

»» KfW's experience with Municipal Finance in South Africa and India

Conference on Economic Development at the Sub-National level

Pretoria

15-16 October 2015

Bank aus Verantwortung

KFW



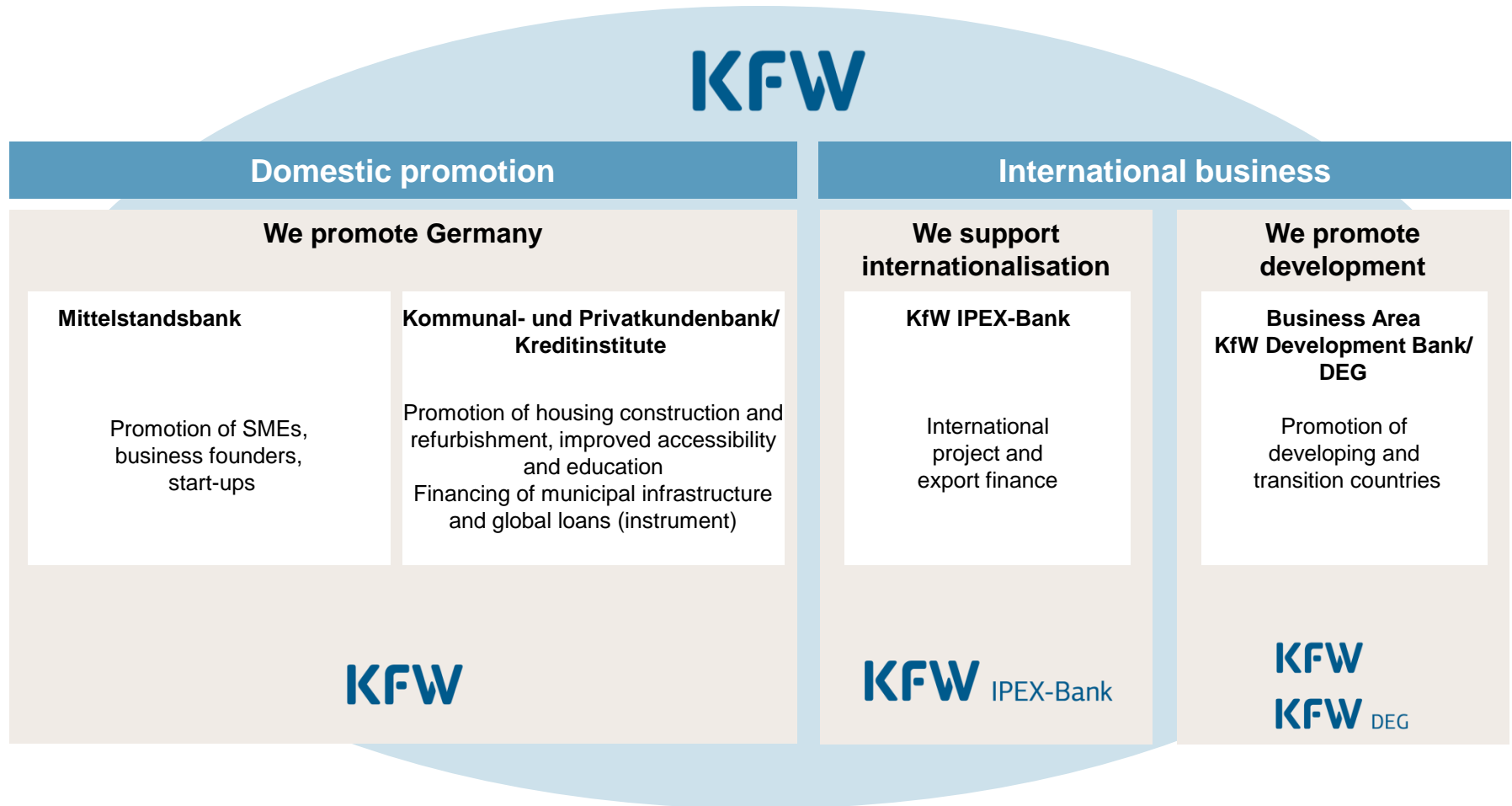
65 years of KfW

Financing with a public

- › Promotional bank of the Federal Republic of Germany
- › Established in 1948 as Kreditanstalt für Wiederaufbau
- › Shareholders: 80% Federal Republic, 20% federal states
- › Headquarters: Frankfurt am Main
- › Representative offices: 80 offices and representations worldwide
- › Balance sheet total 2013: EUR 464,8 billion
- › Financing volume 2013: EUR 72.5 billion
- › 5,374 employees (2013)
- › Best long-term rating: AAA/Aaa/AAA

»» Overview and business model

KfW Development Bank is a sovereign lender



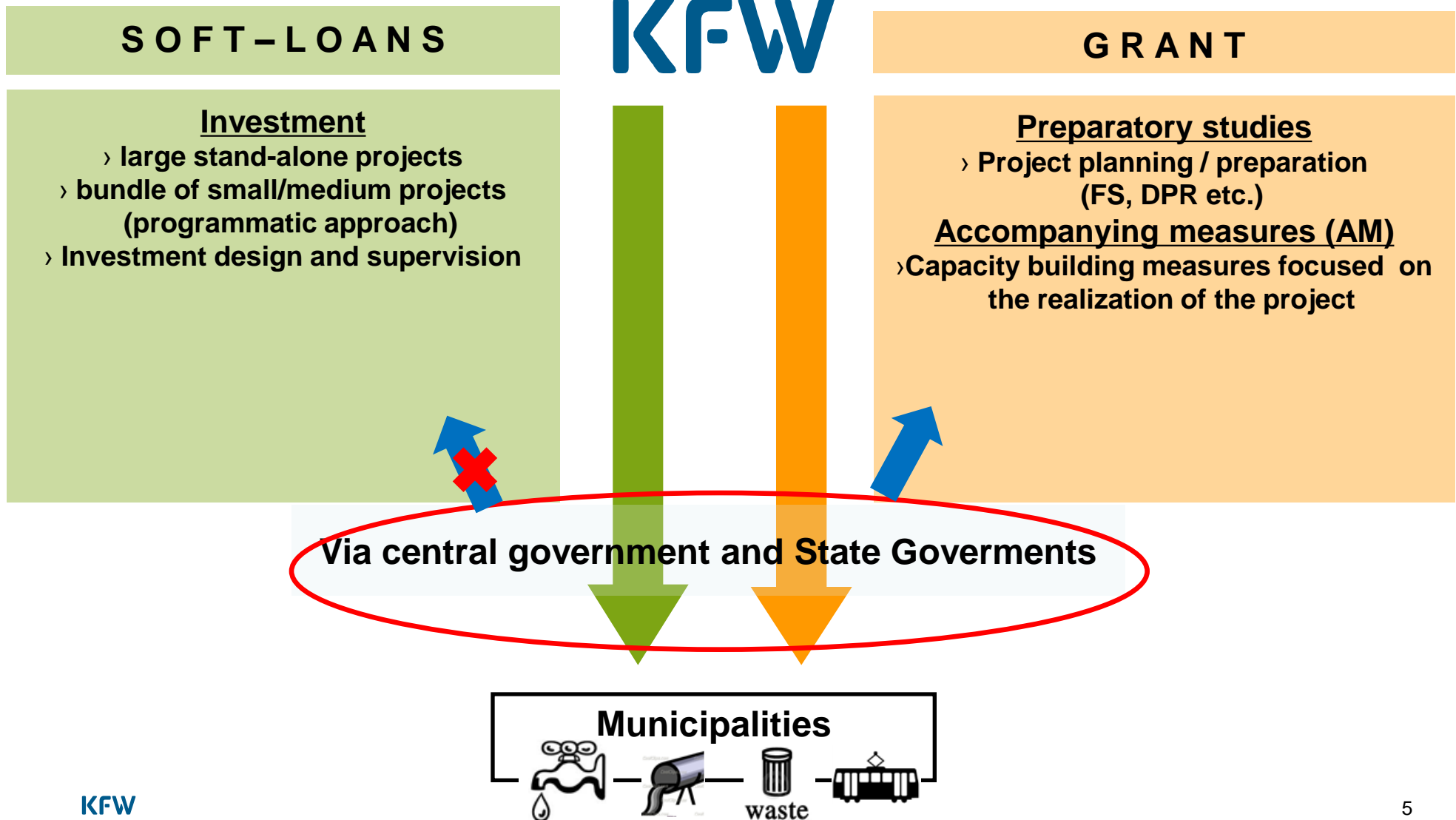
»» KfW Development Bank

Our Strengths

- We combine **development-policy expertise** with the possibilities of a bank.
- We offer a range of **financing instruments unrivalled by other bilateral development institutions.**
- We invest **funds of our own** to support developing countries.
- We evaluate the **sustainability** of our projects (independent evaluation unit - FZ-E).
- We have a **local presence** in many countries.
- **The responsibility for the programmes always lies with our local partners**
- KfW uses the **partner systems (financial and procurement systems)**
- Financial Cooperation is **not tied to supplies**

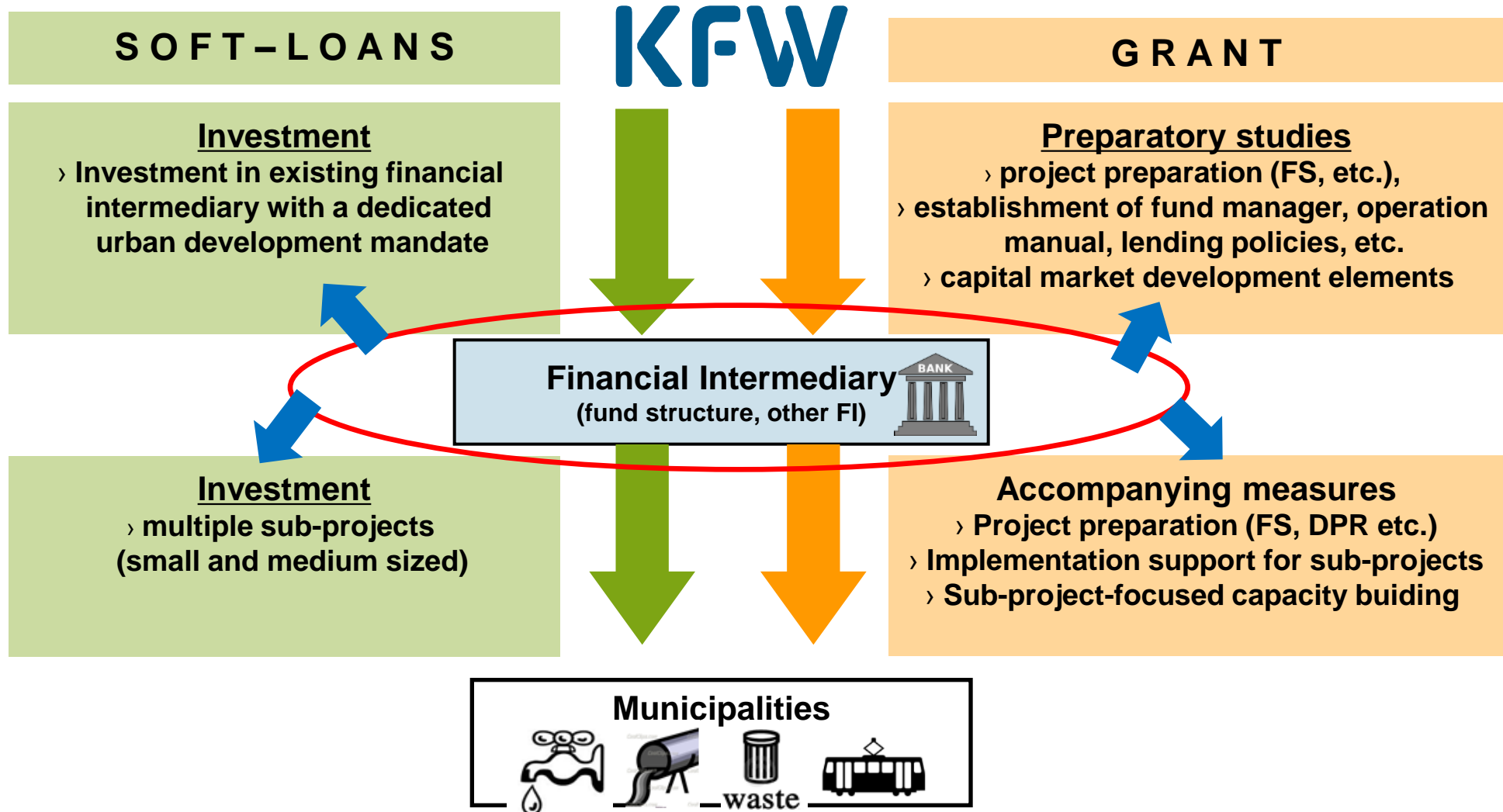
»» KfW Funding for Urban Development: Instruments+Approaches

Route #1 Direct Investment Funding



»» KfW Funding for Urban Development: Instruments+Approaches

Route #2: Investment Funding via Financial Intermediaries



»» South Africa: Challenges for municipalities

- › **Low economic growth:** 1,9 %: SA ranks low within BRICS group
- › **Social Disparities:** GINI-Index: 65,0 (2013); 0,66 (1993)
- › **Unemployment :** 24,9% (2014) – Youth unemployment : 53,6% (2014)
- › **Spatial Disparities:** lack of transport infrastructure, high transport costs
- › **Financial management:** governance, bankability



»» Municipal Projects: South Africa

Advanced Solid Waste Management in South African Municipalities, Department of Environmental Affairs (DEA)

Grants for Feasibility studies, Institutional Capacity building

➤ „Dressing the Bride“ for Private Sector Investment



Non-Motorised Transport (NMT) , City of Joburg, Polokwane, eThekwini

Grants for Infrastructure, Project Management, Awareness-building



Violence Prevention through Urban Upgrading (VPUU) Western Cape, Nelson Mandela Bay, City of Tswhane

Grants for Infrastructure, Project Management, NGO-Support

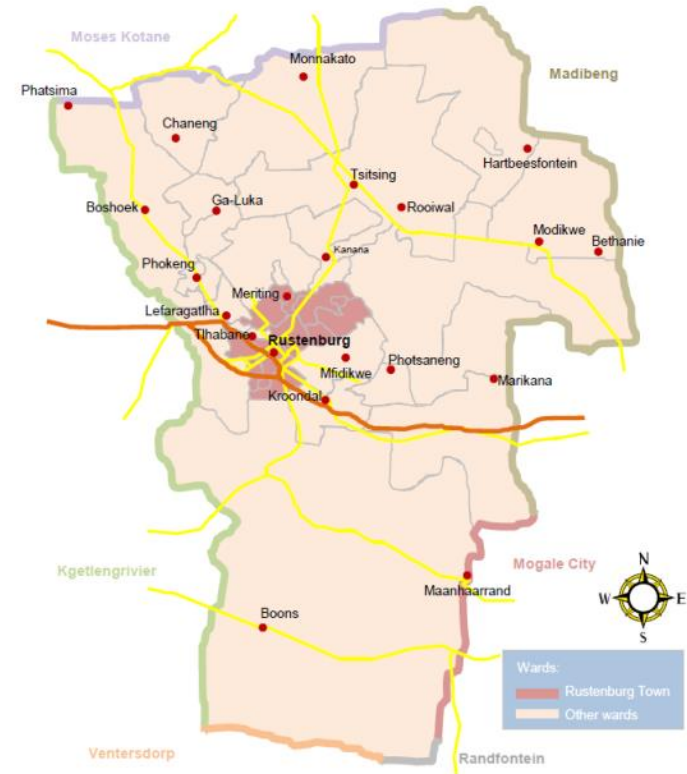
➤ Matching funds from municipalities



»» Advanced Solid Waste Management in South African Municipalities

Rustenburg Local Municipality RLM

- › Project approach foresees:
 - › Improvement of municipal capacities in terms of organisational support, financial management,
 - › Focus on labour-intensive measures to strengthen employment (informal sector)
 - › Implementation of a modern RDF facility to provide secondary fuel from waste for cement kilns in surroundings
 - › Integration of RDF facility in IWMP which foresees a new sanitary landfill (operational in 2015) with a MRF to separate valuables and provide employment
- › Project is highly supported by the RLM administration
- › Financing and operation shall be via a MPPP, supported by National Treasury
- › Implementation and Transaction consultant is working from 01/2014 until 12/2016 to support realization of



»» Non-Motorised Transport (NMT) Overview

- › **Background:** 80% of population in SA uses public or non-motorised transport (mainly walking). Strategies and action plans on NMT developed since 2007.
- › **Project Goals:** Contributing to sustainable, affordable and safe transport. Thereby improving quality of life of the poor and reducing GHG emissions.
- › **Recipient:** Department of Environmental Affairs (DEA)
- › **BMZ Focal Area (Schwerpunkt):** Energy and Climate
- › **Financing:**
 - › FC grant of EUR 5 million (additional EUR 5 million planned)
 - › Cities' contribution: 10%



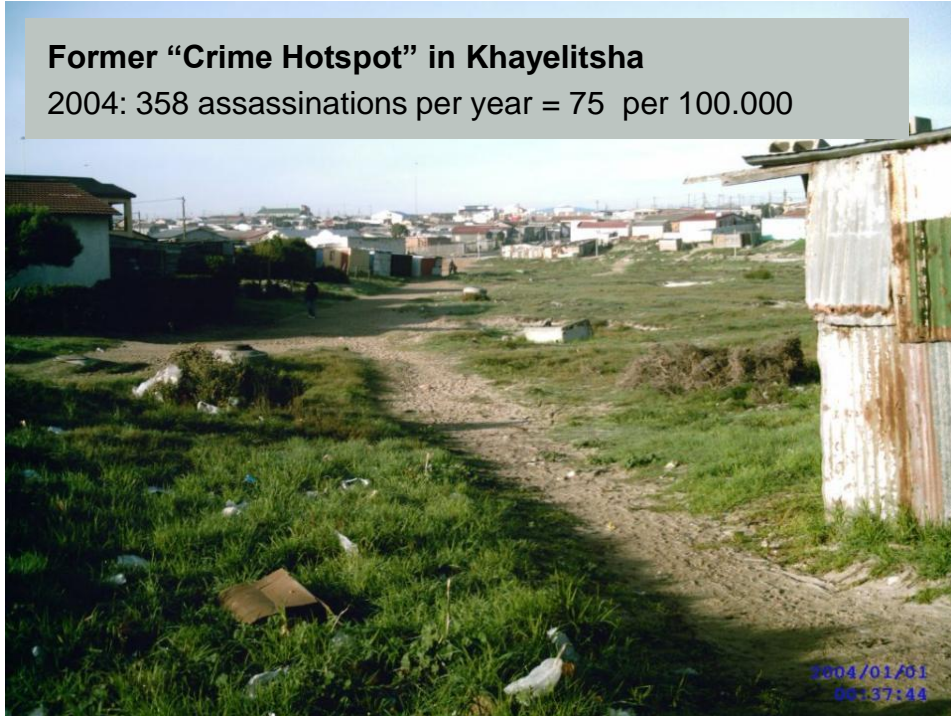
»» Violence Prevention through Urban Upgrading (VPUU)

- › The VPUU approach, supported by the KfW Development Bank “aims at reducing crime, increasing safety and security and improving the living and social conditions of the populations through urban improvements and social interventions
- › The approach has been successfully implemented in El Salvador and Colombia. Starting out in South Africa in 2005, it has had a major impact in the pilot implementation area in Khayelitsha.
- › Capetown has integrated project unit into Planning department and is now changing fixed-term into permanent posts. The VPUU methodology is being introduced in 11 precincts
- › Western Cape Government has received German government funding for two municipalities, but decided to roll out VPUU to three additional municipalities
- › Additional funded projects in Port Elizabeth (Helenvale) and City of Tswane (Mamelodi East)

»» Violence Prevention through Urban Upgrading (VPUU)

Former “Crime Hotspot” in Khayelitsha

2004: 358 assassinations per year = 75 per 100.000



› EUR 15,5 Mio. Grant

- Rehabilitation and new construction of safe public infrastructure, street lighting, walkways, community halls, playgrounds, library
- NGO funds to strengthen community participation



Today

- › Public space gets populated
- › Access to public services strengthened
- › Substantial reduction of crime

»» SUSTAINABLE MUNICIPAL INFRASTRUCTURE FINANCING

–TAMIL NADU (SMIF-TN) (1)

Trust/ PPP model: Tamil Nadu Urban Development Fund (TNUDF)
established in 1996

–Government of Tamil Nadu (GoTN) 71.5%,

–Three Indian DFI's 28.5%


➤ TNUDF operates external lines of credit from KfW, World Bank and JICA

Corporate Trustee of TNUDF :Tamil Nadu Urban Infrastructure Trustee Company Limited (TNUITCL)

➤ prescribes policies and procedures for operation of TNUDF

Fund Manager: Asset Management Company (AMC): Tamil Nadu Urban Infrastructure Financial Service Limited (TNUIFSL); PPP model GoTN: 49%, DFIs: 51%)

➤ TNUIFSL manages about 10 funds (TNUDF, Grant Fund I, II, II, KfW GF 1,

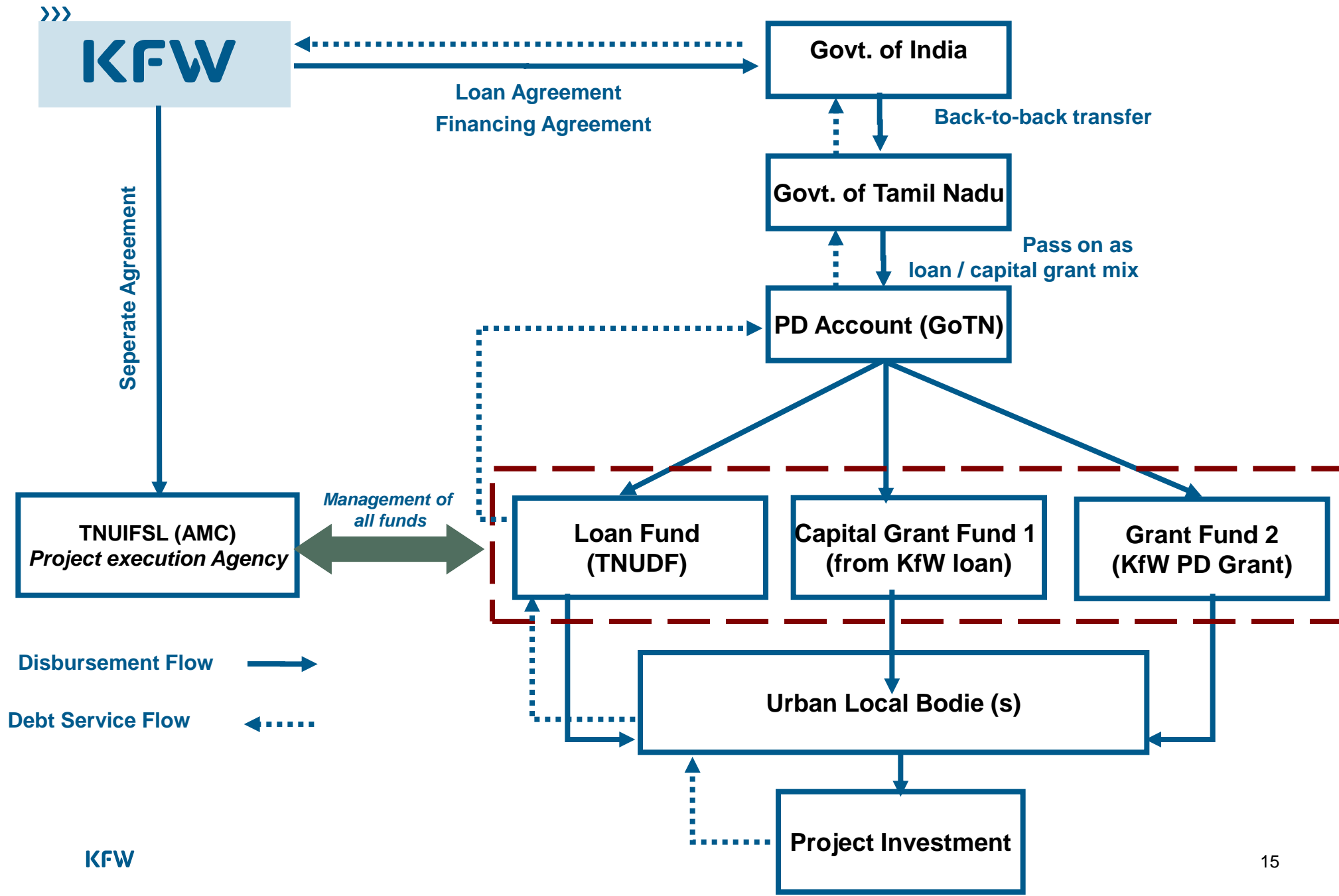
 KfW GF 2, WSPF etc)

»» **SUSTAINABLE MUNICIPAL INFRASTRUCTURE FINANCING –TAMIL NADU (SMIF-TN) (2)**

› **ELIGIBILITY CRITERIA (excerpt)**

- › All municipalities in the State of Tamil Nadu are eligible for financial assistance under the KfW GF - I subject to the following conditions:
- › more than 20% of project beneficiaries shall be the people living below the poverty line.
- › 80% of property tax should have been collected in the past three years prior to the project investment year.
- › the urban local body should have repaid all loan dues for two years prior to the project investment year
- › The applicant demonstrates financial and institutional capacity to operate and maintain the facilities constructed;

SMIF in Tamil Nadu: TNUDF (3)

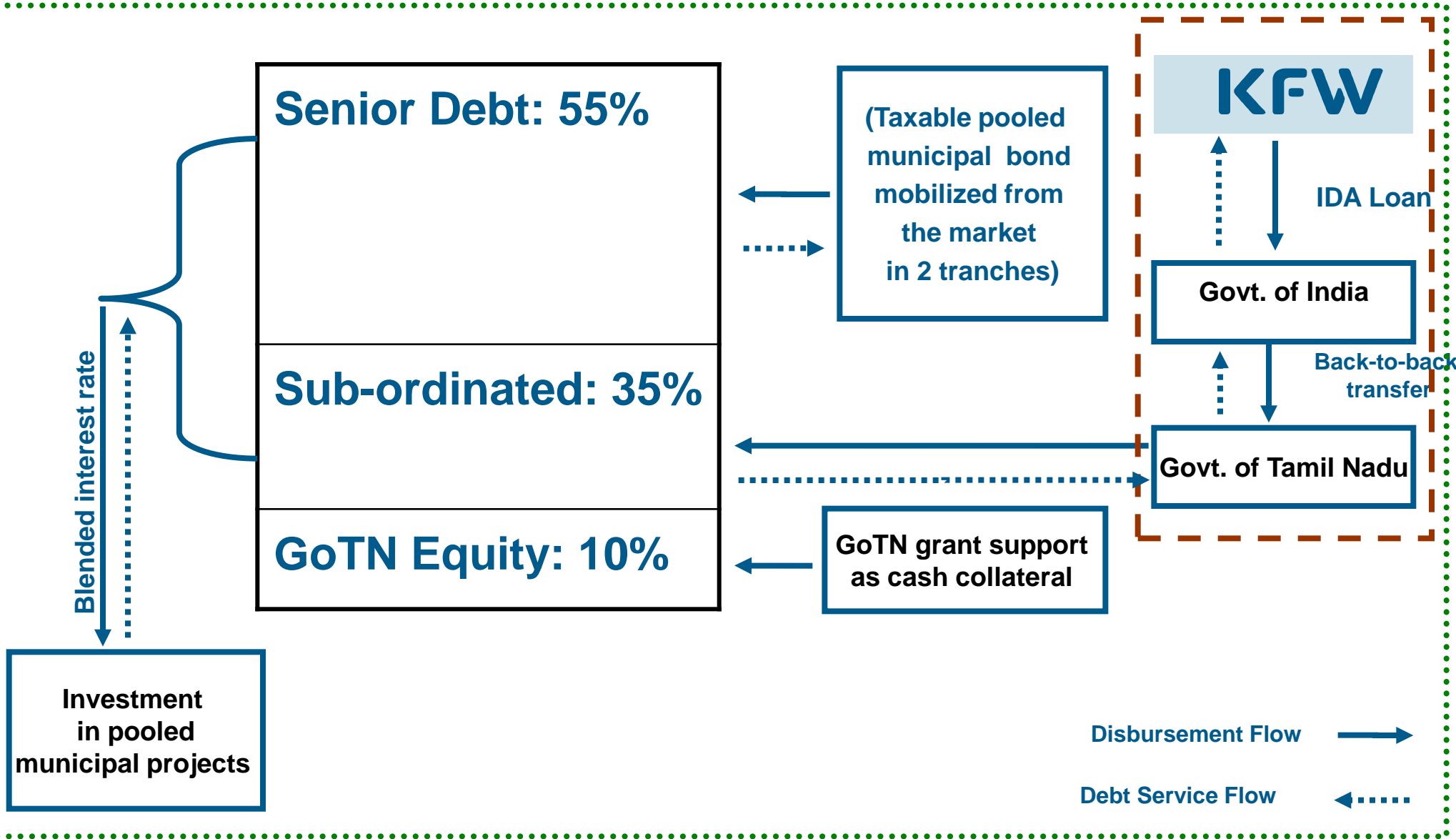


»» WATER AND SANITATION POOLED FUND (WSPF)

OBJECTIVES OF WSPF

- › WSPF channels increased financial resources including private financing, into high priority infrastructure investment
- › first entity in the country to mobilize resources on the basis of pooled finance structure
- › Identifies viable projects and funds them from concept to commissioning on a sustainable basis.
- › enables municipalities to access debt finance from market at favorable interest rates.
- › provides financial assistance for setting up infrastructure projects
- › Fund Manager: Tamil Nadu Urban Infrastructure Financial Services Limited

»» SMIF in Tamil Nadu: Master Financing Indenture (MFI)- WSPF



»» Lessons learned

1. Gear up municipalities to effectively implement a comprehensive, integrated, coordinated, participatory, and interactive planning process assuring ownership at the township/and beneficiary level.
2. The financial instrument needs to be sufficiently standardised; at the same time they have to be flexible enough to serve the individual needs of the municipalities
3. Citizen participation in the adequate stages of the planning, implementation and O&M stages is essential to create necessary ownership of the facilities for maintaining and sustaining their functioning
4. coordination of different governmental departments on all levels need to be ensured
5. Need for political commitment, available staff and expertise as well as efficient procedures and structures for decision-making, coordination and monitoring at municipal level.
6. In order to strengthen the financial viability as well as to increase the long-term sustainability of the urban upgrading projects, private sector investments needs to be crowded in

»» Thank you for your attention!

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