OVERVIEW OF PRESENTATION

- LANDSCAPE
- CHALLENGES
- FUNDING SOURCES (ROLE OF FINANCIAL INSTITUTIONS)
- ROLE OF GOVERNMENT
- OBSERVATIONS
- SUGGESTED WAY FORWARD
10m Citizens have been provided with basic services since 1994

But... 22% of households still do not have access to basic services

Municipal service delivery reaching capacity levels, significant backlogs (new infrastructure vs maintenance)

Lack of infrastructure is impeding housing delivery

Water and sanitation has reached a crisis point and may even start to threaten SA’s food security

Electricity distribution challenges abound
**Group 1:** 27 municipalities. Borrowing capacity = √. Financing available. Capex R271bn required over next 10 years.

**Group 2:** 140 municipalities. Limited borrowing capacity. Capex R98bn required over next 10 years.

**Group 3:** 70 municipalities. Little or no borrowing capacity. Mostly rural areas. Capex R132bn required over next 10 years.
LANDSCAPE (CONTINUED)

Group 1 (A & B1):
- Growth: 52%
- Backlogs: 12%
- Rehabilitation: 36%

Group 2 (B2 & B3):
- Growth: 52%
- Backlogs: 12%
- Rehabilitation: 36%

Group 3 (B4):
- Growth: 50%
- Backlogs: 15%
- Rehabilitation: 35%

Total municipal sector:
- Growth: 53%
- Backlogs: 28%
- Rehabilitation: 19%
Staffing

- Continuous reduction in technical staff, particularly experienced staff
- High turnover of staff
- Institutional structure needs to be addressed to become more effective
- Lack of suitably qualified personnel to transfer skills to
Lenders primarily focus on Group1 (Including DBSA)

Insufficient collaboration between DBSA and private banks

Legislative and policy issues
  • Insufficient housing subsidies.
  • One subsidy required for development (Land, Services, Houses)

Municipalities as the delivery agent
  • Financial, systems and staff constraints
  • Lack of proper asset “land” management
  • Lack of proper land use planning

Very difficult to implement innovative infrastructure delivery solutions
CHALLENGES (CONTINUED)

- Inefficient tender processes (Interpretation!)
- Few municipalities with sufficient “own” revenue base to support sustainable infrastructure
- Poor utility / rates management i.e. cost reflection, billing, collection
- Inconsistent / ineffective contracting with both public and private sector
- Short term political based decision making versus capital investment imperatives
# Challenges (Planning)

<table>
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<tr>
<th>Challenge</th>
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<tbody>
<tr>
<td>Non-income generating residential infrastructure</td>
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<tr>
<td>Income generating residential infrastructure</td>
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<tr>
<td>Infrastructure to support commercial, industrial and economic development</td>
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<tr>
<td>Operations</td>
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<tr>
<td>Maintenance</td>
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FUNDING SOURCES

- Balance sheet based bank debt
  - Private banks, local and international DFI’s
  - Liquidity, tenor, security – conditional grants

- Capital market i.e. municipal bonds

- Project based alternatives
  - Third party alternative funding arrangements
  - Project finance including PPP alternatives
  - Supplier / Industry - equity and take off agreements
  - Developer contribution alternatives i.e. substations
  - Export credit facilities
  - Private equity
ROLE OF GOVERNMENT

- Facilitate economic growth - creation of sustainable infrastructure
- Design and implement **capital investment planning** strategies
- Apply **asset management** practices and processes
- Consider **alternative procurement methodologies** i.e. management contracts, long term leases and or PPP’s
- Ensure alignment of support- and delivery departments!!!!!
  - Engineer develop state of the art solution – needs based?
  - Finance director seeks cheapest price for external loan – MFMA?
  - Best effort of “professionals” working in isolation?
OBSERVATIONS

- Successful projects have been backed by strong political champions!

- Traditional infrastructure procurement methodologies do not deliver infrastructure as and when required with little evidence of value for money.

- Alternative service delivery deal flow in SA is minimal whilst many countries across the world enthusiastically seek solutions and improve on earlier ASD models?
### Efficiency of PPP’s relative to Traditional Procurement

- Australian study: 21 PPP + 33 traditionally procured health projects
- In absolute terms the PPP cost advantage was significant (11.4%)

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<tr>
<th></th>
<th>Expected Cost</th>
<th>Net Cost Over run</th>
<th>Final Cost</th>
<th>% Cost Over run</th>
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<tbody>
<tr>
<td>Traditional</td>
<td>3,082</td>
<td>1,087</td>
<td>4,169</td>
<td>35%</td>
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<tr>
<td>PPP</td>
<td>4,484</td>
<td>519</td>
<td>5,003</td>
<td>11%</td>
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Source: ACG/University of Melbourne, November 2007
“A better service, not a better asset, is a key indication of successful asset management”

State Government Victoria
SUGGESTED WAY FORWARD

- Need to address backlog maintenance whilst simultaneously considering new infrastructure taking account of life cycle cost management and ASD procurement options.

- DBSA to enhance their role by supporting public infrastructure projects through providing project risk mitigation products / solutions thereby increasing private bank participation in infrastructure delivery i.e. Department of Health, National Treasury – health infrastructure initiative.

- One subsidy required to enable development of integrated human settlements (Land, services and houses).

- PFMA/MMFA complex pieces of legislation that require suitably qualified and experienced technical officials.
1. **Capital investment planning**
   - Asset management
   - Consider ASD procurement options

2. **Project risk mitigation** to be provided by DBSA
   - Products and project equity?

3. **One subsidy** for integrated human settlements
   - (Land, services and houses)

4. **Suitably qualified and experienced officials**
Thank you for your attention

André Kruger