IDIS Private Development Funding Programme

A new source of funding for Municipalities in South Africa

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IDIS

INTERNATIONAL DIVERSE INNOVATIVE SOLUTIONS (PTY) Ltd

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PURPOSE OF THE PDFP

- To **unlock Foreign Direct Investment** for South Africa.
- To invest the FDI in projects that will: -
  - stimulate **economic growth** and **job creation.**
  - Result in the delivery of **social, economic and physical infrastructures** to communities.
- To mobilise the private sector to assist Municipalities to achieve their social and economic development goals and objectives
- To unlock funding for large-scale development projects that will result in long term stability for Municipalities

Section 152: Objects of local government

1. **The *objects* of local government are** -
   - to provide democratic and accountable government for local communities;
   - to ensure the provision of services to communities in *a sustainable manner*;
   - to promote *social and economic development*;
   - to *promote a safe and healthy environment*; and
   - to encourage the *involvement* of communities and community organisations in the matters of local government.

2. **A municipality must strive, within its financial and administrative capacity, to achieve the objects set out in subsection (1).**

Section 153: Developmental **Duties** of Municipalities

A municipality **<u>must</u>** :

- structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community, and to <u>promote the *social and economic* development of the community</u>; and
- participate in national and provincial development programmes.

WHAT IS NEW ABOUT THE PDFP ?

- It a new instrument that Municipalities can use to unlock funding for Municipal projects.
- The PDFP is designed around agreements that IDIS have reached with international funders.
- The PDFP was designed to work in the South African legal environment
- It is now available to Municipalities in South Africa.
- The levels of funding on offer are significant
- It leverages existing assets of a municipality to unlock funding
- It is not a loan instrument – there are no loans to be repaid by Municipalities
- The PDFP is ready for roll-out in South Africa.

From when is this funding available ?

- **Immediately**
- The PDFP is a new programme – it became available from late 2020 for Municipalities to access.
- IDIS is currently finalising its first agreements with participating Municipalities
- Once an agreement has been concluded with a District or Local Municipality it will take about two – three months before funding arrives for projects

How does it work ?

- IDIS and a Municipality identifies and agree the projects that will be funded.
- IDIS and the Municipality conclude a Project Funding Agreement (PFA)
- IDIS unlocks FDI and receives funding in South Africa for the agreed projects
- IDIS and the Municipality proceed through the prescribed procurement processes on a project by project basis
- IDIS procure, fund and appoint private service providers, experts and developers to roll-out the agreed projects
- Completed projects are transferred onto the asset register of a municipality as determined in a BOOTT, PPP or other agreements concluded during the procurement process
- All Infrastructure developed to be transferred at no-cost

What is the legal basis for a Municipality to conclude a PFA ?

- The PFA has been developed to be fully consistent with South African Laws (e.g. including, Labour, environmental, planning and procurement laws).
- The PFA that a municipality will sign is the product of extensive consultation with the legal and technical divisions of Municipalities engaged during its development
- The competence to issue a “security” flows from section 48 of the MFMA. This competence vests with the Council of a Municipality
- The conclusion of a PFA with IDIS directly enables a Municipality to pursue their section 152 and 153 responsibilities.
- Projects included in a signed PFA that will be rolled-out under BOOTT or PPP projects must still be approved (after a PFA has been signed) in the normal manner as unsolicited bids in terms of all applicable procurement and supply chain management laws.

What is a Project Funding Agreement

- A PFA is essentially a Memorandum of Agreement between IDIS and the Municipality
- A PFA must be signed in his/her capacity as the Accounting Officer of a Municipality after having been authorized by the Council to do so.
- A PFA represents the interests of the following parties:
  - The <u>Municipality</u> as the beneficiary and the issuer of a security
  - <u>IDIS</u>
  - IDIS's <u>Fiduciary Manager</u>
  - <u>International Funders</u>
  - The <u>International Banking System</u>.
- A PFA contains the list of projects that the parties agreed to and which must be funded from the FDI IDIS unlocks through its PDFP instrument
- A PFA is the only agreement that needs to be entered into between IDIS and a Municipality for the funds to become available

What is the nature of the "Security" that a Municipality must provide

- It is a pledge (an undertaking) that a Municipality make to *maintain and agreed value of fixed assets* on its books for a period of five years. This pledge is made in the PFA.

- It is **not required** to transfer **any assets** to anyone **or to stop using or to stop benefitting from any municipal asset**. Assets remains with the municipality and under the control of the municipality

- It is not required to pledge any specific fixed asset or group of specific asset. The collective asset value is used to determine what value to maintain over the 5 year funding cycle.

- ***"effectively nothing changes on the ground – a Municipality basically agrees not to sell fixed assets - like its water and sewerage works – assets that it was not going to sell in any case - that will cause the collective value of its assets to drop below the promised threshold level"***

FUNDING THAT IDIS WILL UNLOCK

R2 b asset value = R 10 b investment

NO change of ownership or transfer of assets to IDIS or the Fiduciary Manager: only the value of assets needs to be pledged in return for funding and implementation of projects.

KEEP GROWING MUNICIPAL ASSETS

Is the PFA supported by national and Provincial Government ?

- IDIS has formally submitted all its documentation to National Treasury for review and engage with National Government and Treasury through COGTA (MISA) to streamline the processes.
- National Treasury has received all IDIS's documentation and recognized the principle of a pledge to unlock funding and has encouraged IDIS to proceed with the roll-out of the Programme to Municipalities
- A Provincial Treasury has recommended that a 30 day public advertisement is required to ensure compliance with procurement laws.

What does it cost a Municipality ?

- It **costs nothing to participate in and benefit under the PDFP or sign a PFA**
- There are **no loans that must be repaid.**
- **Capacity building and Training** will be part of the new infrastructure created through a PPP project agreed between Municipality & IDIS.
- It **does not** replace the normal budgetary allocations of Municipalities or their ability to find other forms of finance

What are the risks ?

There **are no risks** for a Municipality because:

- There are ***no costs*** *involved in concluding a PFA with IDIS*
- If IDIS does not deliver funding as promised the PFA provides that a security pledged by a Municipality *must be returned unencumbered and at no cost to the Municipality.*
- The International Partners has determined that the FDI that is allocated for the agreed projects shall flow to IDIS – *and that IDIS (and not the Municipality) be held accountable for funding, for reporting, for insurances and for ensuring project roll-out*
- All projects require the conclusion of an initial *service level agreement* between IDIS and a Municipality.

Key Attributes of the PDFP - 1

- The PDFP can be used to **fund small medium and large scale projects**;
- The PDFP **can fund both government and private sector projects** that will assist a Municipality to achieve the section 152 and 153 responsibilities of local government.
- The PDFP **can cut across sectors, boundaries and silos** – it can fund projects that stretches across borders involving different sectors (e.g. projects involving both power generation and water resources management) and various role-players in the government and private sectors

Key Attributes of the PDFP - 2

- The PDFP can be used to fund projects in 3-ways:
  - As **Grant Transfer** projects: -
    - E.g critical unfunded IDP projects intend to restore systems back to health – restore substations, fix pipes, fix sewerage system problems.
  - As **PPP projects** (e.g. on **BOOTT** or **PP** basis): -
    - E.g. revenue enhancement projects (e.g. smart metering technologies), or
    - new municipal infrastructural projects (e.g. energy generation facilities, energy storage, energy re-use, lowering of carbon footprint, waste water treatment works, water re-cycling, hospitals, mixed-use developments, regional water networks, etc.)
  - As **Private-Private funding or equity agreements**: _
    - E.g. social housing projects already approved by a municipality,
    - projects intended to create new entrepreneurs and new enterprises,
    - projects intended to stimulate local growth and development.
    - Job creation projects (e.g. new mining projects)
    - LED Projects or projects identified by a Development Agency

Key Attributes of the PDFP - 3

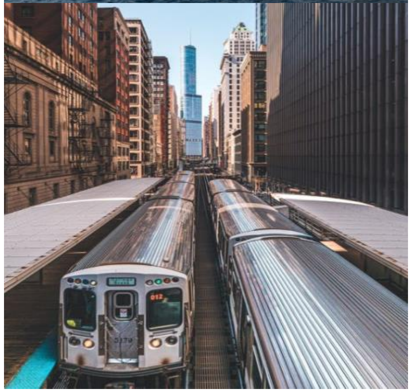
- If the PDFP is successfully used by a Municipality it should:
  - Improve and enlarge the tax and income base of a city or rural area.
  - Modernise and equip the municipality with new smart city technologies to address existing service delivery problems.
  - Address critical social, economic and infrastructural backlogs in the community.
  - Stimulate local economic activity, unlock local economic comparative advantages and create jobs,
  - Increase the asset basis of a Municipality

"The PDFP programme offers a unique opportunity to Municipalities to make structural changes that will put it on a path to greater future sustainability."

"The PDFP should not be seen or used as a simple replacement of government funding."

ILLUSTRATIVE EXAMPLES OF PROJECTS

- New Town developments (smart city developments)
- New waste water treatment plants
- New waste to energy & New renewable energy plants (Hydro, Solar)
- Tourism Projects
- Healthcare and new facilities
- Manufacturing
- New mining opportunities
- Management systems: water and electricity
- Roads, Bridges, Harbours, Railway,
- Intermodal transport projects



How to start the process

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Step 1: Municipality request IDIS for information regarding PDFP;
Step 2: Municipality takes in principle decision to pursue a PFA;
Step 3: Municipality/IDIS start with the identification of projects;
Step 4: After agreeing on projects to be funded, Municipality places a 30 day public advertisement giving notice of its intention to conclude a PFA with IDIS,
Step 5: Council authorises security and for MM to sign PFA with IDIS. Funding to start in approximately two months after signature;
Step 6: Appoint the Municipal/IDIS Steering Committee to coordinate roll-out of projects and signing of Service Level Agreements;
Step 7: Proceed with the adjudication of unsolicited bids in terms of applicable supply chain management provisions.
Step 8: Release land on a basis agreed for project implementation and provides required planning and development approvals for agreed projects.

Thank You

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Info slide: Provisions of section 48 of the MFMA

Section 48 of the Municipal Finance Management Act regulates when and how a Municipality can use a security to unlock funding. This section provides as follows:-

"48. (1) A municipality may, by resolution of its council, provide security for—

- (a) . . . . any of its debt obligations;
- (b) . . . . any debt obligations of a municipal entity under its sole control; or
- (c) contractual obligations of the municipality undertaken in connection with capital expenditure by other persons on property, plant or equipment to be used by the municipality or such other person for the purpose of achieving the objects of local government in terms of section 152 of the Constitution.
- (2) A municipality may in terms of subsection (1) provide any appropriate security, including by—
- (a) giving a lien on, or pledging, mortgaging, ceding or otherwise hypothecating, an asset or right, or giving any other form of collateral;"

The purpose for which the security will be used is consistent with the objectives of local Government which a Municipality must strive to achieve. The Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) determines as follows: -

"Section 152: Objects of local government

- (1) The objects of local government are-
- (a) to provide democratic and accountable government for local communities;
- (b) to ensure the provision of services to communities in a sustainable manner;
- (c) to promote social and economic development;
- (d) to promote a safe and healthy environment; and
- (e) to encourage the involvement of communities and community organisations in the matters of local government.
- (2) A municipality must strive, within its financial and administrative capacity, to achieve the objects set out in subsection (1)."