



**INFRASTRUCTURE FINANCE CORPORATION LTD  
"INCA"**

**A funding partner to municipalities focusing on  
Water and Sanitation**

2008 Municipal Indaba



**INCA**



# Who are you dealing with?

- INCA is a debt financier of infrastructure related projects, mainly undertaken by the public sector (but also by the private sector) who enhances:
  - Service delivery to communities
  - Economic development
  - Living conditions of people at large

## Who are you dealing with (cont.)

- INCA raises local capital and money market funds as well as international loan funding and then on lends it to fund municipalities, water boards and/or specific projects structured in various ways

# Who are you dealing with (cont.)

## Shareholders

- 43,96% - Kagiso Financial Services Ltd
- 26,98% - Momentum Group Ltd
- 17,68% - FirstRand Bank Ltd
- 4,42% - Dexia Credit Local
- 4,95% - INCA Share Trust (dormant)
- 2,00% - Chanson Investment Holdings

## Who are you dealing with (cont.)

- INCA established itself mainly in the municipal market during the past 12 years
- It has lent more than R9 000 million mainly to municipalities
- It currently has ±R4 000 million bonds issued in the market
- It raised more than R2 000 million from international institutions for funding infrastructure
- It currently represents ±22 % of the municipal lending market in South Africa
- It is an expert in determining the financial sustainability of municipalities

# INCA is more than a source of funding

- INCA Capacity Building Fund (INCA/AFD)
  - Capacity Building
  - International Study Tour and Annual Summer School
- Fund managers of the Project Preparation Fund established between the Business Trust and the Presidency
- Fund administration and asset generation for third parties (Mobilise international direct investment flows)

# uMhlathuze Municipality Lending Case Study

- In terms of the municipality's approved 2006/7 capital budget proposals was solicited from financiers
- Total capital requested of R 225 million to fund a wide range of projects which include a mixture of: -
  - streets & storm water
  - water & sanitation
  - electricity distribution
  - plant & equipment
  - vehicles
  - land & buildings
- The tailor made loan of 12 years included a capital grace period of 2 years
- The funding provided included a combination of foreign and local funding resulting in a lower than normal funding cost (to the benefit of the communities)
- Due to a lag in expenditure, disbursements of R 154 million was affected in 2006/7 and the balance of R 71 million in 2007/8

# Key lending considerations

- Credit assessment to establish the long term sustainability of the municipality to focus on the following key aspects: -
  - Financial sustainability and ability to service current and future debt with the focus on projected cash flows, proper budgeting and adequate provisions and reporting
  - Institutional capacity to manage the institution and the capital expenditure funding appropriately
  - Economic base of the municipality and the ability to generate sufficient income from rates base
  - Socio economic impact and the access of residents to basic services and the ability to eradicate back logs
- Compliance with all the legal requirements of the MFMA and the due process to be followed iro tender procedures, supply chain management
- The importance of and further comfort provided through an external credit rating by a reputable rating agency

# INCA's special focus on water / Sanitation

- The South African Institution of Civil Engineering (SAICE), infrastructure report card for South Africa: 2006, provided a D+ overall grade to the built environment infrastructure (C = fair and D = poor)
- In the case of sanitation the grade for urban areas was C- and for all other areas E (E = very poor)

# Special focus on water/sanitation (cont.)

- The environmental impact and the associated cost to rehabilitate the environment if possible, should make this a priority and call for special measures and interventions
- This cannot be dealt with as part of the normal infrastructure capital spending programmes of municipalities

## Special focus on water/sanitation (cont.)

- INCA initiated a special funding programme to be made available for priority water/sanitation funding needs of municipalities
- Local and international marketing and discussions on the need to address this priority early indicates a R2 000 million earmarked fund could be established fairly quickly

## Special focus on water/sanitation (cont.)

- Potential to utilise the Project Preparation Fund
- Got the ear of international lending partners of INCA
- Start collecting questionnaires on needs / priorities of municipalities
- Need to coordinate activities with efforts of other institutions (DWAF)
- Need to find a way to accelerate actions

# Conclusion

- If you would like to engage INCA, please contact;

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