



Public Infrastructure Financing

Presentation by **Mazars Berenschot & TIS Holdings**
October 2016



Content

1

Introductions

2

Overview of Public Infrastructure Financing

3

Case Studies

Q

Q&A



M A Z A R S

Berenschot



1

Introductions

MBSA combines the expertise and experience of Mazars and Berenschot



M A Z A R S

- Integral player in auditing, accounting, tax and advisory services in South Africa
- Long history of professional excellence in South Africa
- More than 1,000 in-house finance experts in South Africa
- Offices in many African countries

Berenschot

- Independent Dutch management consulting firm with 350 in-house consultants
- Almost 80 years' of experience in Netherlands and Belgium
- Successful completion of about 60 projects in more than 20 African countries

 M A Z A R S
Berenschot

- Mazars-Berenschot Africa is a consulting firm with presence in South Africa and the Netherlands, built on combined expertise and experiences of two companies
- Mazars Berenschot has a network of 150 associated consultants all over the African continent



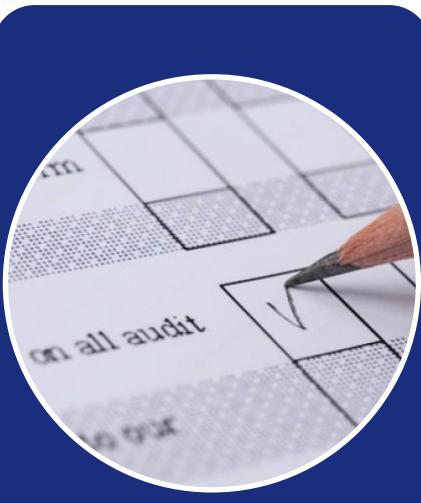
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Our approach in supporting the realisation of projects



Identify specific projects and prepare project summaries for selected priority projects



Identify interested financing partners (investors, international organizations)



Develop business case, financing plan, EIA, procurement plan, O&M plan, etc.



Reach agreement with the financing partners



Support project implementation

Joint activities between

Our Speakers Today

Robert Mulder
*Strategy,
Monitoring &
Control*



Senate Leeuw
*Strategy, Project
Management*



Terry Ramabulana
Public Finance



Fons de Zeeuw
*Large-scale
Project
Development,
Project Financing*



2

Overview of Public Infrastructure Financing

Opportunities to overcome mobility infrastructure financing constraints

- Sources of finance and the management of funding is key to driving socio-economic development across Africa
- The provision of an effective and efficient mobility infrastructure provision within financial budgets is paramount
- The importance of understanding and using appropriate (relevant and available) financial instruments is key

Changing notion as to what service a mobility infrastructure must deliver:

“value-for-money” vs “value-for-time”

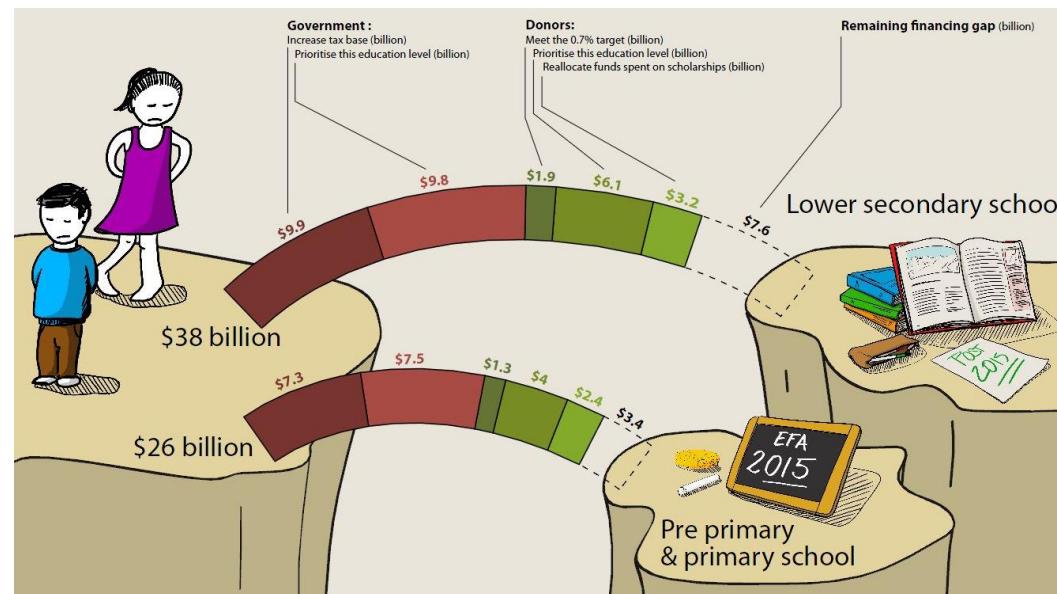
Considerations in selecting the modes of mobility infrastructure for financing

TRANSPORT MODES	?	CONSIDERATIONS
Rail – surface and underground		Commuter socio-economic profile
Road – Rapid Bus Transport		Affordability
Road vehicles		Commuting time
Water – Ocean and Inland		Topography
Non-motorised transport (NMT)		Economic impact
Aerial Cableway		Social impact

Funding different modes need careful consideration of a number of strategic factors?

Mobility challenges that severely impact their economic development.....

- Population growth is driving the demand for a mobility infrastructure that effectively delivers services to enable economic development
- Increasing unemployment levels and inability to pay for services due to declining payroll tax receipts
- The fiscal chasm diving extreme fiscal prudence & competing for scarce budget

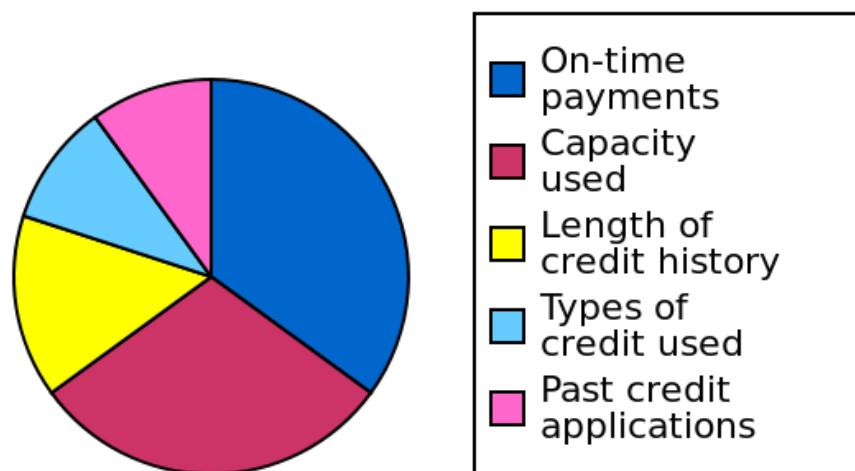


- Public sector strategic and business plans must comply to regulations to secure funding operating and maintenance cost funding and ST projects

Mobility challenges that severely impact their economic development.....

- Credit ratings and downgrade pressures are impacting access to finance
- Mobility operating cost are growing amidst declining revenues
- Many transport projects are unable to generate sufficient revenue, through user-charges to service the financing debt

CREDIT SCORE FACTORS



It is easier to complain about the difficulty in accessing mobility infrastructure finance than to diligently analyse and understand the requirements to access it

Public sector infrastructure financing - facts & trends impacting access

- Public sector expenditure approaches 30% of GDP
- In regional geographies in SA mobility costs have been estimated to around 25% of GGP
- Government subsidies are very high in SA, ranging from 30% to 60% of operating costs – highest in sub-Saharan Africa and across Europe
- Household spend on transport is also high at around 20% (NHTS 2013)



- Spatial layout of cities with respect to population density is still beset by the legacy of inequality, which has impacts the levels of funding required to normalise the situation.
- Institutional arrangements and responsibility hierarchies are not coordinated and driven by user needs

Public sector infrastructure financing - facts & trends continued

- Investment decisions are largely driven by service providers which often work against integrated approaches



- After BRT, commuter rail for longer distance commuting and NVT for shorter commutes is where funding is being prioritised
- All types of finance need consideration to transform the urban spatial form to achieve more cost effective mobility modes
- In SA the 2016/17 figure for all spending is anticipated to be 70.2% higher than in 2011/12. with 30% on capital costs

Fund Raising Process considerations

- Long term planning for mobility infrastructure, including funding requirements across all relevant modes - rural, town & city
- Realising effective and efficient intermodal transport systems



- Clear identification and prioritisation of mobility projects that are driven by social and economic needs
- Robust feasibility studies
- Knowledgeable and appropriate financing methods which including funding and incentives
- Utilising innovative new funding models and other value capture mechanisms

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Institution arrangements are important to understand when targeting funds ...

- Understanding the institutional arrangements and alignment that determine the way mobility infrastructure project are developed, delivered and financed
- Understand government requirements and service delivery aims and objectives and the delegations and the alignment across all mobility nodes between, national, provincial and local
- Understand the incentive environment – application, disbursement and monitoring
- Understand the available financing options and the appetite for them

It has been established that many financing options and the instruments are not known about and if so, are little understood

Highlighting the sources of funding provided by various institution types

Combining
Financial
instruments
new
existing
engineering
products
dividing
create

- Public sector funding
- Private Sector Funding
- Institutional funding – NGO's
- Public-Private Sector Funding
- Philanthropic funding

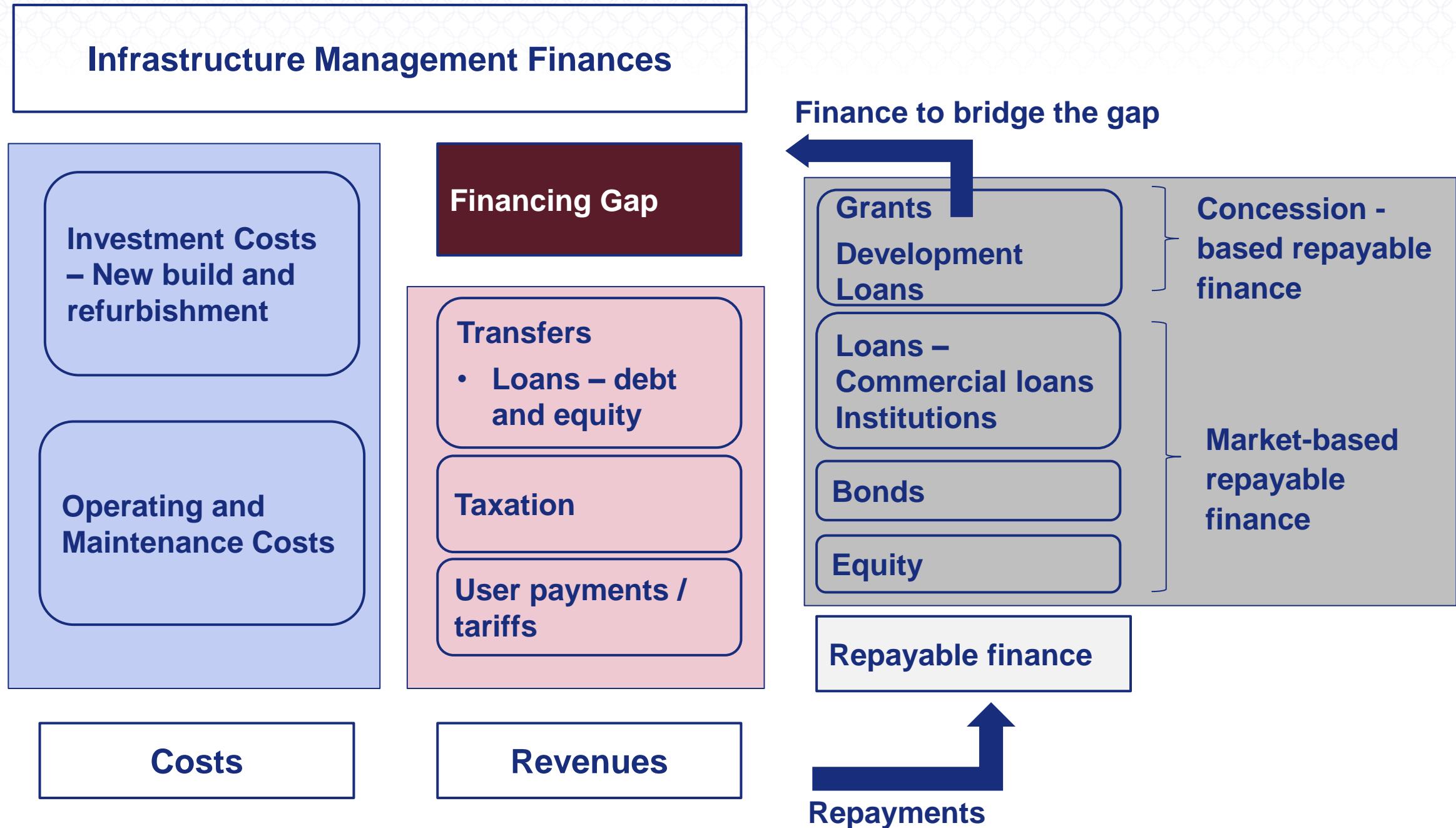
Principles in securing the desired levels of mobility infrastructure financing instruments .

- Strengthen domestic policy frameworks to support sustainable transport infrastructure investment, through:
- Setting strategic goals and aligning policies and within different levels of government
- Reforming policies to enable investment and strengthen market incentives
- Establishing financial policies and instruments
- Harnessing resources and building capacity
- Promoting green business and consumer behaviour

**POLICY
UNPACKED**

Our approach has assisted numerous organisations in developing and developed countries to significantly enhance the infrastructure finance for mobility

Mobility Infrastructure Financing



OECD report on “Mobilising Private Investment in Sustainable Transport:

Public sector infrastructure finance

- Three components of infrastructure that requires investment:
 - Mobility infrastructure build
 - Refurbishment and backlogs where invest has been committed
 - Infrastructure operation and costs and maintenance
- National Treasury has adopted the notion of three sources of funds:
 - Tax collection and redistribution through government grants
 - User-pay revenue
 - Transfers – grants and donations
- Sources of Finance that require pay-back
 - Debt
 - Equity
 - Reserves (these don't need payback)

Tariffs and
Payment Options



There are different funding sources & different financing mechanisms

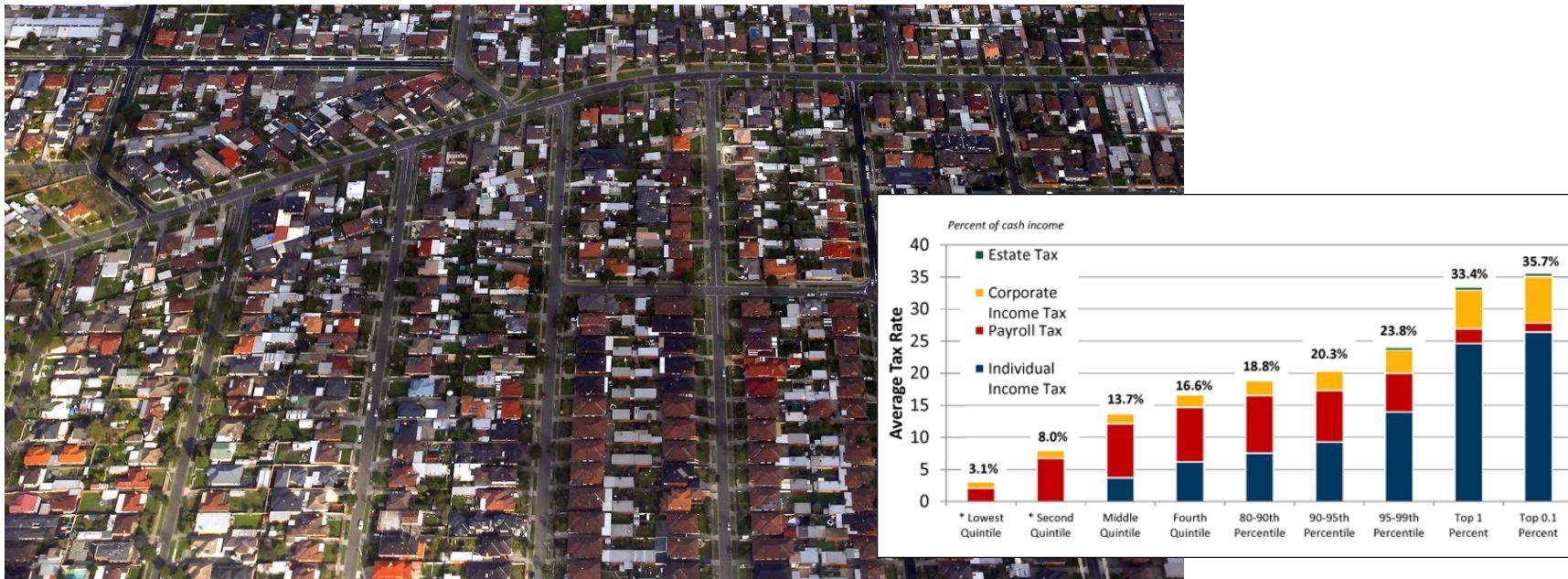
Public funding instruments for mobility infrastructure

- Capital expenditure transfers
- Grant funding, especially condition / special purpose grants
 - Public Transport Operating Grant (PTOG)
 - Public Transport Infrastructure & System Grants (PTISG)
 - Public Transport National Operating Grant (PTNOG)
- Subsidies in operation
 - Taxi recapitalisation subsidy
 - Total rail Commuter subsidy
 - Gautrain ridership guarantee paid to operator
 - Levy funded subsidies to change mode utilisation behaviour
- Regulated user-payments with demand-driven pricing

In 2015/16 some R30 bn subsidies & grants disbursed

Public funding instruments for mobility infrastructure continued

- Incentives - funding technology development innovation and
- Value Incremental Financing - Land / property value-capture /. Also called endowment funding on government property



- Connection / impact payments – funding infrastructure from new developments

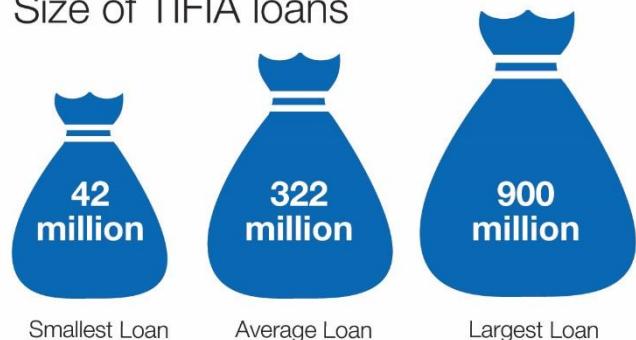
Shifts in emphasis to rail commuter to NVT

Private / NGO funding instruments for mobility infrastructure

- Instruments are all based on the realising returns on the financing investment:
- Loan / loan guarantees
- Equity
- Bonds – secured and unsecured, including green bonds
- Private finance tax holidays for infrastructure development
- Private operator firm borrowings, backed with government guarantees on debt or future revenue streams from users payments

TIFIA Interest Rate: 3.44%

Size of TIFIA loans



Utilisation of instruments is becoming highly dependent on institutional credit ratings

Philanthropic funding instruments for mobility infrastructure for development

- Philanthropic / Foundation Fund Grants

- Funders are expressing more appetite to fund:
 - Innovation
 - Policy advocacy
 - Community organising initiatives

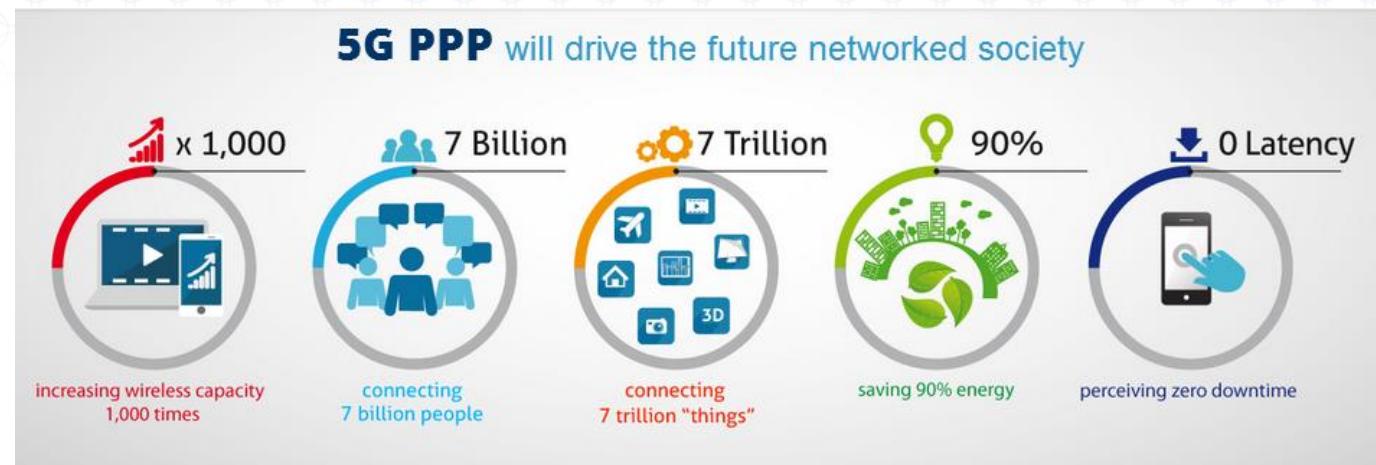


- Foundation and private contributors nearly always collaborate with other institutional funders

Foundation and private contributions, and matching investments from government and other sources has helped more than 80 municipalities plan, design, finance and build more than 100 miles of connected mobility greenways in the USA

Partnership / Participative funding instruments for mobility infrastructure

- Public- Private Partnerships
- PPP Variants:
 - Dual Party
 - Public-Financial & DFI
- Tri-party
 - Public - Financial / DFI - Commuter / Community
- PPP Mechanisms:
- BOT – Build- Own –Transfer
- Potential assessment and impact of these considerations should ease the path to efficient and competitive financing



Balancing the interests of the relevant parties is vital if the full potential of competitive private sector financing is to be realised

Considerations in selecting mobility Infrastructure financing and funding

Financing / Funding Instrument	Motorised		Non-Motorised	
	Roads	Rails	Tracks	Paths
Capital Budgets	✓	✓	✓	✓
Government Grants	✓	✓	✓	✓
Subsidies		✓	✓	✓
User-Payments	✓	✓		
Value Inc Financing		✓	✓	✓
Impact Financing	✓	✓	✓	✓
Loans	✓	✓	✓	✓
Bonds	✓	✓	✓	✓
Equity		✓	✓	✓
Philanthropic Grants			✓	✓
Private Tax Holiday Financing			✓	✓
Private Operator Borrowings		✓	✓	✓

Realisation of the enhanced mobility benefits are important for future mobility infrastructure financing

- Performance realisation must be effectively managed by analysis and M&E
- Performance data is essential for effective decision-making and decision execution by all shareholders
- Statistically valid and clearly communicable performance improvement trends with succinct and pertinent supporting narrative for annual reporting
- Proof of effective risk management and mitigation

Evidence-based and validated performance realised from expenditure resulting for all financing and funding instruments utilised is of paramount importance

Actions that need to be taken to ensure effective and robust mobility infrastructure financing...

- Robust long-term mobility multi-mode integrated master planning
- Functional institutional arrangements to regulate and operationalise the mobility infrastructure
- Communication of mobility plans across all stakeholders
- Engagement with stakeholders to ensure thought leadership and innovation, across technical / engineering, finance, administrative, legal / regulatory and economic disciplines
- Effective and planned procurement of services to enable mobility integrated master plans to be realised

Continuous engagement with all mobility stakeholders to assist in decision-making is key to effective mobility roll-out and realisation



3

Case Studies

Long term infrastructure planning enables optimal financing choices – City of Cape Town Road and Stormwater

Case Study 1

Effective mobility infrastructure financing in Mombasa Kenya

Case Study 2

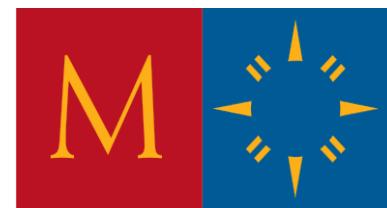
The Gautrain success story enabled by PPP..

Case Study 3

Conclusions

- Many options for public infrastructure financing
- Requires the correct financing structure
- Economic growth
- Socio-economic development





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