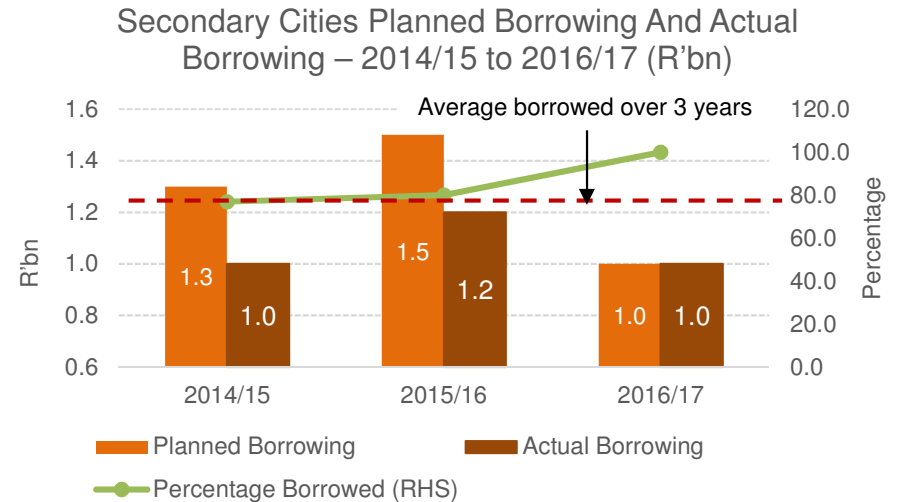
Capital Expenditure, New Borrowing and Outstanding debt

R'million	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual
Capital expenditure	39 577	39 625	30 945	33 239	41 679	47 932	53 241	54 682	54 411
New borrowing	9 463	8 226	6 401	6 211	6 490	7 583	9 357	9 222	8 099
New borrowing as a % of CAPEX	24%	21%	21%	19%	16%	16%	18%	17%	15%
Outstanding debt	32 366	35 388	43 190	45 640	48 078	51 431	53 493	60 903	62 043

Source: NT Municipal Borrowing Bulletin

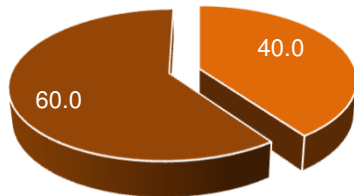
Stagnant Intermediate Cities' Borrowings

- On average, secondary cities borrowed 15% less than planned
 - Average over three years is 85%
- Actual borrowing by the cities declined
- DBSA portion of the secondary cities that came to market averaged around 50%



Source: SA Finance

Secondary Cities Actual Borrowing and DBSA Portion – 2014/15 (%)

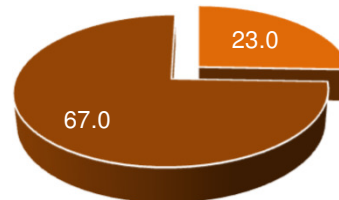


- Other lenders
- DBSA portion

Total Market R1.0bn
DBSA Portion R600m

Source: DBSA

Secondary Cities Actual Borrowing and DBSA Portion – 2015/16 (%)

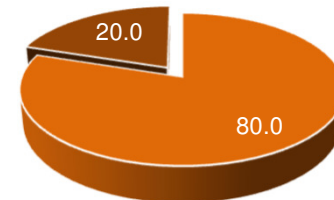


- Other lenders
- DBSA portion

Total Market R1.2bn
DBSA Portion R800m

Source: SA Finance

Secondary Cities Actual Borrowing and DBSA Portion – 2016/17 (%)



- Other lenders
- DBSA portion

Total Market R1.0bn
DBSA Portion R200m

Source: SA Finance

DBSA TARGET PROGRAMMES AND FUNDING PRODUCT LINES

DBSA: Our New Approach to Local Government

Municipalities that can borrow (metros and some intermediate cities)	Municipalities with potential to borrow within 3 – 5 years (intermediate cities)	Municipalities unlikely to borrow within 5 – 10 years (under-resourced municipalities)
<ul style="list-style-type: none"> • Differentiated Financing Solutions <ul style="list-style-type: none"> ○ Credit Enhancements structures: e.g. Guarantees ○ Securitisation ○ Large Urban Centre Infrastructure (LUCI) ○ Supporting private sector and non-municipal entities to deliver municipal infrastructure • Facilitation of growth strategies with private sector <ul style="list-style-type: none"> ○ Housing Development Agency (HDA) Programme: <ul style="list-style-type: none"> ➢ Rehabilitation of Distressed Mining Towns ➢ Catalytic Projects (Gauteng Mega Projects) • Specialized planning and project preparation services 	<ul style="list-style-type: none"> • Municipal Support Services <ul style="list-style-type: none"> ○ Revenue Enhancement Programmes ○ Long term financial strategies and investment plans for targeted municipalities • MISA/DBSA/NT/DWS – Reticulation Programme • North West – Water and Sanitation Programme • Specialized planning and implementation services 	<ul style="list-style-type: none"> • Partnering with government and government entities <ul style="list-style-type: none"> ○ Operation Amanzi ○ Project Vumela ○ Collaboration with Provincial governments and sector departments ○ Infrastructure Planning Support ○ Project Preparation Support ○ Project Implementation support for projects funded by Government ○ Financing through frontloading conditional grants

...resulting in...

- Increased number of infrastructure plans which is linked to infrastructure development.
- Increased number of projects referred for preparation support.
- Increased value of catalytic funding unlocked resulting from DBSA lending and non-lending support.
- Improved spending of conditional grants and loans in municipalities.
- Increased value of identified projects from DBSA supported Infrastructure Plans that are prioritized in Municipal IDPs.
- Increased number of DBSA-funded projects completed.
- Increased development results.

What should be done...

- What is the market's appetite for structure products/off-balance sheet instruments:
 - Public-Private Partnerships
 - Public-Public Partnerships
 - Project Finance
 - Tax Increment Financing
 - Credit Enhancements (e.g. subordinated debt, guarantees)
 - Risk sharing with DFI's (commercial banks taking short end of long dated debt & DFI's taking long end)

What should be done...

In under-resourced municipalities:

- Revenue enhancement programme to municipalities
- Infrastructure and sector master planning to municipalities
- Provision of frontloading of conditional grants
- Balance Sheet lending
- Off-balance sheet lending

STRATEGIC SHIFT REQUIRES ...

DBSA's five-pronged strategy for impact

- **Project Preparation** – Invest more in early-stage project development; crucial bottleneck in infrastructure
- **New infrastructure programmes** – Take lessons from REIPPP programme and apply to other sectors in SA and in rest of the Continent
- **Structured products** – Develop new funding structures to crowd-in private sector investors
- **Maintenance of public infrastructure** – Support government to manage existing infrastructure
- **Partnerships** – Leverage expertise and balance sheet of our partners to have a greater impact

CROWDING IN PRIVATE SECTOR AND RELATED CASE STUDIES

CROWDING IN THE PRIVATE SECTOR...

- ❑ Currently no cases of crowding in the private sector in the municipal space, however, there is one at identification phase on a revenue enhancement project with Matjhabeng LM and a private company: off-balance sheet product using an SPV
- ❑ The bank has held engagements with the top five commercial banks: ABSA, NEDBANK, FNB, RMB, SBSA
- ❑ The objective is to establish partnerships with commercial banks and explore collaboration opportunities on:
 - ✓ Mandated Lead Arranging
 - ✓ Balance sheet financing
 - ✓ Limited recourse finance
 - ✓ BBBEE financing
 - ✓ Municipal revenue and other off balance sheet financing (e.g. TIF)
 - ✓ Water sector financing
 - ✓ Climate change finance
 - ✓ Credit enhancements

INNOVATIVE PRODUCTS FOR BLENDED FINANCE AND CREDIT ENHANCEMENTS

MANDATE & SELECTION CRITERIA

Mandate

What:

Proactively Support the overall Developmental mandate of the DBSA by accelerating infrastructure delivery within its focused sectors of water, energy, ICT and Transport and Logistics within its defined geographic areas being sub-Saharan Africa with a particular emphasis on the SADC region.

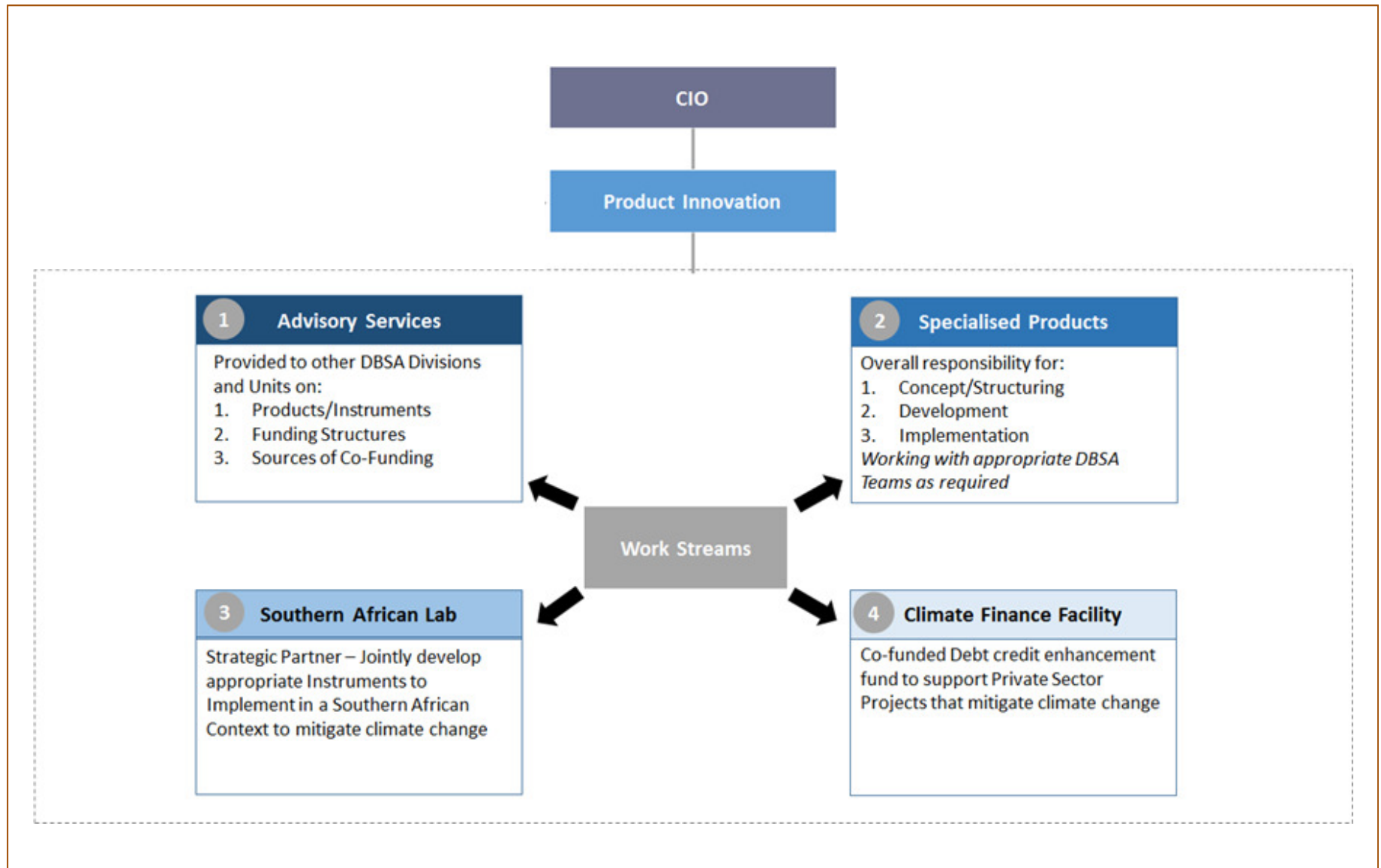
How:

- The **conceptualization, structuring, development and implementing of funding products and instruments** that “crowd in” or **catalyze private sector funding** on a **sustainable** basis.
- **Target markets** of the PIU includes traditional public sector and municipal sectors but also the **private sector**
- **Identifying sources of Blended Finance** that is recognized as the most effective form of infrastructure related funding for the developing countries
- Meets or helps to achieve the **COP 21 Nationally Determined Contributions** and the UN’s **Sustainable Development Goals**.

Selection Criteria

1. **Innovation:** Is this project bankable by other DBSA frontline units? Competitive offerings in the market?
2. **Actionability:** Time to Implementation, Risks & Milestones?
3. **Catalytic Potential:** Mobilize 3rd Party Funds, Scalability, Replicability & Socioeconomic and Environmental impacts?
4. **Financial Sustainability:** Will the project achieve market viability?

PRODUCT INNOVATION UNIT'S WORK STREAMS



Structured Products

1	Vodacom Municipal Metering	Revenue enhancement	Funding of approximately R2.3bn split into three tranches over the next three financial years for Vodacom to roll out its end to end smart metering (pre and post-paid) solution / service to municipalities.
2	Secondary Municipal Funding Initiative (M2 Securitization)	Bulk infrastructure	Aims to crowd in private sector long term funding at competitive pricing to develop infrastructure projects in the municipal sectors that are sustainable and have socio-economic benefits for the municipalities.
3	Project Amanzi	Water and Sanitation	Aims to address water and sanitation infrastructure and service delivery challenges in under-resourced municipalities, potentially enabling a significant lending opportunity in the municipal environment and the water sector.
4	Project Vumela	Bulk infrastructure	Endeavours to support municipalities to develop large scale infrastructure required for property development.

PRODUCT INNOVATION

Vumela – Municipal Bulk Infrastructure Financing Mechanism

	Description	Programme status and key numbers
Initiative	<ul style="list-style-type: none"> A Mechanism for the Funding and Implementation of Municipal Bulk Infrastructure to Unlock Large Scale Catalytic Property Developments 	<p>Status: Concept presented to some Metros. Scoping investigation to test the viability of the concept expected to be completed by July 2018.</p>
Motivation	<ul style="list-style-type: none"> Metros and secondary cities are often unable to provide the bulk infrastructure necessary to unlock large scale catalytic property developments (integrated housing projects) Project Vumela is both a financing and implementation solution intended to address this gap 	<p>Target clients: Metros and secondary cities</p> <p>Example projects: Cornubia in eThekweni, Tambo Springs in Ekurhuleni, Bellville Urban Regeneration in Cape Town, Dunkeld in Joburg, etc.</p>
Key benefits & potential developmental impact	<ul style="list-style-type: none"> Catalytic investments Will unlock major development Trigger significant job creation Trigger significant LED opportunities Enhance lives of a significant number of communities through housing, services and amenities Unlock private sector investments Support both greenfield and brownfield developments 	<p>Funding opportunities</p> <div style="display: flex; align-items: center;">  <div style="display: flex; flex-direction: column; align-items: center;"> <div style="background-color: #800000; color: white; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; margin-bottom: 10px;">R5 bn</div> <p>The mechanism can unlock an investment potential in excess of R5 billion</p> </div> </div> <div style="display: flex; align-items: center; margin-top: 20px;">  <div style="display: flex; flex-direction: column; align-items: center;"> <div style="background-color: #800000; color: white; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; margin-bottom: 10px;">TBD</div> <p>3rd party to be determined. Significant multiplier and catalytic opportunity</p> </div> </div>
Partners	<ul style="list-style-type: none"> Metropolitan Municipalities Secondary Cities World Bank National Treasury 	



Thank you

Mohan Vivekanandan
*Group Executive: Origination &
Client Coverage*

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