national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

UPDATE TO THE POLICY FRAMEWORK FOR MUNICIPAL BORROWING AND FINANCIAL EMERGENCIES

Cabinet approved the Update to the Policy Framework for Municipal Borrowing and Financial Emergencies on the 17th of August 2022. The updated Policy Framework has been published on the National Treasury website. The purpose of the update is to re-examine the original Policy Framework, along with the legislation (i.e. Municipal Finance Management Act - MFMA) that was adopted to implement it, considering the experience with municipal borrowing that has accumulated since 2000. The updated Policy Framework is informed by dialogue and discussions that started during the August 2015 Urban Investment Partnership Conference (UIPC). The conference aimed at generating a common understanding of issues hindering active participation in urban investment and to establish trust and partnership between the public and private sectors.

Key reforms introduced through the Update to the Policy Framework for Municipal Borrowing

1. The Policy Framework for Municipal Borrowing has been updated to introduce the necessary reforms that will expand the scope of responsible municipal borrowing and create an environment that attracts more players (e.g. insurers, pension funds, institutional investors and fund managers, and international Development Finance Institutions) in the municipal debt market space. The original core principles underlying municipal borrowing are maintained (i.e. creditworthy municipalities should borrow prudently to finance capital investment and that there will be no bail-outs by provincial or national government).

2. The updated policy framework clarifies the role of Development Finance Institutions (DFIs) as it was not clearly articulated in the original policy. Public-sector lenders, both domestic and foreign, should be guided by a social and developmental investment approach, in which demonstrable social outcomes are considered alongside potential financial returns. DFIs are required to pursue clear and agreed developmental goals, as outlined in the policy. The objective of this approach is to ensure that a DFI lending does not crowd-out the private sector.

3. The updated policy framework permits and clarifies innovative infrastructure financing mechanisms (such as pooled financing mechanisms, project finance, tax increment financing, revenue bonds, and pledging of conditional grants) that municipalities can use to leverage municipal borrowing. Municipalities are encouraged to explore these alternatives and innovative infrastructure financing mechanisms permitted subject to the restrictions and requirements contained in the Municipal Finance Management Act (MFMA).

4. The participation of both private and public sector market participants in the development of a liquid secondary market for municipal debt securities is also encouraged. The policy proposes options that can be explored to support the development and growth of an efficient and liquid market for municipal debt obligations.

The update to the policy will benefit the following groups:

5. *Municipalities*: The updated Policy Framework encourages frequent engagements between municipalities and investors. These engagements will help municipalities to understand what investors require to participate in the municipal borrowing space so that they can better position themselves to attract infrastructure investment.

6. *Investors (e.g. insurers, fund managers, unit trust, DFIs, etc.)*: The policy advocates for transparency in terms of information sharing by municipalities and lenders. The availability of information will assist in proper price setting. Maintaining relationships and continuous engagements with the municipalities will assist investors to deepen their understanding of local government issues that are critical for their own analysis. The policy provides clear roles and responsibilities for DFIs operating within the municipal borrowing space to ensure that the development impact of their activities in municipalities is achieved.

7. *Financial Institutions (e.g. Banks)*: Transparency in terms of information sharing and relationship management will help financial institutions understand the dynamics of the municipal space which will help banks make sound financial decisions when lending to municipalities.

8. E*xisting rate payers and the general public*: Infrastructure investment will provide an enabling environment to promote access to services and economic opportunities which will ultimately improve ratepayers' and the general publics' overall standards of living. The borrowing policy framework contributes toward the promotion of inter-generational equity in ensuring that today's taxpayers do not fund the benefits of tomorrow's service users (property rates and service tariffs for example do not have to be increased in the medium term to allow for servicing the borrowing obligation). Since debt repayments will be linked to the lifecycle of infrastructure, future residents will pay for the benefits which they derive from this infrastructure. The policy framework advocates for the development of long-term financial strategies by municipalities, which will improve municipal accountability and transparency in respect to municipal performance and financial affairs to their communities.

9. *Poor households*: Enhanced revenues obtained from assets financed from borrowing will release pressure on municipal balance sheets, allowing pro-poor investment programmes to achieve universal access to basic services, while also expanding investment in infrastructure that supports growth for those who can afford to pay. Infrastructure development enhances economic activity leading to economic growth and increased economic opportunities. This will ultimately improve the lives of the poor by improving their income and skill opportunities created by the availability of infrastructure services and their participation in the construction, upgrading and delivery of infrastructure services.

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