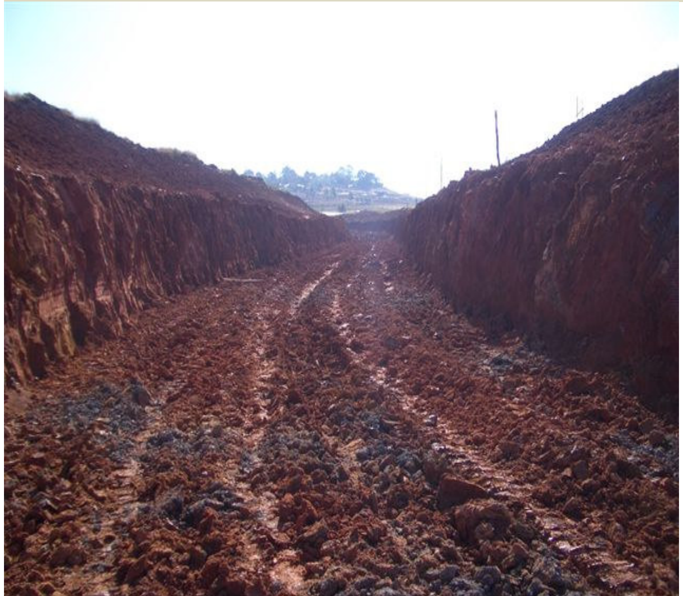
PRESENTATION TO THE INFRASTRUCTURE DIALOGUES(MIIF)



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KEY ISSUES IN THE NEXT FIVE YEARS

a) What is the acceptable optimum levels of service for backlogs determination?
b) How can municipalities instil a sense of infrastructure assets <u>ownership </u>by communities?
c) How to improve infrastructure planning through the IDP?
d) Maintenance, refurbishment and replacement of infrastructure;
e) Inadequacy of Capital and Operating Funding and payment for services;
f) Economic slow down versus borrowing and affordability issues
b) Land tenure systems, an important precursor to infrastructure planning. Access impeded by a range of legal, institutional and policy constraints;
c) Technical, political leadership(&buy-in of politicians) and managerial capacity;
d) Improvement on the quality of infrastructure delivery;
e) Ensuring efficiencies in infrastructure investment ;
f) Dealing with the silo mentality of the different spheres of government in addressing the infrastructure development agenda.
g) The impact of the Constitution Seventeenth Amendment that empowers national government to regulate the executive authority of municipalities whenever necessary to achieve regional efficiencies on infrastructure delivery or planning;

CHALLENGES,

a) Ability of Municipalities to sustain or achieve sound Financial Status:

- Balancing and matching the creation of new assets(replacements, refurbishment, expansion, upgrading) through capital expenditure and ability to generating adequate operating revenues;
- Revenue Protection – harnessing increased operating expenditure through reduction in water and electricity losses;
- Municipalities' abilities to increase revenue base. Political will required to unlock the willingness to pay among consumers;
- Impact of the economic slow down on the liquidity/cashflow position of Municipalities;
- Eradication of the dependency syndrome of communities;
- Transparency on tariff issues;

Challenges,

b) Ensuring quality infrastructure delivery in an environment characterised by shortage of engineers and employment creation pressures;
c) Defining institutional responsibilities of various role players in infrastructure delivery and the creation of critical mass around systematic well co-ordinated efficient backlog clearance. Eliminate inefficiencies due to redundancies impeded in the responsibilities of various spheres of government;
d) Lengthy procurement processes;
e) Land redistribution programme/settlement patterns vs provision of infrastructure
f) Mitigation of the damping effect of the on-going institutional restructurings(eg REDS, Water) on the acceleration of infrastructure delivery;
g) Ability to discern legislations (MFMA, MSA, EMACT etc) as enabling tools for guided creativity in dealing with the infrastructure delivery backlogs;
h) Economic growth model- infrastructure supply driven or demand driven investment approach;
i) Political interference – officials are increasingly being managed by politics instead of the other way round resulting in unsound or inefficient decisions;

OPPORTUNITIES

- World Economic slow down – bring back engineers;
- Paradigm shift on integrated planning approach by politicians as reflected on the creation of the Ministry of Co-operative Governance;
- The willingness of the Banking sector to give Municipalities loans;
- The availability of the Municipal Services Financial Model assist in proper planning of infrastructure development
- 2010 World cup offering opportunities to hosting cities for infrastructure delivery;
- Plan to inject billions into infrastructure development by National Government in the next 3 years

WEAKNESSES

- Capacity;
- Funding;
- Fear of leveraging future cash flows hence the unwillingness to borrow. Municipalities are going through an experience curve to determine their optimum capital structures.
- Political environment in most Municipalities has a retarding effect on infrastructure development;
- Limited project management skills;

ADDRESSING ORGANISATIONAL CAPACITY ISSUES

- Improve on process and management efficiencies through the development of a Local Government Quality Management Guidelines which could be an adaption of ISO9000;
- Coalesce technical resources that are spread thinly over various spheres of government. Engage in structural/institutional integration to create critical mass over infrastructure delivery rather than the "soft approach" of co-operative governance.
- Upscale coaching & mentorship of technical graduates through the use of professional consultants who are given work. This should be a condition for contract award and allow international technical consultants to compete for jobs at relaxed preferential procurement to achieve this objective;
- Improve on the type and nature of contracts. Eg Turn-key contracts may expedite infrastructure delivery programs.
- Reducing the velocity of movement of technical people;

ENSURING QUALITY INFRASTRUCTURE DELIVERY AND MAINTENANCE THROUGH..

- Proper project planning;
- Procurement processes and consider CIDB rating for contractors and checking of material compliance with specifications;
- Adopting sustainable minimum levels of service;
- Training of emerging contractors;
- Testing of completed work
- Use of registered engineers, technologists, technicians with ECSA for design of the infrastructure;
- Making adequate provision of funding for go projects to avoid compromises;
- Ensuring contracting obligations are fulfilled through

MIIF AS A TOOL

- Limited use of the tool at this stage by majority of the Municipalities;
- A very useful tool that provides a reasonable estimate of funding requirements for infrastructure, however does not cover requirements around refurbishment, replacement and upgrading of infrastructure;
- Assumes economic growth has a direct impact on enlarging the revenue base, not so obvious in Municipalities;
- Costing methodology assumes all services costs are borne by the Municipality. Fine for National information and not at local municipality level;
- Model does not deal with project prioritisation and viability analysis which is most needed at Municipal level

ROLE OF PRIVATE SECTOR

- Market development: Develop and capacitate the Municipalities ;
- Banking sector should sell solutions and not products to municipalities;
- Engage in Public- Private Partnerships in which everyone is a winner;
- Provide innovative structured financing;
- Pay development charges;
- More funding into social responsibility activities;

Views on borrowing

- Borrowing requires real value creation and hence the economic and financial viability of funded project is critical. Borrowing is ideal for financially viable capita projects. Municipalities must be warned against borrowing to finance socially and politically viable projects;
- Municipalities need to determine their optimum capital structures and avoid the lenders to determine them on their behalf.
- Borrowing not ideal for meeting operation expenses;
- Terms of borrowing are very important to consider to allow debt re-financing flexibility;

THANK YOU!