

INFRASTRUCTURE FUND: APPLICATION GUIDELINE NO.1 OF 2022

TO: ALL PUBLIC SECTOR INSTITUTIONS IN NATIONAL, PROVINCIAL AND LOCAL GOVERNMENT AND PUBLIC ENTITIES RESPONSIBLE FOR PUBLIC INFRASTRUCTURE DEVELOPMENT AND IMPLEMENTATION

PROCESSES AND TIMELINES FOR THE CONSIDERATION OF BLENDED FINANCE PROJECTS BY THE INFRASTRUCTURE FUND: 2023 MEDIUM-TERM EXPENDITURE FRAMEWORK

1. APPLICABILITY

The Infrastructure Fund's Application Guideline No.1 of 2022 (the Guideline) is applicable to all public sector institutions in national, provincial and local government, and public entities (the Project Sponsors) responsible for infrastructure development and implementation, in line with the set application criteria contained in the Guideline and all the relevant infrastructure and budget guidelines issued by the National Treasury. This guideline applies only to blended-finance projects.

2. INTRODUCTION

The National Infrastructure Plan (NIP) 2050, supports the implementation of blended finance projects (projects combining public funds to leverage private sector financing) as a strategy to increase the public infrastructure investment to Gross Domestic Product (GDP) ratio to 30 per cent by 2030, as envisioned by the National Development Plan (NDP).

The Infrastructure Fund (the "IF" or the **Fund**) was established pursuant to a Memorandum of Agreement (MoA) dated on 17 August 2020, entered into between the Development Bank of Southern Africa (DBSA), National Treasury (NT), Department of Public Works and Infrastructure (DPWI) - Infrastructure South Africa (ISA). The Fund was established to use blended finance mechanisms to increase the overall investment in public infrastructure and to accelerate infrastructure implementation. Government has under the MoA, committed R100 billion from 2019/20 (including R17.5 billion over the next three years) to the IF to leverage R1 trillion in infrastructure spend by 2030.

The IF is housed within the DBSA as a ring-fenced unit. The Fund is meant to fundamentally transform Government's approach to financing infrastructure projects by attracting additional private sector investment, reducing the current fragmentation in infrastructure spend, and thereby ensuring more efficient and effective use of Government's resources while improving the speed and quality of delivery.

The IF envisages alleviating fiscal pressures by developing blended financing structures for infrastructure projects with social and economic elements. The IF closes the viability gap for blended finance projects by addressing potential market failure in the process of raising debt financing from the capital markets and by increasing the rate of Government's investment for prioritised infrastructure projects. Risk reduction is achieved by ring-fencing funds for blended infrastructure projects and providing certainty on Government's commitment to priority projects. Therefore, with its partners, the Fund aims to improve the quality and rate of infrastructure investment in South Africa.

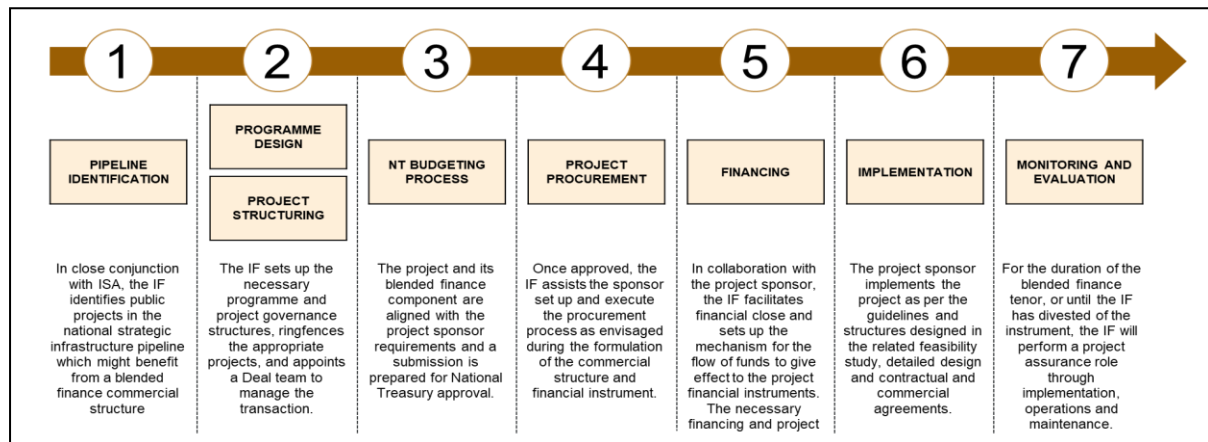
The functions of the IF as set out in MoA are to:

- I. Develop blended financing solutions for projects on behalf of the Project Sponsors;
- II. Identify and develop appropriate funding structures (grants, capital contributions, user pays, interest rate guarantees or a combination), financial models, financial delivery mechanisms and incentives for infrastructure projects;
- III. Where appropriate (depending on the project), arrange, coordinate, structure and engage with financial markets to develop financial instruments to enable investments in the projects by investors;
- IV. Encourage collaboration between public and private role-players to unlock adequate and affordable blended finance for projects to quickly reach financial close;
- V. Actively support Project Sponsors in the development of financial mechanisms for blended finance projects;
- VI. In collaboration with its partners, monitor and where possible drive the process of moving projects through the planning stage until financial closure;
- VII. Where required, work with partners to develop procurement, financing and implementation plans for the projects and provide support to Project Sponsors;
- VIII. Monitor the application of blended financing mechanisms for projects and ensuring effective asset management; and
- IX. Actively work with Project Sponsors to track the progress made on projects implemented with the involvement of the IF.

3. VALUE CHAIN OF THE IF

The IF has a cradle to grave approach to project management, with its partners, it conducts programme assurance activities from planning, financial structuring, financing, procurement, asset creation and management, right until deal exit. The value chain of the IF comprises of 6 stages that are reflected in Figure 1.

Figure 1: Value Chain: Infrastructure Fund



The IF and its partners bring the following value proposition in the blending of infrastructure projects:

- I. Apply blended finance solutions and co-financing mechanisms in mixed use infrastructure projects/programmes;
- II. Improve the commercial viability of projects/programmes;
- III. Alleviate fiscal pressures by attracting private investment into public sector infrastructure projects in a structured way;
- IV. Create sustainable infrastructure development and management;
- V. Accelerate and scale-up catalytic infrastructure development and implementation; and
- VI. Drive socio-economic development.

4. IF LINKAGES WITH ISA

ISA was established to coordinate and manage the development of a pipeline of priority infrastructure projects. Project Sponsors are required to register all infrastructure projects and programmes with an estimated capital value above R1 billion and R3 billion respectively with ISA. Where applicable, ISA will recommend to the Minister of Public Works and Infrastructure, the gazetting of priority projects in terms of the Infrastructure Development Act (IDA). ISA continuously advises Project Sponsors on the applicable project registration steps and on the information required to complete the ISA registration process.

Through its project appraisal and gate approval governance processes, ISA in conjunction with the IF, will confirm the applicability of a project for a blended financing solutions between the public and private sectors. The blended finance projects to be supported by the IF, like all infrastructure projects, should be registered through ISA and follow ISA processes.

It is the responsibility of the Project Sponsors to ensure that qualifying projects have been submitted to ISA for registration. It is important for Project Sponsors to note that, the IF cannot finance projects that have not been approved through the ISA project appraisal and national

budget processes. The IF is also available to guide Project Sponsors in relation to ISA registration processes.

PROJECT SUBMISSION PROCESS AND CRITERIA

The approval of project budgets and IF facilities are currently linked to the Budget Facility for Infrastructure (BFI): a reform to the budget process that establishes structures, procedures, and criteria for committing fiscal resources to public infrastructure spending. The BFI creates a window of budget submissions and allocations for large infrastructure projects and programmes, assesses the submissions, and makes recommendations to budget authorities and political decision makers. The BFI may have one or two annual windows where projects can be submitted for evaluation and funding consideration, namely the national adjustments budget process (takes approximately 6 months to complete) and annual budget process (takes approximately 1 year to conclude).

Project Sponsors as owners of the projects are responsible for packaging and submitting the BFI applications associated with the relevant infrastructure projects. However, the IF, if mandated by the Project Sponsors can assist with the specific value-added services described in Section 3 of this Guideline. Where the services of the IF have been formally mandated, the IF is a co-signatory of the BFI submission along the Project Sponsors. This is important as in some instances, the IF is required to develop and establish funding instruments that require the BFI funds to flow directly to the IF to enable it to engage the financial markets for blending and address project life cycle inefficiencies through its services.

The IF can assist the Project Sponsors to prepare and submit well packaged and compliant BFI applications to NT. Project Sponsors are required by NT to ensure that all BFI submission requirements are met.

In cases where the IF works with Project Sponsors to package BFI submissions, it is important to highlight that the Project Sponsors are not outsourcing the development of BFI submissions to the IF, rather, the institutions work together to develop the submissions for mutually beneficial interests. More importantly, the Project Sponsors should make available all the necessary resources and information to enable the development of credible and high-quality BFI submissions.

The involvement of the IF in blended finance projects does not replace the roles and responsibilities of Project Sponsors. All roles and responsibilities of the Project Sponsors espoused in the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA), remain with the Project Sponsors. In other words, the Project Sponsors continue with their assigned mandates as per the normal cause of business and account for them as usual. The IF naturally has nothing to do with procurement, implementation or ownership of assets unless if mandated by the Project Sponsors to assist with procurement or implementation of services on an agency basis.

The IF is merely the owner of the blended finance mandate, which is a financing function and not necessarily a service delivery mandate of Project Sponsors. The IF uses its mandate to create a financing value for sponsors to be able to achieve their legislated service delivery mandates. Currently, all blended finance projects are required to go through the BFI process for NT's consideration and approval.

The projects to be admitted by the BFI must be shovel-ready or ready for implementation with the only outstanding matter being funding or financing. That is, the projects must have moved beyond the preparation stage, with the full business cases being in place. The qualifying projects must meet the following overarching BFI criteria:

- I. Clearly identified as a national priority - Strategic Integrated Projects (SIP) with written support from the relevant national department(s);
- II. Very large (a minimum total project cost of R1 billion for projects and R3 billion for programmes) and strategic interventions. These are interventions that imply a significant commitment of fiscal resources, and which will have substantial long-term impacts on economic growth, social equity and employment creation; and
- III. Projects and programmes to be submitted must be in the following sectors: Energy, Water and Sanitation, Transport, Communications, Human Settlements, Agriculture and Agro-processing, Health, Education and Municipal infrastructure. The designated sectors are subject to the final BFI Guidelines, in other words, the list could be amended.

5. PROJECT SUBMISSION TIMELINES

The BFI window 6 is expected to open early in the 2022/23 financial year. ISA and Project Sponsors are required to submit projects to the IF for financial structuring by **31 March 2022**. This will provide enough time for the IF to consider the projects and obtain necessary approvals for blended financing. It will also enable the IF to adequately assist project sponsors to package credible BFI submissions before the closing date.

6. INFORMATION REQUIREMENTS

The projects to be submitted to the IF and BFI should be ready for immediate financial structuring, procurement, contracting and construction. However, Project Sponsors who would like to submit projects for assistance with project preparation can approach the project preparation division (PPD) of the DBSA directly (subject to the approval processes set out in the MoA signed by DBSA and NT) or through the IF for referral to PPD in the DBSA. Project Sponsors are encouraged to ensure that the scope of works for the projects' feasibility studies include all the requirements of the BFI process. The most recent BFI guideline will be published on the NT website once finalised. The [2021 BFI guidelines](#)¹ can be used as an example but are subject to changes to be made at NT's discretion. Table 1 summarises the information requirements for blended financing project applications.

Table 1: Minimum information requirements for the submission of projects to IF and NT

Activities	Description	Mandatory requirements
1. Regulatory Approvals and Other Project Documents		

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<http://www.treasury.gov.za/publications/guidelines/GUIDELINE%20ON%20BUDGET%20SUBMISSIONS%20FOR%20LARGE%20STRATEGIC%20INFRASTRUCTURE%20PROPOSALS%20final%202021%2004%2021.pdf>

Sectoral Policy Documents	Sectoral Overview and Project Scene Setting	✓
Need and Demand Studies	Project Financing and Implementation Rationale	✓
Record of Implementation Decision/Directives	Project Implementation Authority	✓
Environmental Impact Assessment	Environmental Approvals and Compliance	✓
Grant or Borrowing Approvals	Government Support and Borrowing Authority	✓
Signed Off-take Agreements	Project Beneficiary Revenue Underpin	✓
Municipal Approvals	Municipal By-Law Compliance	✓
Feasibility and Bridging Feasibility Studies	Financial and Technical Feasibility	✓
Socio-Economic Impact Assessment Studies	Economic/Social Cost and Benefit	✓
Business Cases	Financial and Technical Feasibility; Due Diligence	✓
Project Memorandum	Summary of Key Project Information	✓
ISA Registration and IBC approvals	ISA Registered and IIC Approved Projects	✓
Legal Mandating Process	IF mandate letter and Sponsor Support Letters	✓
2. Financial and scheduling Information		
Project Plan	Project implementation schedule showing the critical path activities	✓
Procurement Plans and Schedules	Plans and Schedules linked to Project Cash-Flows and Financial Models	✓
Risk and Sensitivity Analysis	Quantified Risk Matrix and Detailed Scenario Sensitivity Analysis	✓
Cost Benefit or Effectiveness Analysis	Justification of Economic/Social Costs	✓
Project Financial Models	Outline of Revenue, Costs, Funding Sources Over Construction and Operation Periods	✓
3. Governance		
Project Governance Framework	Project Governance Structures	✓
Stakeholder Responsibility Matrix	Stakeholder Roles and Responsibilities	✓

7. CONTACT DETAILS

Submissions and queries to the IF should be made to the following officials:

Dr. Misaveni Ngobeni
 Cell: 076 180 7086
 Email: Misaveni@infrastructurefund.co.za

Ms. Mpho Mahlamvu
 Cell: 061 406 3346
 Email: Mpho@infrastructurefund.co.za

8. ISSUING AUTHORITY

Mr Mohale Rakgate



Chief Investment Officer: Infrastructure Fund

Date: 15 March 2022

9. GLOSSARY AND ACRONYMS

ACRONYMS

Abbreviation	Description
BFI	Budget Facility for Infrastructure
DBSA	Development Bank of Southern Africa
DPWI	Department of Public Works and Infrastructure
GDP	Gross Domestic Product
IBC	Intermediate Business Case
IDA	Infrastructure Development Act
IF	Infrastructure Fund
IIC	Infrastructure Investment Committee
ISA	Infrastructure South Africa
MFMA	Municipal Finance Management Act
MoA	Memorandum of Agreement
NDP	National Development Plan
NIP	National Infrastructure Plan
NT	National Treasury
PFMA	Public Finance Management Act
PPD	Project Preparation Division
SIP	Strategic Integrated Projects

GLOSSARY

Term	Description
Blended Finance	Is the strategic use of development finance to mobilize additional finance which attracts commercial capital towards projects, that contribute to sustainable development, while still providing financial returns to investors.
Co-financing mechanisms	The process in which more than one different lender agrees to finance a project for a borrower.
Grant	It is an award usually financially and is given by one entity to another entity to facilitate a goal or to help incentivize performance. Grants are unrequited payments.
Interest rate guarantees	They are options on forward rate agreements which are a tool for hedging interesting rate risk.

Term	Description
Mandate Letter	A borrower's written authorization to one or more banks to assemble as a syndicate to raise the required financing by the borrower.
Market Failure	It is an inefficient distribution of goods and services in the free market.
Policy	A deliberate system of guidelines which guide decisions as well as achieve rational outcomes.
Ring-fenced unit	A process that is put in place to separate a unit from the main business of the company.
Socio-economic development	A process where it identifies the both the social and economic needs within country and formulate the strategies to meet those needs (practically and best interests of the country long-term).
Strategic Integrated Projects	Projects that are significant economic or social important to the republic and substantially contribute to the national strategy or policy related to infrastructure development.