DBSA’s role in urban investment

Speech by Sinazo Sibisi, Group Executive Infrastructure Delivery Division on behalf of Patrick Dlamini, Chief Executive, Development Bank of Southern Africa to the Urban Investment Partnership Conference 27th and 28th August 2015

Thank you Program Director, the Director General of National Treasury, Mr. Lungisa Fuzile, DDG’s, Executive Mayors, MMCs here present and City Managers of all metros, ladies and gentlemen, good morning.

Like their global counterparts, South African large urban centers, particularly metropolitan municipalities, have undergone rapid urbanization over the past decades, hence, the population living in the eight metros has increased by almost 30%. This rapid migration of people from rural areas to cities is driven primarily by the search for better livelihoods and employments opportunities. In addition to the accelerated migration, South African metros, which account for 43% of the country’s gross value added (GVA), also face the triple challenges of poverty, inequality and unemployment.

While the 2011 poverty levels in cities were relatively lower than the national average of 45,8%, the percentage of people living in poverty in metros is quite substantial, ranging from 30,2% in Cape Town to a high of 41,2% in Buffalo City. Inequality is also considerably high in cities with the

Gini Coefficient ranging from 0,600 in Cape Town to 0,637 in Johannesburg. The unemployment rate of South Africa's metros ranges from 13,9% in eThekwini to 29,3% in Ekurhuleni. These compare to a national unemployment rate of 25%.

Economically, cities are diversified even though certain industries dominate in each metro. The economies of the cities of Tshwane, Joburg, and Cape Town are concentrated in the finance, insurance, real estate and business services sector which accounts for 34% in each city followed by wholesale and retail trade, catering and accommodation at 19%. While the finance, insurance, real estate and business service sector is still very pronounced in Mangaung, Buffalo City, eThekwini, and Nelson Mandela Bay metros, ranging between 21% and 23% of the GVA, general government services contribute substantially to these metros' output particularly in Nelson Mandela, Mangaung and Buffalo City where this sector contributes 19%, 23% and 28% to the gross value added respectively.

Attracted by potential employment opportunities in these various sectors, people from South Africa's rural areas as well as from other parts of the African continent have flocked to the metros. As a result, the demand for municipal services has increased significantly placing considerable strain on municipal budgets. Not only do the cities have to address substantial infrastructure backlogs in various infrastructure services, but they also have to invest in infrastructure that supports local economic growth while concomitantly seeking to alleviate poverty and reduce unemployment and inequality. With this, the capital budgets of the eight metros have increased from R8,5 billion in the 2003/4 fiscal year to R30,2 billion in 2013/14, an average annual increase of 25,6%.

Not only have cities invested in social infrastructure, but they have also provided infrastructure that increases the metros' own revenue as well support the growth of the cities through private sector investment. Accordingly, a significant proportion of the infrastructure investment has gone into such services as water, sanitation, electricity, transport, roads, as well as to infrastructure that meets basic needs such as housing. Whether this growth in infrastructure investment is impressive, there is still much to be done. For example, when one looks at International comparators, evidence indicates that global growth increased by 1.6 percent in the 2001-2005 period, Infrastructure investment contributed 1.1 percent to this performance while improved quality of infrastructure accounted for 0.5 percent. In South Asia during the same period, growth was 2.7 percent higher with infrastructure development contributing 1.6 percent to growth and the improved quality of infrastructure increasing growth by 1.1 percent. In contrast, growth in sub-Saharan Africa rose a marginal 0.7 percent over the same period with the quantity of infrastructure services contributing 1.2 percent to the growth rate. However, deteriorating quality of infrastructure services resulted in a negative 0.5 percent impact on Africa's growth and consequently reduced the overall growth rate to 0.7 percent.

With respect to poverty and inequality, international evidence indicates that infrastructure development and maintenance contribute substantially to improvements in measures of inequality. Once again, South Asia is the global leader. The Gini coefficient fell by 0.6 percent in this region, 0.4 percent of which was as a result of increased infrastructure investment and 0.2 percent was driven by improved infrastructure quality. On the other hand, the African continent was the laggard, recording a modest 0.2 percent reduction in the Gini coefficient. While increased infrastructure services reduced this measure of inequality by 0.3 percent, the deteriorating quality of infrastructure service increased the Gini coefficient by 0.1 percent.

Given the positive impact that infrastructure investment and maintenance have on economic growth, productivity improvement, as well as the social welfare of communities, it stands to reason that cities must not only increase how much they invest and how they structure their investments in infrastructure, they also need to increase their maintenance expenditure given the increased demand for social and economic service necessitated by rapid urbanization. Unfortunately, the reality is that many South African cities, like most local government in South Africa, have limited financial and technical resources to undertake the necessary investment to address community needs and support economic growth. Thus, the increased demand for services and the metro budget constraint call for a genuine and sustainable partnership between the public and private sector. For this partnership to have a meaningful and lasting impact on the growth trajectory of cities as well as on the development of residents, it requires innovations and a different way of thinking on the part of all key stake holders, including national government, provincial government, the DBSA, metropolitan municipalities, potential investors, project originators, international development finance partners, the banking sector, and long term institutional lenders.

This different way of thinking currently permeates the strategic and operational approach of the DBSA. Through our various divisions and business units, we have strengthened our product and service offering to position the Bank as a strategic long term partner of municipalities in order to catalyze and crowd-in private sector and international development finance partner financial and technical resources for accelerated municipal service delivery.

Independent Power Producers (IPPs) and pioneered unsecured lending in municipal market as well as pioneered the development of the municipal bond market.

In addition, our product and service arsenal has been expanded to include:

- Increasing our loan syndication capability through which we work with commercial banks and long term institutional lenders to optimize the DBSA's balance sheet while increasing private sector funding for municipal projects
- Cities Support Programme (CSP), again in partnership with National Treasury, designed to help metros strengthen their planning capabilities as well as their borrowing and investment strategies and in the process increase private sector funding of catalytic off-balance sheet projects
- The Euro 100 million integrated infrastructure programme for South Africa (IIPSA) fund which is partnership fund between South Africa and the European Union designed to catalyze sustainable publicly or privately driven municipal infrastructure projects administered by DBSA on behalf of four development finance partners (DBSA, EIB, KFW & AFD)
- The Cities Project Preparation Facility (Cities PPF) in partnership with National Treasury through which, using private sector technical consultants, we are helping 18 large cities to prepare catalytic projects that have the potential to be funded by the private sector
- Developing our infrastructure delivery capability that helps municipalities and other public sector stakeholders accelerate service provision
- Improving institutional capabilities to consistently delivering projects on time, on budget and to the requisite quality is central to building investor confidence and reducing

perceptions of market risk as well as ensuring prospective project returns are indeed realized.

Emerging lessons:

- How we plan projects: from projects to portfolio to agglomeration
- How we prioritise projects – those that make impact
- How we package projects – improving the Built Environment Performance Plans to enhance bankability (from wish lists to bankable projects)

In addition, we continue to explore innovative funding solutions such as Land value capture, social impact bonds, revenue enhancement mechanisms to funds optimization of existing infrastructure, and various other blended finance products aimed at addressing the unique financial and institutional challenges facing African cities.

Through these initiatives, DBSA aims to optimize its role not just as a financier, but as a market maker, working across the infrastructure delivery value chain to catalyse city growth and development.

In conclusion ladies and gentlemen, the DBSA is open for business for a genuine partnership with the private sector in order to improve the quality of lives of the people of South Africa. We have already begun engagements, discussions and potential transactions with some of you in the audience and we intend to widen these to include others with whom we have not yet made contact. Such engagements have included discussions with industry representative bodies such as the Banking Association/Council, ASISA, as well as individual banks and fund managers.

In short, ladies and gentlemen, together we can do more.

THANK YOU.