



MINISTRY OF FINANCE  
REPUBLIC OF SOUTH AFRICA

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**OPENING ADDRESS BY THE MINISTER OF FINANCE AT THE URBAN  
INVESTMENT CONFERENCE HELD AT GALLAGHER CONVENTION CENTRE,  
MIDRAND: 27 AUGUST 2015  
SPEECH BY MINISTER OF FINANCE MR NHLANHLA NENE**

**URBAN INVESTMENT CONFERENCE**

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Programme Director;

Honorable Minister of Cooperative Governance and Traditional Affairs, Mr. Pravin Gordhan;

Honorable Mayors of the eight Metropolitan Municipalities;

Director-Generals of various Sector Departments;

Municipal Managers of the eight Metropolitan Municipalities;

Chief Executive Officers of various institutions;

Members of Banking Association of South Africa, Association of Savings Investment of South Africa, South African Property Owners Association and other Developers;

Development Finance Institutions;

Officials from government departments and municipalities;

Distinguished guests; and

Ladies and Gentlemen;



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Let me extend my warmest welcome to all of you to the Urban Investment Partnership Conference (UIPC). Thank you for honoring our invitation to attend the conference and I hope that you will be inspired to jointly come up with new ways of investing in our largest urban municipalities.

The purpose of this conference is to initiate a long-term engagement between all stakeholders in urban infrastructure investment and land development, especially in the eight Metropolitan Municipalities represented here.

South Africa needs successful cities. As in most countries, cities are the engines of our economy.

A relatively small group of only 27 urban municipalities constitutes 7 per cent of municipalities in the country but generate 80 per cent of our national economic activity. Although these municipalities occupy less than 6 per cent of South Africa's land area, they are home to more than half of our population. Furthermore, these municipalities will account for the overwhelming majority of our economic growth in the decades ahead.

The ability of these eight municipalities to invest wisely in urban infrastructure, to support and enable efficient forms of urban economic and population growth will be a major determinant of South Africa's economic future, perhaps maybe even the biggest contributor.

These cities need adequate and effective investment to ensure that they are vital, sustainable, equitable, and economically productive.

Programme Director

Today, our Metropolitan Municipalities provide a stable, successful platform of democratic local government that is able to manage ongoing urban growth and



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economic development. They collect close to 93.7 per cent of their billed revenue, notwithstanding the growth in debtors resulting from the economic downturn and which all spheres of government are actively addressing. Our metros report consistently on their in-year performance during the municipal financial year, providing a far greater degree of transparency than ever before. Audit outcomes have improved in the last 2 years; and in the two cases where audit qualifications remain the National Treasury and Department of Cooperative Governance are working closely with these cities to resolve both the immediate and underlying causes of these findings. Lastly, most of the Metropolitan Municipalities are experiencing stable political leadership, under the guidance of my colleague, Minister Gordhan, who has spearheaded the “Back to Basics” initiative.

With the end of apartheid, many people worried about the financial health of our cities given that they were required to extend services throughout their territory, and many of the new customers were poor. These concerns caused most lenders, including fund managers and insurance companies who invested for the long term, to limit their exposure to the municipal market.

Now, more than 20 years into the democratic era, the Metros have proved themselves. Of course, tremendous challenges remain, but the fact is that these cities have made remarkable progress in extending the availability of water, electricity, and other services. Some backlogs remain, but this is a small part of the investment that our cities need. Today, most of the investment that Metros need is related to growth – both economic and population growth - and to the renewal of the ageing infrastructure.

The challenges that we face in energy supply highlight the importance of investing in strategic infrastructure that supports economic activity. Our nation’s economic growth, our ability to create decent jobs, our ability to compete in the global



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economy, all depend on successful cities that are channelling investment into infrastructure for our common future.

Economists such as Prof Ed Glaeser of Harvard University argue strongly that urban growth, if correctly managed, will produce powerful agglomeration economies. But to benefit from this “urbanization dividend”, we must pay close attention to where and how we build our cities. We cannot continue to place poor people on the outskirts of our cities, far from jobs and opportunities, and we must physically integrate our townships into the mainstream of urban economic and social life

The National Development Plan (NDP) recognises the role that urban municipalities must play to create an enabling environment that will attract investment through forward planning, and the provision of strategic infrastructure and land management arrangements necessary to support economic growth and the social fabric of communities. It recommends that we break away more decisively from our past of divided, inefficient cities; and pursue investment in the infrastructure, housing developments and transport services that will build more compact, productive and inclusive cities. The Integrated Urban Development Framework (IUDF) provides clarity and a broad outline of the policy levers necessary to achieve this mandate.

Given the central role that municipalities play under our Constitution, Government has worked consistently over time to establish a sound legal and regulatory framework for financing municipalities.

Allow me to briefly highlight that history.

Our system for local government finances is rooted in the 1996 White Paper on Local Government, which stressed the importance of bringing in private investment, and of using capital markets to do so.



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Since the adoption of the White Paper, the National Treasury has been working consistently with representatives of the Banking Council, South African Local Government Association (SALGA), and various institutional investors to ensure a sound business environment. We have ensured a legal framework under which municipalities' debt repayment commitments are enforceable, and we have put systems in place to deal with financial problems in municipalities.

To ensure that a municipal council would have the power to bind its successors, we went so far as to amend the Constitution. In 2001, we added a new Section (section 230A), which authorised a municipal council to legally bind future councils to repay loans. We did this to ensure that lenders would be secure in lending to municipalities.

In addition, in 2003, we again amended the Constitution in order to have an effective law that deals with any municipalities that experience financial problems.

In Chapter 6 of the Municipal Finance Management Act (MFMA), we codified the rules around municipal borrowing which was done in collaboration with municipalities and lenders. The remainder of the MFMA establishes strict rules around municipal revenues, expenditures, and assets. The implementation of the MFMA has seen major improvements in the transparency of municipal finances. Regular reporting is now the norm, and ongoing improvements to the quality and comparability of information is currently being introduced through the Municipal Standard Chart of Accounts (mSCOA).

These reforms and the regulations that accompany them should be taken into account as they are important in ensuring confidence in the long-term health of municipal financial sustainability.



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The same road has brought us here today for the next generation of consultations, discussions and actions. The work that our colleagues in the Department of Cooperative Governance do to facilitate municipal planning, and structures; together with the work that we in Treasury do, to regulate the financial instruments and frameworks with which cities operate, come together at the city level.

Together, we have launched the Cities Support Programme (CSP) as an “all of government” initiative that works with our largest urban municipalities to further strengthen their governance arrangements, align development planning systems, seek out appropriate reforms to create a more enabling regulatory environment, and assist them to prepare and finance investment programmes that will support inclusive urban economic growth.

In February, I announced a new package of fiscal measures to support our largest municipalities, including:

- a renewed focus on and support for project preparation,
- the strategic alignment of the Development Bank of Southern Africa (DBSA) behind our metropolitan municipalities;
- reforms to the system of infrastructure grants to municipalities, and
- specific measures to enhance their ability to finance their infrastructure investment needs through improvements to the system of Development Charges.

In terms of the Constitution, municipalities are the face of service delivery whilst national government is responsible for the provision of solid regulatory environment. The actual work of building inclusive, compact and efficient cities must be done at



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ground level by the municipalities, and especially the metropolitan municipalities represented here today.

This conference is therefore opportune for all of us to engage, exchange ideas as private sector and government on how we can work together to build vibrant cities which will help us put all of our citizens to work, and provide inclusive and dynamic spaces for all of our people. This conference is the start of a regular, structured and results-focused partnership. These two days will not provide us with all of the answers, but I do hope we can move beyond restating our challenges, and jointly commit to work together to re-position our cities as engines of inclusive growth

I thank you for coming today, and I hope that you will continue to engage with us over the coming months.