Intermediate cities as destinations for investment

Presentation to DBSA Infrastructure Dialogues workshop

17 May 2018

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INTEGRATED URBAN DEVELOPMENT FRAMEWORK

Acknowledgements

Presentation and data compiled from work done by various managers and experts working on ICM programme, including Diale Lodi, Nomkita Fani, Dan Smit, Kim Walsh, Yondela Silimela, Tiaan Ehlers and Sean Philips, as well as expert inputs from NT's CSP programme

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Wide diversity of intermediate cities

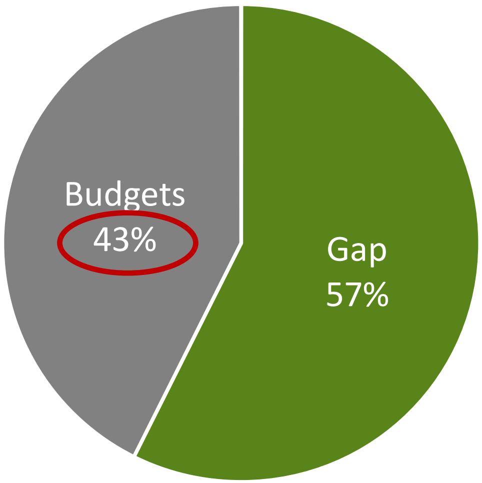
Large Semi -diversified	Mining	Manufacturing	Service Centre	Low GVA/High Pop/High density
Emfuleni	Rustenburg	Mogale City	Matlosana	Bushbuckridge
Msunduzi	Matjhabeng	Newcastle	Maluti a Phofung	Makhado
Mbombela	Emalahleni	Govan Mbeki	Nkomazi	Greater Tzaneen
Polokwane	Madibeng	uMhlathuze	Thulamela	Mafikeng
	Rand West	Drakenstein	Sol Plaatjie	Enoch Mgijima
	Steve Tshwete	KwaDukuza	Mogalakwena	King Sabata
	Merafong	Alfred Duma	Ventersdorp/ Tlokwe	
	Gr Tubatse/ Fetakgomo	Metsimaholo	George	
	Ba-Phalaborwa	Stellenbosch	Gr Giyani	
	Lephalale		Ray Nkonyeni	

How do ICMs differ from metros?

- ICMs much smaller (on average 7 times smaller)
  - Is space as important then?
- Amount of traditional land is on average double Metro's
- The economies of ICMs are in general more vulnerable than those of the metros
  - High incidence of Mining Cities, both declining and rapidly growing, poses specific challenges
- Low GVA/High Pop/High density settlements is a feature of ICMs and also pose specific challenges
- Governance, spatial governance/planning and financial management is on average much weaker and more variable

Considerable infrastructure successes over the past 20 years but delivery has not kept pace with need

- Modelling done for Urban Investment Partnership Conference in 2015 suggested that secondary city budgets are sufficient to finance only 43% of need.
- In B1 municipalities, as much as 70% of the need is not for the poor and the financing gap on infrastructure that is not for the poor is higher than the financing gap on infrastructure that is for the poor.



Rbillion p.a.	**B1**
Need for the poor	6
Transfers	5
Funding gap on infra for the poor	2
Funding gap for the poor as % of need	29%
Need for high inc hhs and non-res	17
Municipal own sources	3
Estimated funding from other service providers	3
Funding gap on infra not for the poor	10
Funding gap not for the poor as % of need	59%

Capital spending by municipalities can have a positive effect on economic growth

- Research done by the FFC for their submission to the 2016/17 Division of Revenue Act found that municipal capital investment can enhance regional economic growth
- This is particularly true for infrastructure that can generate revenue (water, sanitation and electricity in the FFC study)
- The impact is enhanced through improved management of the resulting assets

Majority of capital programmes grant financed

Capital expenditure, new borrowing and outstanding debt (ICMs)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/2017
Capex	4 871 680	4 078 618	4 501 013	5 862 375	7 162 451	6 020 885	7 119 886	8 955 911
New Borrowing	549 282	424 326	534 599	647 182	630 006	1 192 661	754 593	975 584
new borrowing as % of capex	11,28%	10,40%	11,88%	11,04%	8,80%	19,81%	10,60%	10,89%

- Capital expenditure for ICMs has increased by 83.8 percent from 2009/10 to 2016/17, while borrowing has increased by 77.6 percent.
  - Big portion of capex is financed from grant transfers.
  - Borrowing finances small portion of their capital programmes.

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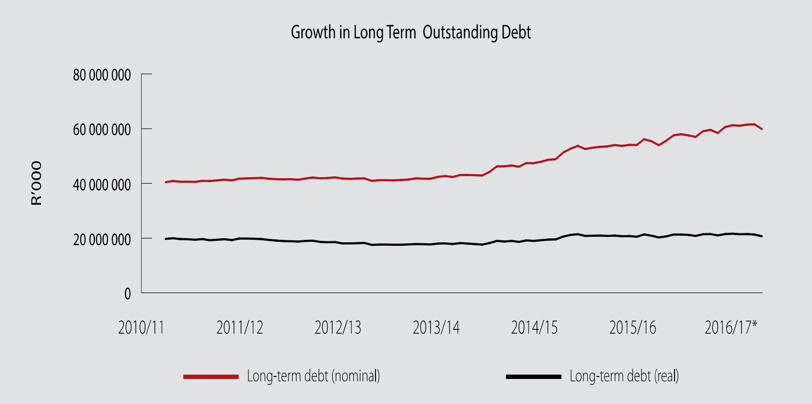
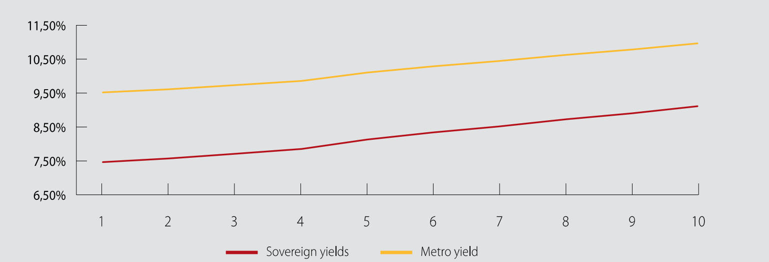
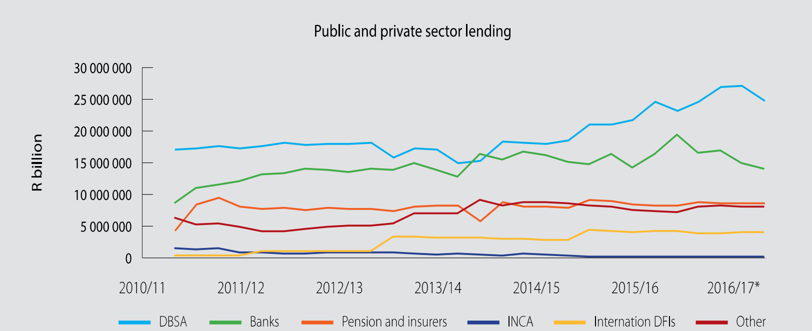
Insufficient contribution to ICM funding mix from municipal debt market

- Limited & declining growth in total debt:
  - Nominal debt: R62bn
  - R8bn in new borrowing 16/17 (15% of capex)
- Limited price differentiation by muni's & constraints to tenure (10-15 yr avg) relative to asset lives
- Limited secondary market activity
  - "Buy & hold" limits broader participation by institutional investors
- Direct DFI competition with private sector
  - Dominance of DBSA and increasing role of other DFIs in context of limited growth in market size







IUDF has initiated process of grant reforms, starting with intermediate cities

- A relatively robust fiscal framework
  - Own revenues, that can support borrowing
  - Consolidation and (overall) reduction in grants, increasingly poverty targeted
- IUDG introduces consolidation and performance orientation in infrastructure grant funding
  - Increased consolidation of infrastructure funding
  - Programmatic monitoring against a Capital Expenditure Framework that is aligned with a sound Spatial Development Framework
  - An incentive portion that rewards performance, including leverage of other sources of capital finance
  - Minimum conditions for accessing the grant
  - Situation of the grant within a support programme

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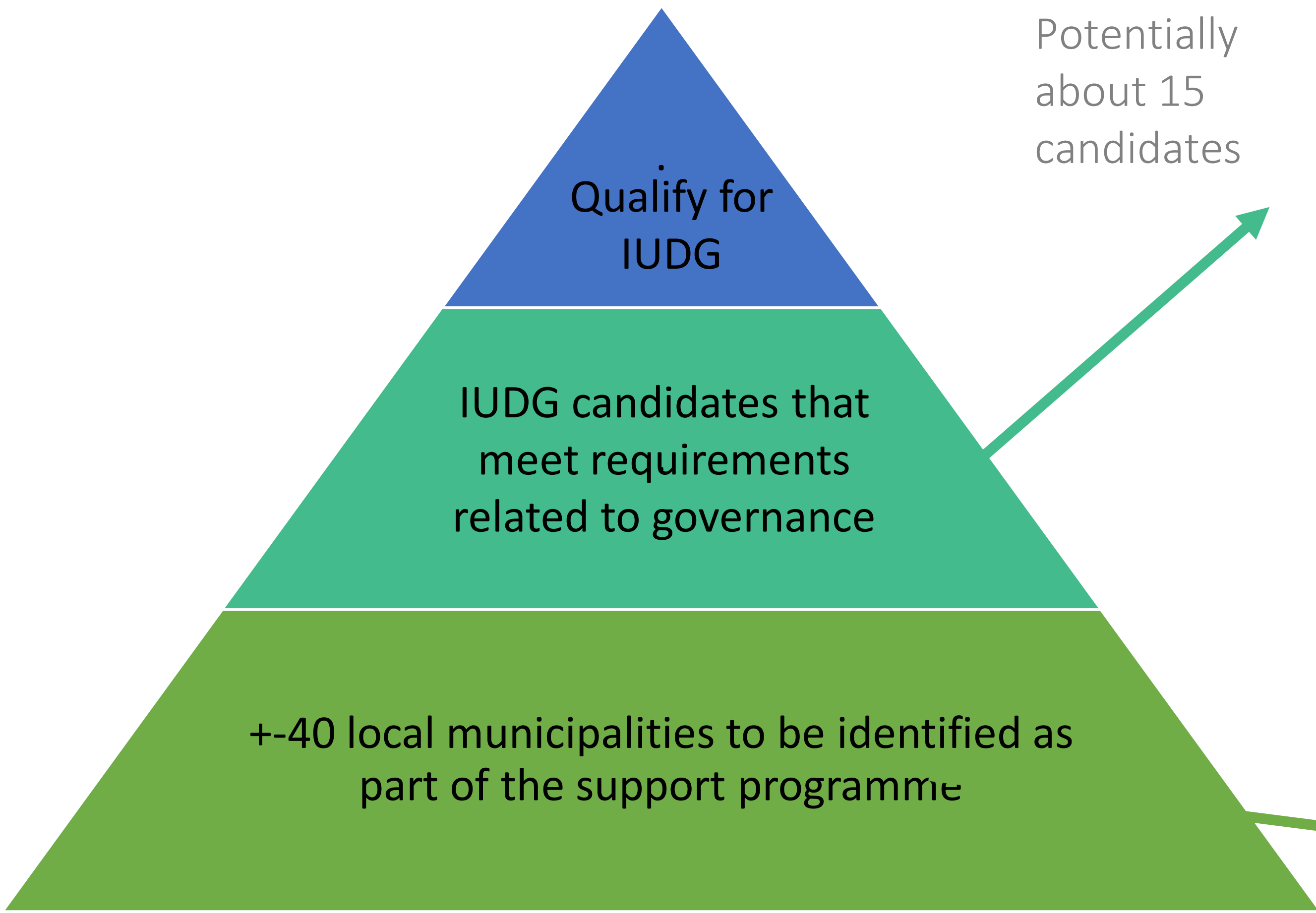
Minimum conditions to access IUDG

Minimum condition	Why?
Top management stability	Measure of extent to which sufficient oversight is in place
Audit finding	Measure of extent to which financial reporting can be relied on
Unauthorised, fruitless and wasteful expenditure	Measure of extent to which municipality can spend as it should
Capital budget expenditure	Measure of extent to which municipality can manage its existing capital programme
Submission of S71 performance reporting against SDBIP indicators	Measure of ability to report on non-financial performance

Grant situated within broader ICM support programme



Potentially about 15 candidates

Metsimaholo	FS204
Setsoto	FS191
Emfuleni	GT421
Mogale City	GT481
City of uMhlatuze	KZN282
KwaDukuza	KZN292
Polokwane	LIM354
Govan Mbeki	MP307
Steve Tshwete	MP313
Bushuckridge	MP325
Sol Plaatjie	NC091
Breede Valley	WC025
Drakenstein	WC023
George	WC044
Stellenbosch	WC024

Generic support directed towards governance and financial management

Programmatic monitoring against a Capital Expenditure Framework that is aligned with a Spatial Development Framework

Problem statement

- Project-by-project monitoring is onerous on municipality and transferring authority
- It does not promote a cohesive, long term approach to municipal infrastructure investment that is aligned with spatial objectives

Will also monitor output and outcome indicators

Proposed response

Monitor against a three-year capital programme which is aligned with 10-year Capital Expenditure Framework. The Capital Expenditure Framework should in turn be aligned with a Spatial Development Framework in accordance with SPLUMA clause 21(n).

What is a capital expenditure framework?

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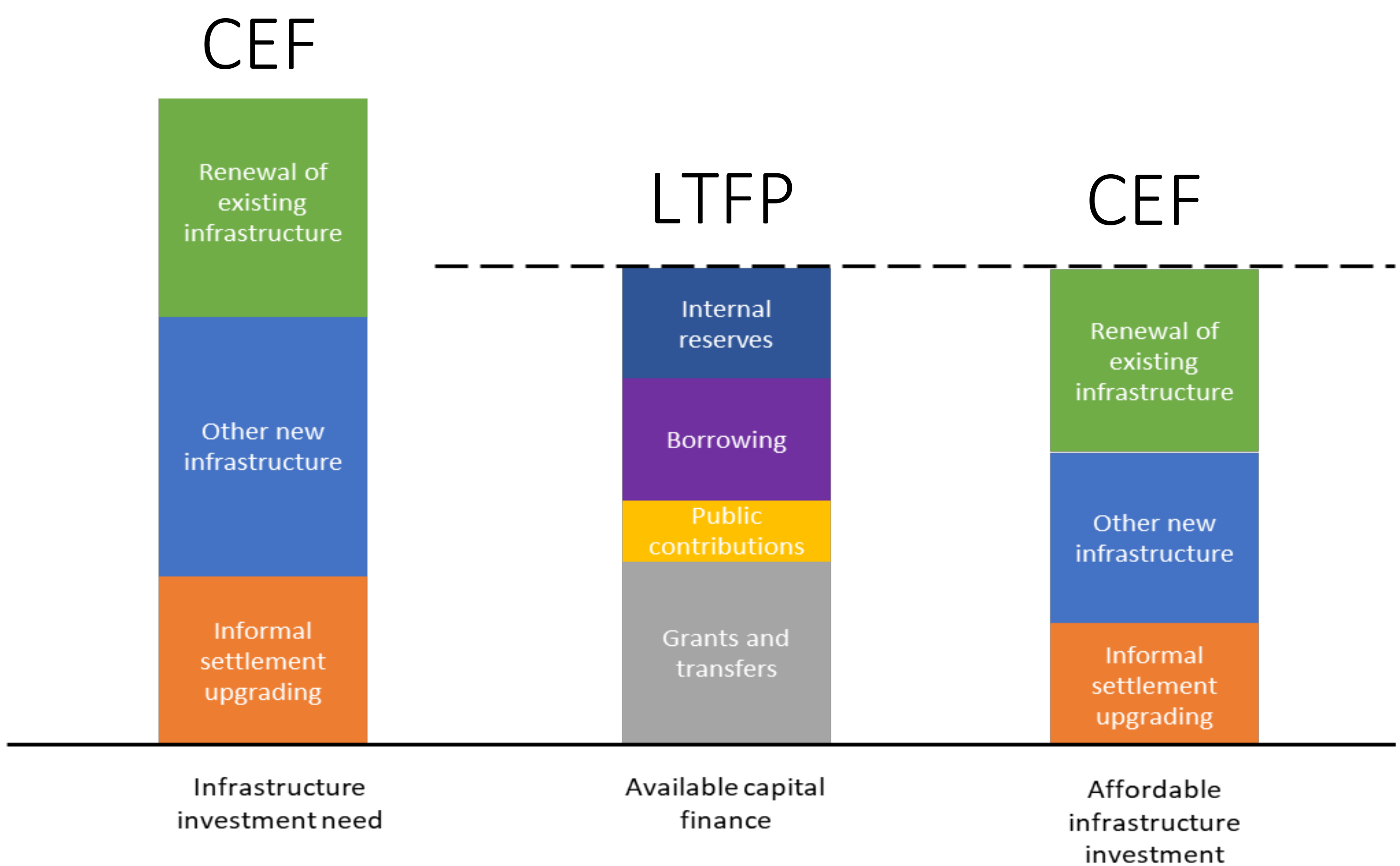
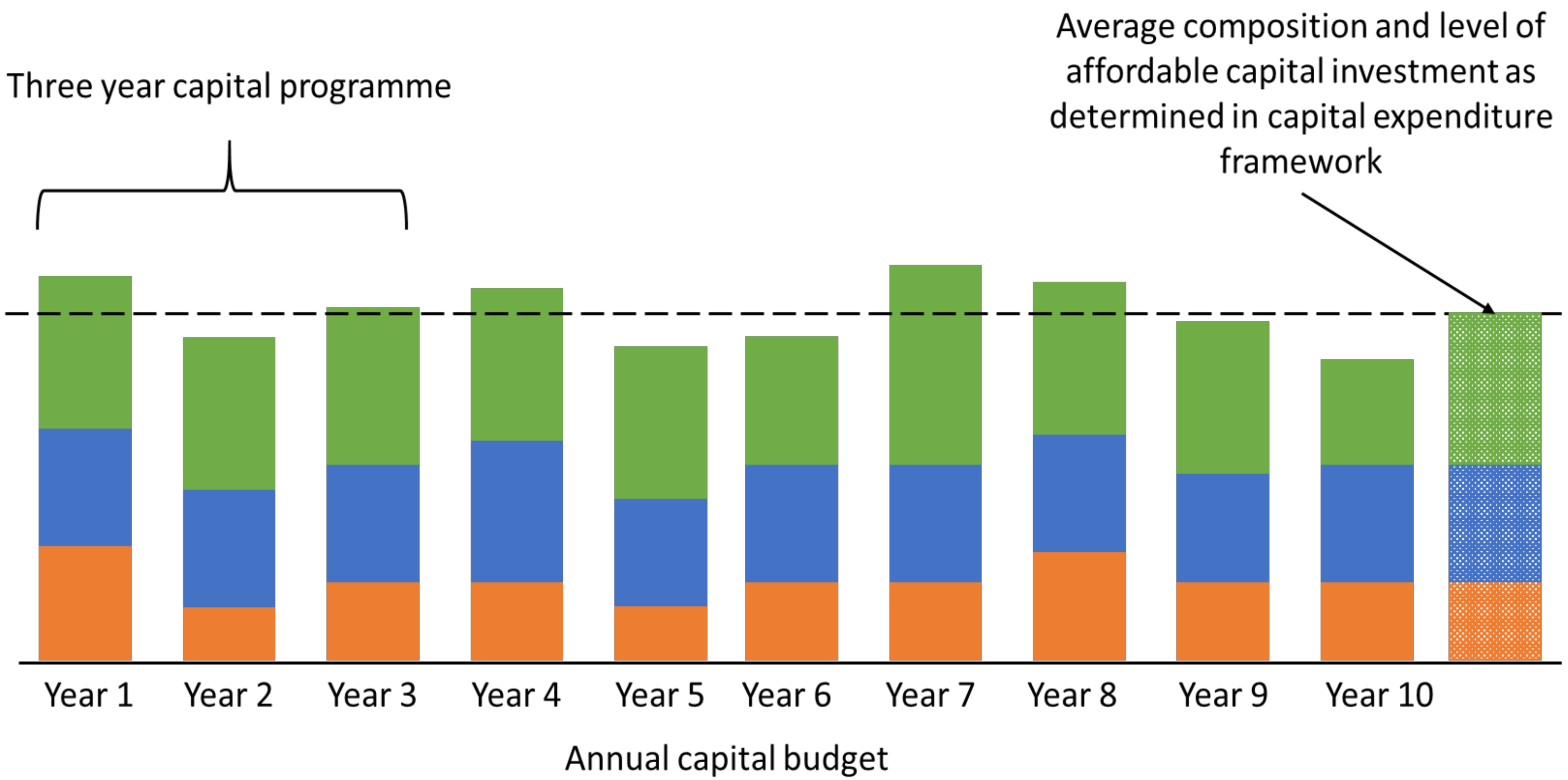
A *comprehensive, high-level, long-term* infrastructure plan that *flows from a spatial development framework*. The capital expenditure framework estimates the level of *affordable capital investment* by the municipality over the long term.

Affordable capital investment is determined by comparing an estimate of *capital investment needs* to an estimate of *available capital finance sources*.

CEF provides parameters for prioritising capital expenditure



Alignment between the CEF and the three-year capital programme



Conclusion: locating infrastructure within overall programme

- Spatial transformation and enhancing economic growth is fundamental to getting agglomeration benefits for ICMs
- Infrastructure investment has a crucial role to play in this regard, but realising this requires:
  - Spatial targeting of investments in line with SDFs
  - Improve impact of grants in terms of targeting poor
  - Leverage up private resources linked in particular to revenue generating and economic infrastructure
  - Locate within broader programme that builds governance, financial viability and infrastructure management capacity

Thank you

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