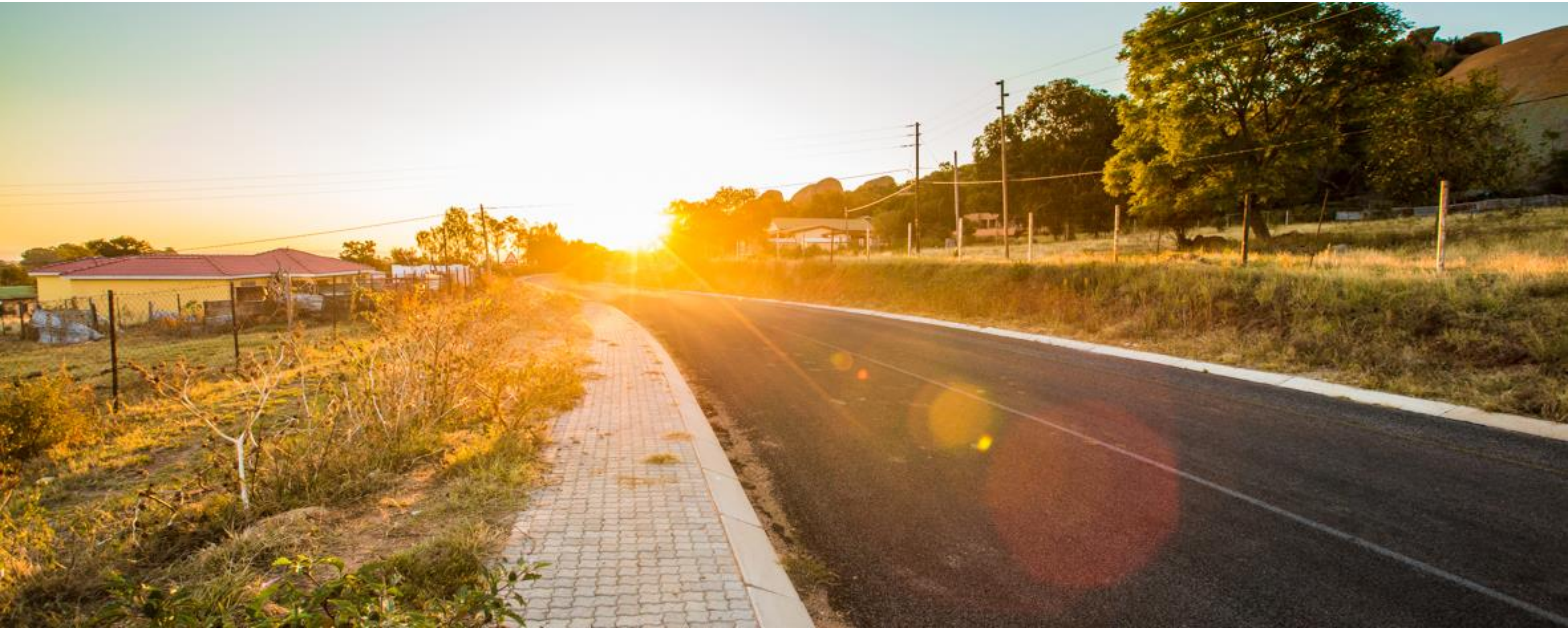
THE INFRASTRUCTURE FUND

DEVELOPMENT BANK OF SOUTHERN AFRICA



BACKGROUND

The Infrastructure Fund aims to increase private sector investment in public infrastructure.

- President announced Infrastructure Fund 2018, as part of stimulus package
  - Government has no fiscal capacity to provide stimulus – will be reducing expenditure rather than increasing it
  - No shortage of money or appetite in private sector to invest - need to mobilise private sector investment in infrastructure
  - Challenge is to develop bankable projects
- Made commitment to R100 bn government contribution over ten years to blended finance public infrastructure projects and programmes
- Aim is to use IF to leverage much higher levels of private sector investment in public infrastructure
- Aim is also to harness private sector skills and capacity for planning, construction and O&M

FOCUS OF THE INFRASTRUCTURE FUND

The focus is on projects which require government support to be commercially viable.

Social projects

- Depend on fiscus for funding
- Little potential for private sector investment
- Example: minor urban roads

Blended finance projects

- **Revenue stream** insufficient to make project commercially viable
- Can become viable with government contribution
- Examples: student housing, rental social housing

Commercially viable public infrastructure projects

- **Revenue stream** which can be discounted to enable private sector investment
- Does not require funding from fiscus
- Example: SANRAL concession toll roads

FUNDING MODELS

The infrastructure fund will use a range of different funding models.

- Infrastructure Fund is not a separate pot of money - is a portfolio of blended finance projects
  - “Infrastructure Fund” includes both government and non-government contributions
- Government contributions are made through normal budgeting process: BFI, MINCOMBUD
- Allocations will usually be made to sponsoring departments’ budgets, some projects may require SPVs
- Government contribution to projects will usually be a grant

HOW IT WORKS

Managing a project pipeline of potential programmes and projects and developing appropriate financing mechanisms per programme or project

- Open pipeline of programmes and projects ranging from implementation stage to conceptual stage
- Engagement with government bodies to identify potential projects, suggestions also received from private sector – PPGI, BASA, ASISA
- Project preparation funding has been allocated to DBSA, PICC and GTAC to develop projects through conceptual to implementation stage, feasibility work started on a number of projects
- DBSA is engaging with private sector funding associations regarding the development of potential financial instruments to channel investment funds into IF projects

CRITERIA FOR ACCEPTANCE INTO THE PIPELINE

DBSA

- Only fund large projects or programmes
- Projects must appear to be suitable for blended financing:
  - there must be sustainable, discountable cash-flows related to the project
  - risk-profiles of projects must be manageable and sufficiently attractive to investors
  - projects may require an element of government financial support to be viable, within the fiscal framework
- Projects must mobilise private sector efficiencies, skills and resources for public infrastructure
- Projects must fit within government's infrastructure priorities, as articulated in the National Development Plan and other plans
- Programmes must be scaleable and replicable

Preference is given to projects with high leveraging of private or non-government investment and which do not require government guarantees.

EXAMPLES: PROJECT PIPELINE

- Implementation phase:
  - Student housing programme
  - Social housing programme
- Advanced stage of preparation:
  - Gautrain 2
- In project preparation:
  - Expansions of student housing and social housing programmes
  - One stop border posts programme
  - Rural broadband programme
  - Municipal water, sanitation and electricity programmes: water re-use; non-revenue water; independent water production; rehabilitate, maintain, operate WWTW
- Conceptual phase:
  - Freight branch rail lines programme
  - Embedded generation in public facilities

LEGISLATIVE AND REGULATORY IMPEDIMENTS

DBSA

Some aspects of legislation work against increasing private sector investment in public infrastructure.

- The PFMA and MFMA PPP regulatory frameworks: demand-driven, thorough feasibility only required for PPP, generally seen as too expensive, too slow and too complicated
- Sections 76-81 of the Municipal Systems Act (MSA) read in conjunction with Section 120 of the MFMA: extensive external consultation process if use ‘external’ provider, not required for ‘internal’ provider - disincentive
- Section 33 of the MFMA: elaborate external consultation process before entering into a contract longer than three years
- Section 8 of the MFMA: requires all revenue to be paid directly into the municipality’s primary bank account - limits ability to ring-fence revenue
- Limiting of visibility of funding for infrastructure projects to the three-year budgeting cycle

THANK YOU