



THE BANKING  
ASSOCIATION  
SOUTH AFRICA

# **INFRASTRUCTURE PLANNING, FINANCING AND INVESTMENT**

**22 OCTOBER 2010**



# OVERVIEW OF PRESENTATION

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- LANDSCAPE
- CHALLENGES
- FUNDING SOURCES  
(ROLE OF FINANCIAL INSTITUTIONS)
- ROLE OF GOVERNMENT
- OBSERVATIONS
- SUGGESTED WAY FORWARD





# LANDSCAPE

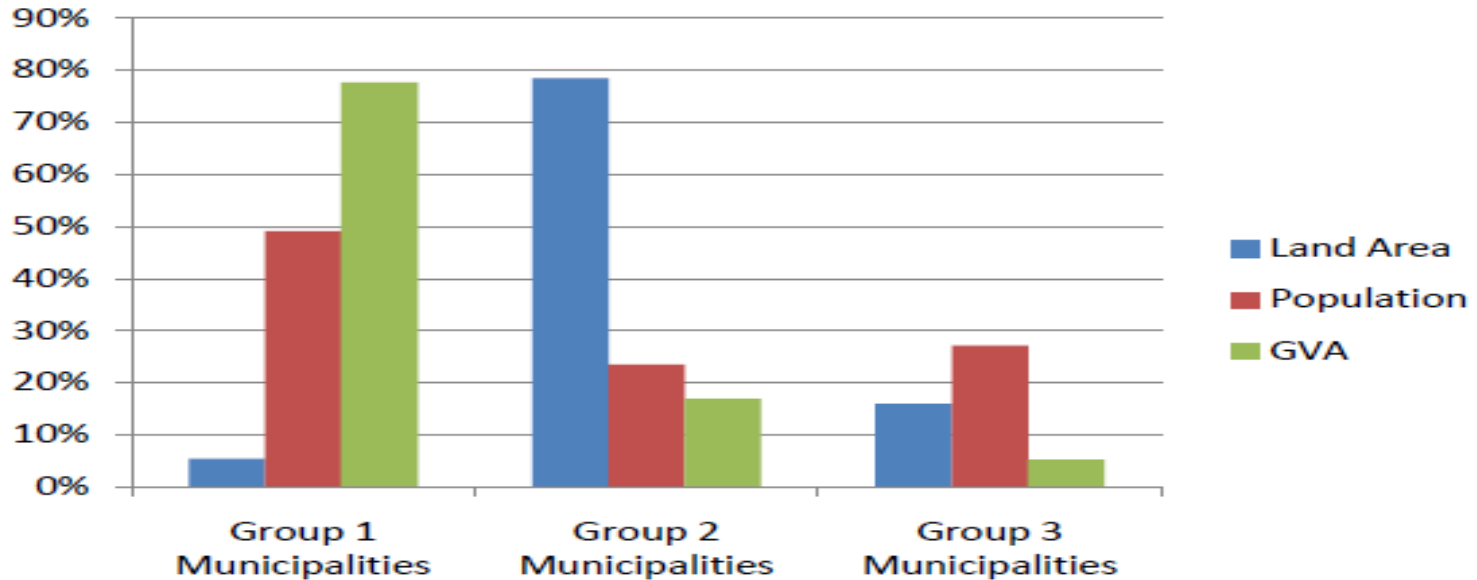
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- 10m Citizens have been provided with basic services since 1994
- But... 22% of households still do not have access to basic services
- Municipal service delivery reaching capacity levels, significant backlogs (new infrastructure vs maintenance)
- 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



# LANDSCAPE (CONTINUED)

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**Group 1:** 27 municipalities. Borrowing capacity =  $\checkmark$ . Financing available. Capex R271bn required over next 10 years.

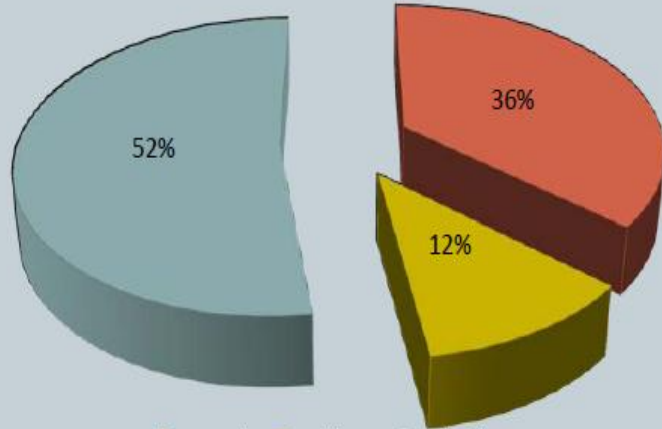
**Group 2:** 140 municipalities. Limited borrowing capacity. Capex R98bn required over next 10 years.

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



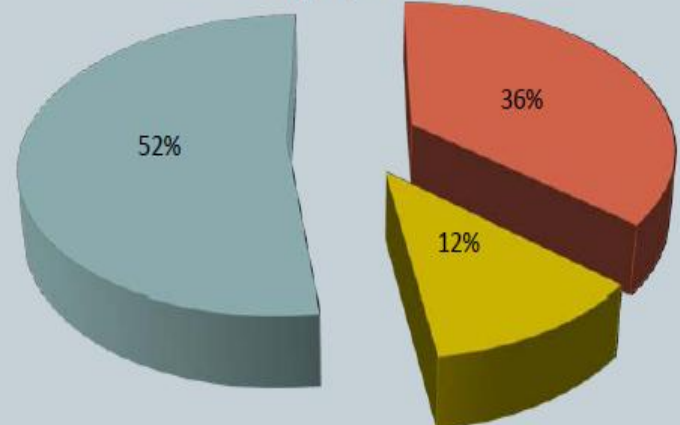
# LANDSCAPE (CONTINUED)

Group 1 (A & B1)



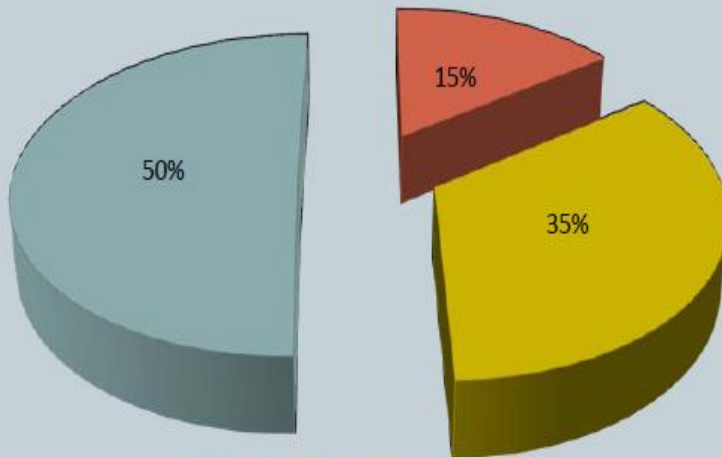
■ Growth ■ Backlogs ■ Rehabilitation

Group 2 (B2 & B3)



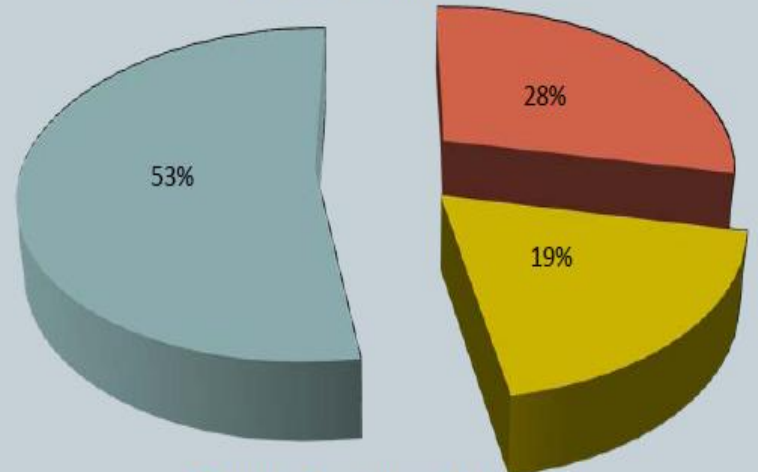
■ Growth ■ Backlogs ■ Rehabilitation

Group 3 (B4)



■ Growth ■ Backlogs ■ Rehabilitation

Total municipal sector



■ Growth ■ Backlogs ■ Rehabilitation



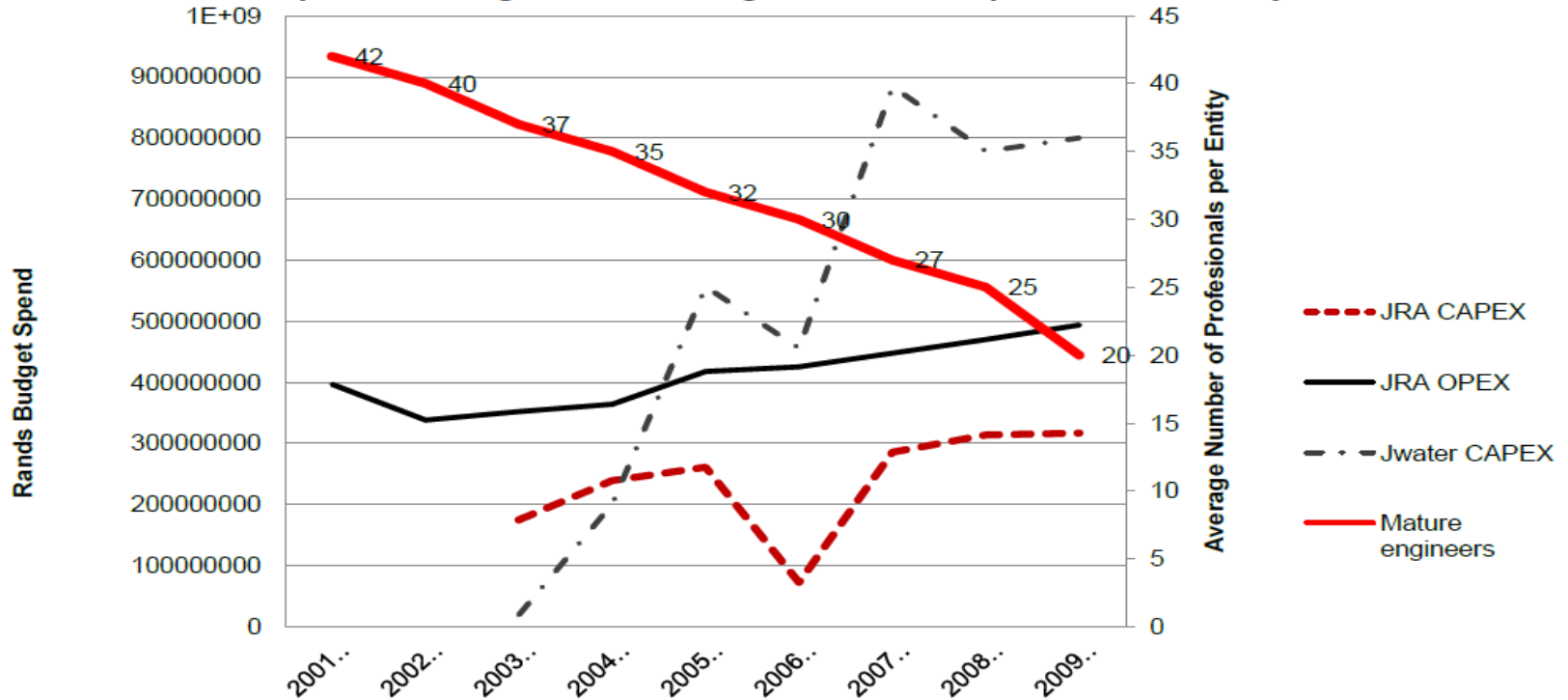


# LANDSCAPE (CONTINUED)

## 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

**Experienced Engineers Declining vs Increased Spend Accountability**





# CHALLENGES

- 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)

				
Non-income generating residential infrastructure	Income generating residential infrastructure	Infrastructure to support commercial, industrial and economic development	Operations	Maintenance





# FUNDING SOURCES

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- 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

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- Facilitate economic growth - creation of sustainable infrastructure
  - Design and implement **capital investment planning** strategies
  - Apply **asset management** practises 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?
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# OBSERVATIONS

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- Successful projects have been backed by strong political champions!
- Traditional infrastructure procurement methodologies does 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?





# OBSERVATIONS

## 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%)

	Expected Cost	Net Cost Over run	Final Cost	% Cost Over run
Traditional	3,082	1,087	4,169	35%
PPP	4,484	519	5,003	11%

Source: ACG/University of Melbourne, November 2007





# OBSERVATIONS

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**“A better service, not a better asset,  
is a key indication of  
successful asset  
management”**


State Government Victoria





# SUGGESTED WAY FORWARD

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- 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
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# SUGGESTED WAY FORWARD

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## 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**

