**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NUMBER:** **1161 [NW1419E]**

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**1161. Mr C Brink (DA) to ask the Minister of Finance:**

Whether the National Treasury currently supports metropolitan municipalities to access project-based loan financing to replenish existing service infrastructure, especially the metropolitan municipalities that lack the creditworthiness to raise long-term financing on the bond market; if not, why not; if so, what are the relevant details of the (a) support and (b) examples of where it has been utilised effectively? NW1419E

**REPLY**

In terms of section 160(d) of the Constitution, it is the mandate of the municipal council whether or not to approve borrowing. The National Treasury’s responsibility when a municipality decides to incur borrowing is set out in Section 46 of the Municipal Finance Management Act. In terms of that section, the National Treasury must submit written comments or representations in respect of the proposed borrowing. The National Treasury looks at a number of issues, including affordability, when providing written comments to municipalities. The National Treasury does not support instances where the borrowing is unaffordable for the municipality. Therefore, the municipality must have financial stability, and the planned borrowing must have been budgeted for before considering any borrowing.

Also, as emphasised in the Original Borrowing Policy framework passed by Cabinet in 2000, financiers/lenders are encouraged to perform their own due diligence assessments to ascertain a municipality’s creditworthiness. Financiers/lenders whose capital is at risk have both the incentive and the means to limit or deny credit if they doubt the sustainability of a proposed borrowing.

1. Project finance is part of the many funding mechanisms that have been identified in the 2017 Updated Policy Framework for Municipal Borrowing as mechanisms that are permissible within our current legislative framework. Municipalities can utilise project-based financing to fast-track infrastructure development; however, such a financing choice should be solely based on the strength of the municipality’s finances or the credibility of the assumptions and arrangements that inform the project package. Besides borrowing, municipalities may consider other funding mechanisms such as public-private partnerships to enable them to finance projects. In these types of transactions, the private party assumes the financial responsibility, amongst others, for the implementation of projects.

It is important to note that the updated policy emphasises that only creditworthy municipalities should borrow based on the strength of their balance sheets whilst encouraging responsible borrowing and lending. Therefore, municipalities deemed non-creditworthy (lack fiscal discipline and sustainable financial management; have no resources or capacity to repay the debt) should not borrow. This is further cemented by the principle of non-guarantee of municipal debt by neither provincial nor national government, as reflected in the updated policy and in section 51 of the Municipal Financial Management Act (MFMA). Incurring a loan when a municipality is not in the financial position to repay the loan will add to a municipality’s financial problems.

Municipalities have not pursued project loan financing but rather use general loans to finance various projects. This is mainly due to the capability of these municipalities in preparing bankable projects that would attract financing and the financial support required for project preparation activities. To assist metropolitan municipalities with funding for project preparation, the Programme and Project Preparation Support Grant was established in 2021 to institutionalise an effective and efficient system of developing a pipeline of investment projects that would be financed by an array of financing instruments, including project-based loans. To this end, National Treasury will allocate R1.1 billion to metropolitan municipalities over the 2022 MTEF to support project preparation.

1. In addition, to assist some of the municipalities facing financial difficulties, National Treasury has institutionalised the Municipal Financial Recovery Services with the core objective of identifying and resolving financial challenges, with the City of Tshwane and Mangaung being part of the programme. Through the success of the Municipal Financial Recovery Service and other initiatives around revenue management, National Treasury hopes to achieve strengthened operating performance for some metropolitan municipalities, thus allowing them to access the market and pursue mechanisms such as project-based loan financing.