



**Expert Group Meeting:
Innovative Finance for Sustainable
Development**



***Session 4: Sub-national instruments for
financing basic utilities***

Jason Ngobeni, Executive Director
City of Johannesburg
www.joburg.org.za

CONTENT

- ❑ Overview of the City of Johannesburg
- ❑ Overview of the local debt capital markets
- ❑ The City's capital investment financing
- ❑ Funding and Funding Strategy
- ❑ Use of listed funding instruments
- ❑ Questions and Discussion

Overview of the City of Johannesburg

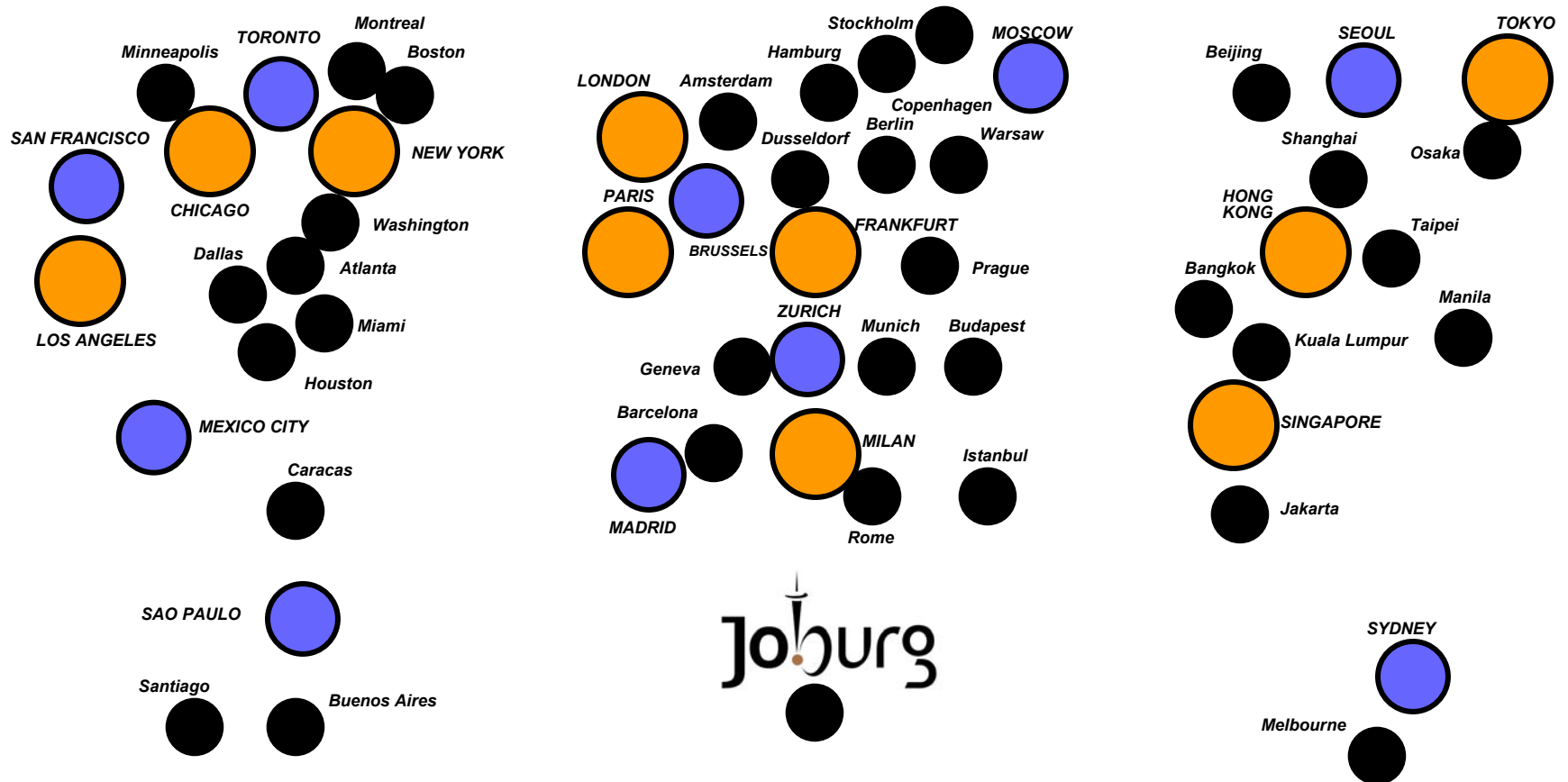
Africa



South Africa



Johannesburg – Africa's only world city



The GaWC Inventory of World Cities



ALPHA
WORLD CITIES



BETA
WORLD CITIES



Gamma
World Cities

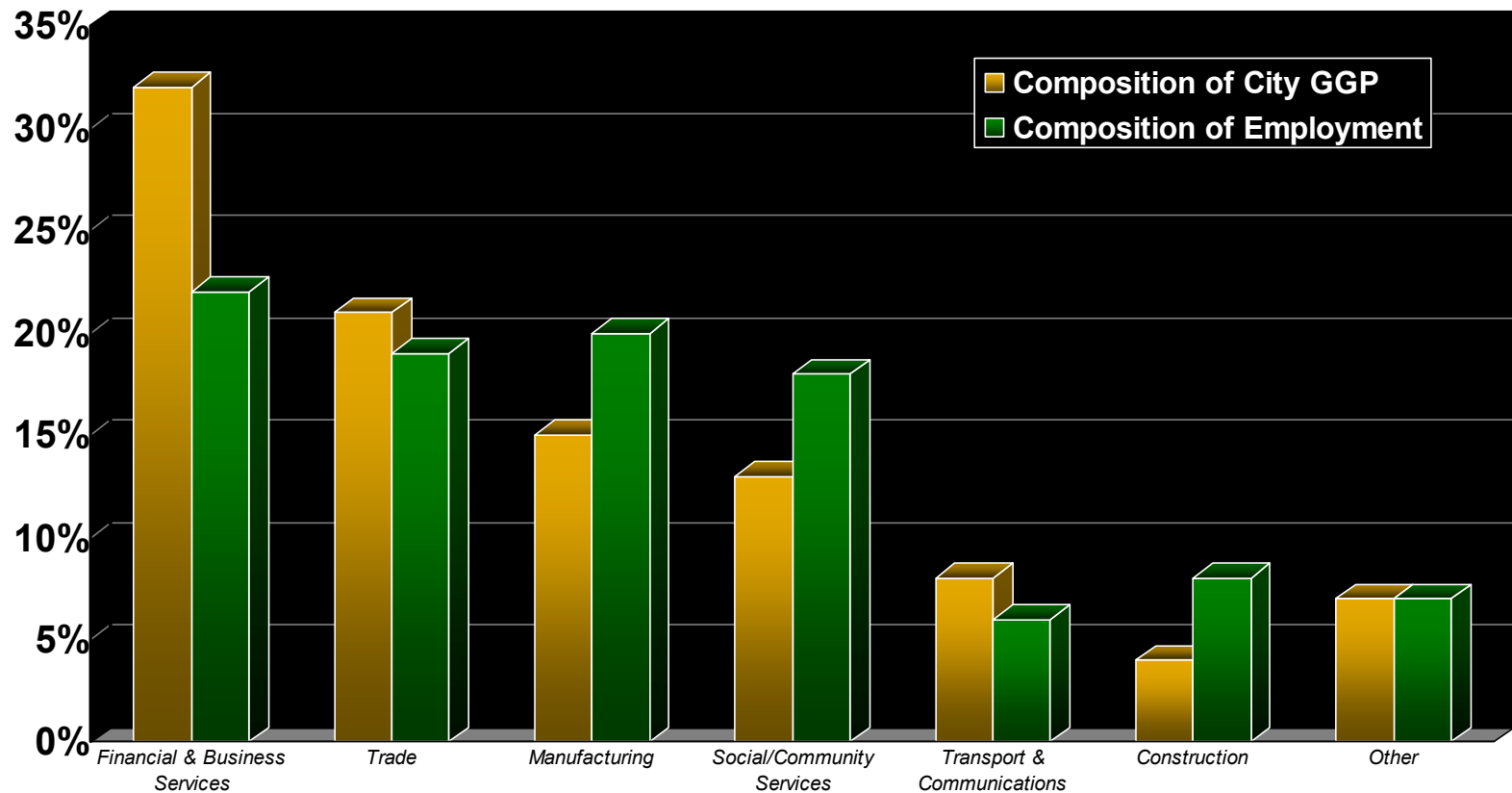
Basic parameters

- ◆ 25 000 staff employed in 15 service delivery entities
- ◆ Provide services to over 3.2 million people
 - ◆ Over 1 million households
 - ◆ Approximately 100 000 businesses
- ◆ Consolidated 2006/7 budgets
 - ◆ Operating ZAR 17,800 m (approx USD 1,840 m)
 - ◆ Capital ZAR 3,200 m (approx USD 300 m)
 - ◆ Total ZAR 21,000 m (approx USD 2,140 m)
- ◆ Revenue function has 805 000 active customer accounts

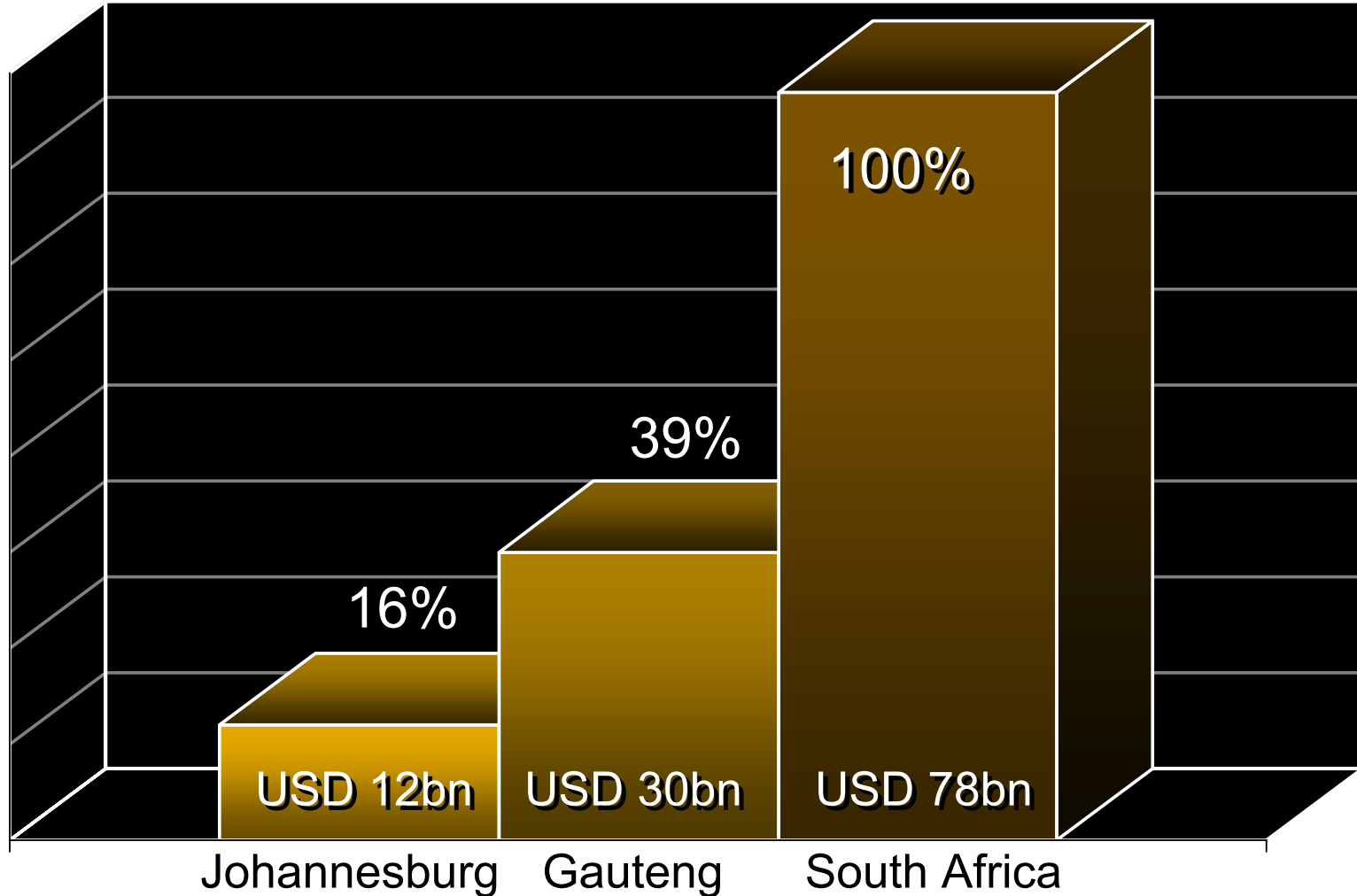
** Conversion rate – 1 USD = 6.5 ZAR*

- ❑ *Between 1996 and 2001, the number of households ...*
 - ❑ *using **electricity for lighting** increased from 600 000 to 850 000 (85% of households now have access to electricity)*
 - ❑ *with a **weekly refuse removal** service increased from 600 000 to 900 000 (+50%)*
 - ❑ *with access to **water-borne sewerage** increased from 623 000 to 827 000 (+33%) (Over 80% of households now have access to sewerage)*
 - ❑ *with access to **water on their properties** has increased by 35% (Over 85% of households now have this access)*
 - ❑ *with **fixed telephone or mobile phone** increased by 80%*

City GGP & Employment



Share of National Economic Product



World Events Successfully Hosted:

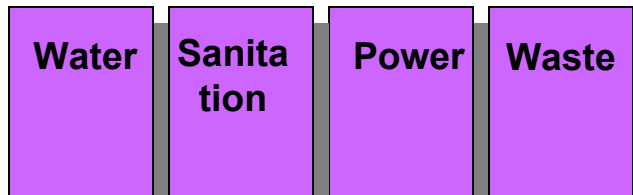
- *Rugby World Cup (1995)*
- *All Africa Games (1998)*
- *World Summit on Sustainable Development (2002)*
- *Cricket World Cup (2003)*
- *World Petroleum Conference (2005)*

Forthcoming events

- *2010 FIFA Soccer World Cup*

Residents of Johannesburg

Integrating service delivery



South Africa's Premier Home of Live Entertainment
THE JOHANNESBURG CIVIC THEATRE



ED:F 1. Single revenue management value chain

CRM 2. Single customer interface value chain

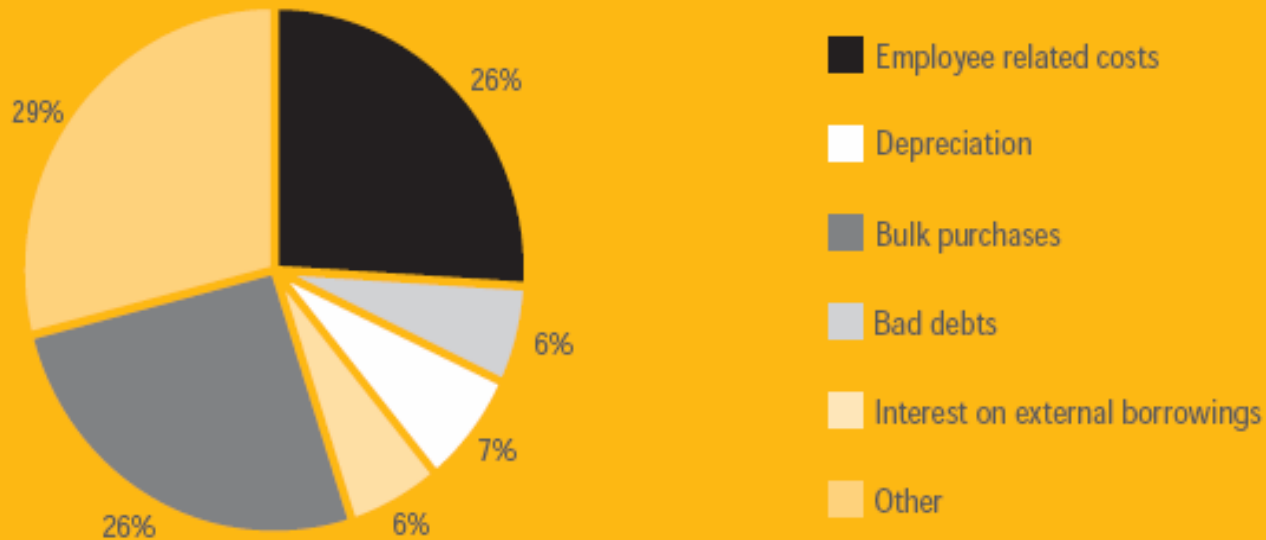
CIO 3. Single IT application to support both

All Basic Services delivered through this channel

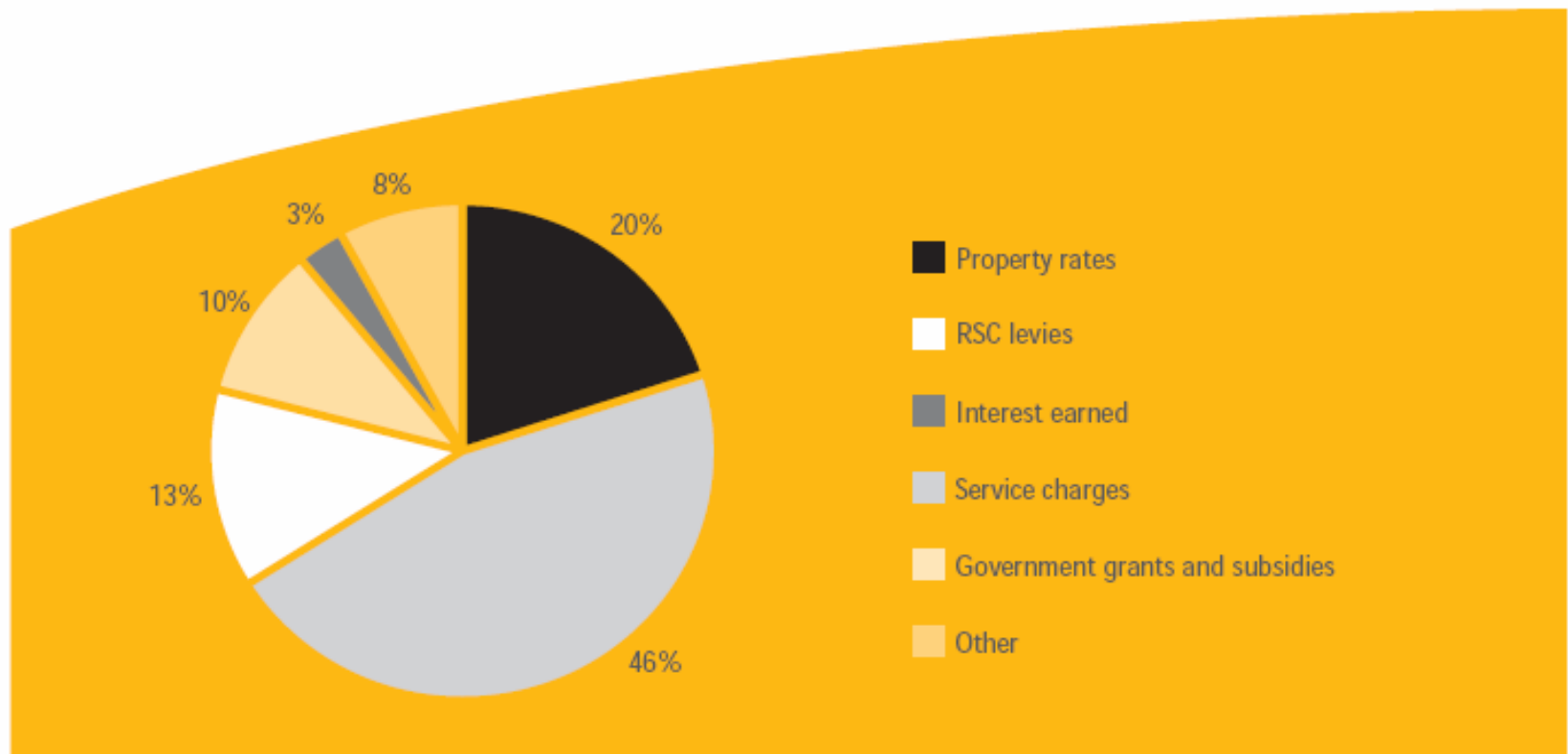
Single Call Centre

Expenditure Profile

3. BREAKDOWN OF MAIN CATEGORIES OF EXPENDITURE



2. BREAKDOWN OF MAJOR REVENUE STREAMS



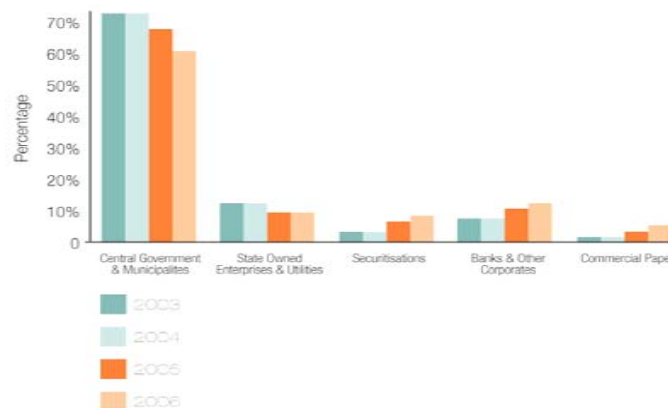
Overview of the local debt capital markets

➤ Listed Bonds

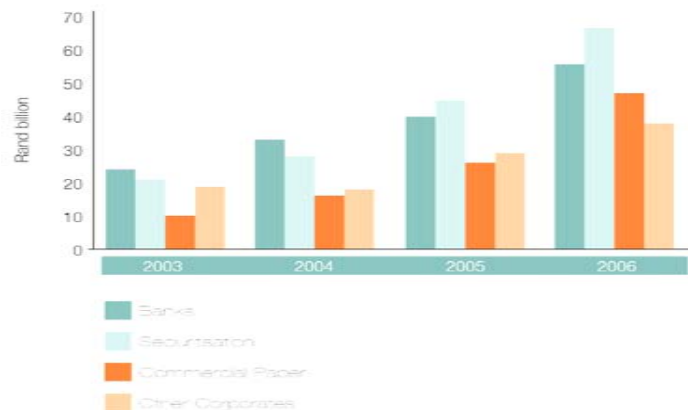
The number of listings on BESA increased from a nominal value in issue of R637 billion at end 2005, to R725 billion in 2006, with a market cap of R830 billion. The listed debt instruments total 725 issues issued by 91 issuers. Most significant was the annual increase in corporate listings from 22% of the total nominal value in issue to 29% in 2006.

- **Nominal values in issue comprises R407 billion (64.9%) central government and municipalities, R97 billion (15.5%) Special Purpose Vehicles / Collateral Debt Obligation, R57 billion (9%) Corporates, R30 billion (4.8%) parastatals and a R350 million dual listing by the Mauritius Commercial Bank.**

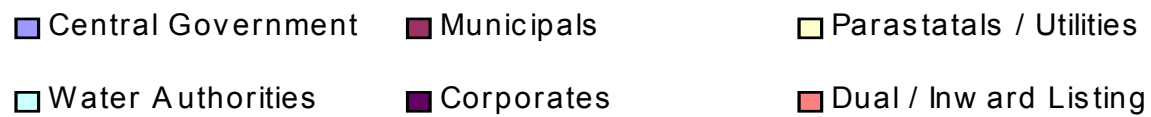
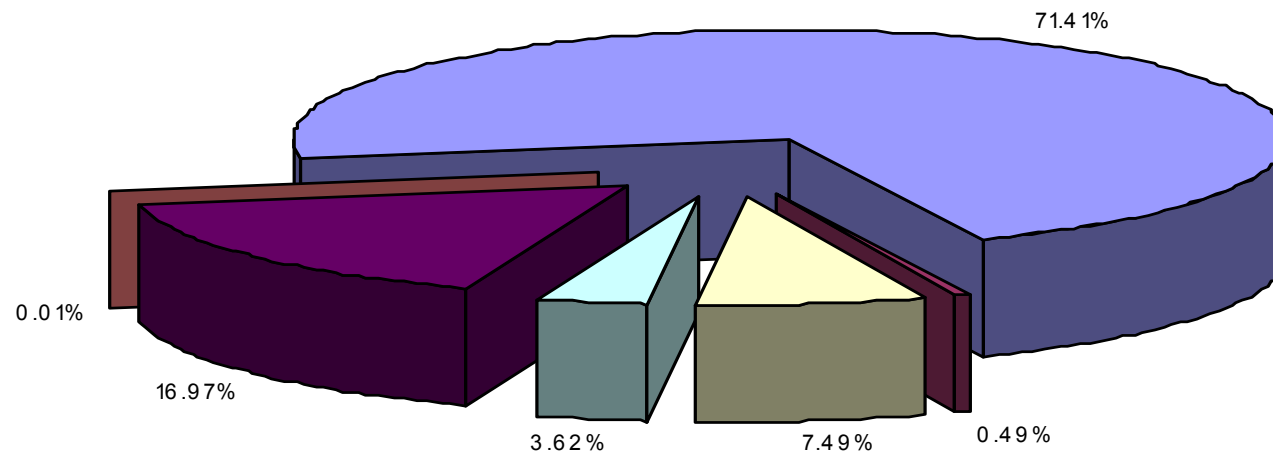
Participation in Nominal Value in Issue



Growth in Issuance of Corporate Debt



.....Market Capitalization



New listings

01 Jan 2007 – 31 May 2007

- A total of R13.03 billion was issued in nominal value for the five month period since the beginning of 2007.
- Corporates issued the majority of that amount, a total of R10.92 billion.
- The increase in corporate listings may be ascribed to the favourable interest-rate environment notwithstanding the increase in the repo rate, as well as increasing consumer borrowings.
- In 2006 exchange control regulations were relaxed allowing foreign issuers to list ZAR denominated bonds on BESA and allowing investment managers an increased investment allowance should these funds be deployed for development into Africa. BESA listed its first such "inward listing" towards the end of 2006 when Mauritius Commercial Bank raised funding of R350 million in the South African market.

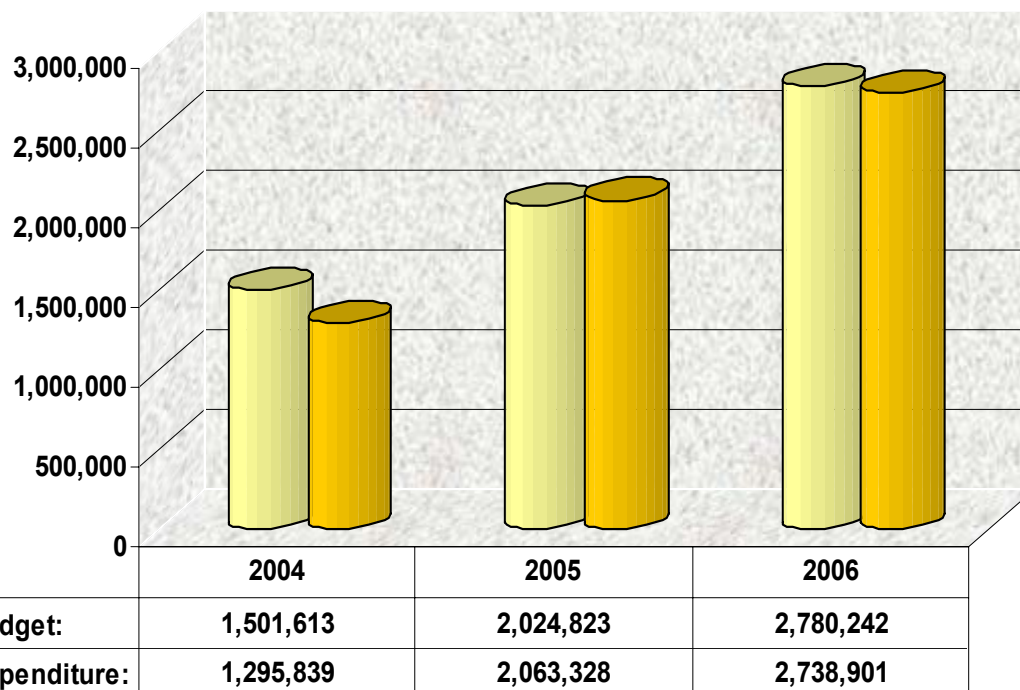
Issuer	Bond code	Rating	Size (Rbn)	Coupon %	Tenure (Years)	Clearing Spreads bps
ABSA	ABS5	AAA	0.6	8.3	8	0
ESKOM	ES26	AAA	0.1	7.85	19	0
TOYOTA	TFS06	AAA	1	8.05	7	35
ABSA	AB07	AA+	1.73	8.8	7	110
ACSA	AIR01	AA	2	8.58	12	100
IMPERIAL CAPITAL	IC02	AA	0.5	9	5	120
IMPERIAL HOLDINGS	IPL4	AA-	1.5	9.04	7	125
SANTAM	SNT01	AA-	0.6	8.25	10.33	106
GROUP FIVE	GFC1	A	0.3	9.05	3	120
GROUP FIVE	GFC2	A	0.55	9.2	5	134
INCA	IN07	A+	0.11	9	6	145
INVESTEC	INV03	A/AA	1.44	16	5	116
NEDBANK	NED7	A+/AA+	0.65	9.03	5	95
NEDBANK	NED8	A+/AA+	1.7	8.9	7	117
INCA	IN0607	A+	0.25		1	25

The City's capital investment financing

CITY's CAPEX Demands

- *2010 FIFA World Cup related capital investments, e.g. Stadia, Transportation and Supporting Infrastructure;*
- *Rollout of BRT (Bus Rapid Transit) capital infrastructure;*
- *Housing and Area Regeneration;*
- *Renewal of existing and rolling out of new Power and Electricity reticulation networks;*
- *Renewal of existing and rolling out of new Water and Sanitation reticulation networks;*

City Capital spending over the last three years

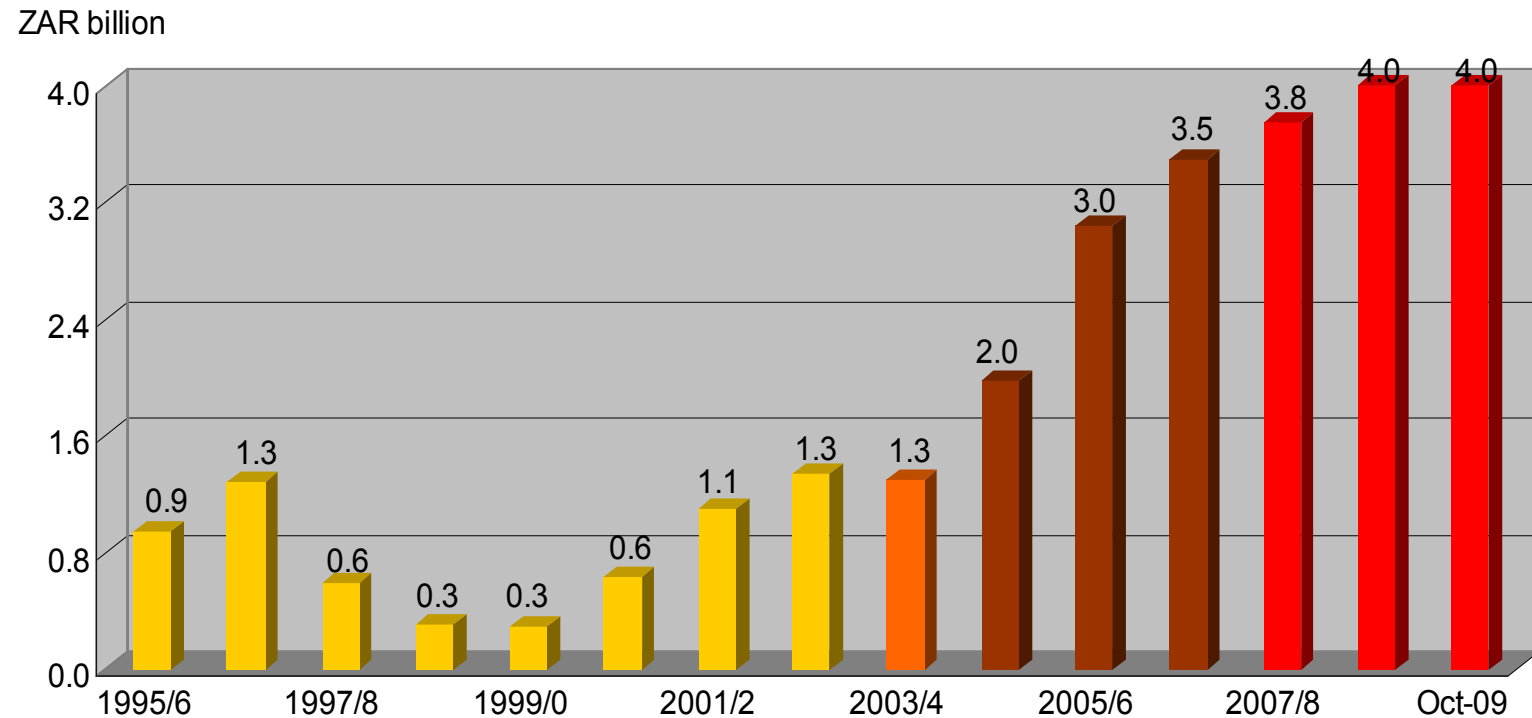


Capex spending for the past three years.

- **2003/04 86% spending**
- **2004/05 101% spending**
- **2005/06 98% spending**

■ Capital budget: ■ Capital expenditure:

Projected Capex to 2010



Key Prudential Ratios



Key Ratio	B/marks	Jun-06	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11
Debt / Revenue	50%	38.5%	44.6%	49.2%	48.1%	49.9%	50.0%
Interest / Operating	7%	6%	5%	6%	7%	7%	7%
Salaries / Operating	28%	26.4%	27.2%	27.2%	26.8%	26.6%	26.5%

Funding and Funding Strategy

- ❑ Size of Capital Budget, in particular, portion to be funded via external loans (Funding requirements)
- ❑ Appetite
 - ❑ Market analysis on investor appetite capacity and type of funding
- ❑ Preference: Listed instruments from DCM or Bank loans
- ❑ Structure: Vanilla vs. Enhanced ; New vs. Taps
- ❑ Tenure: What range? Gaps on the yield curve
- ❑ Issue size: Single large issue or tranching
- ❑ Disparity in market pricing
 - ❑ Are bank loans priced cheaper compared to bonds?
- ❑ Timing
 - ❑ When to come to the market:
 - ❑ Inflation outlook
 - ❑ Interest rate outlook
 - ❑ Investors searching for yields

How does the City fund itself:

- The City funds its capital expenditure via:

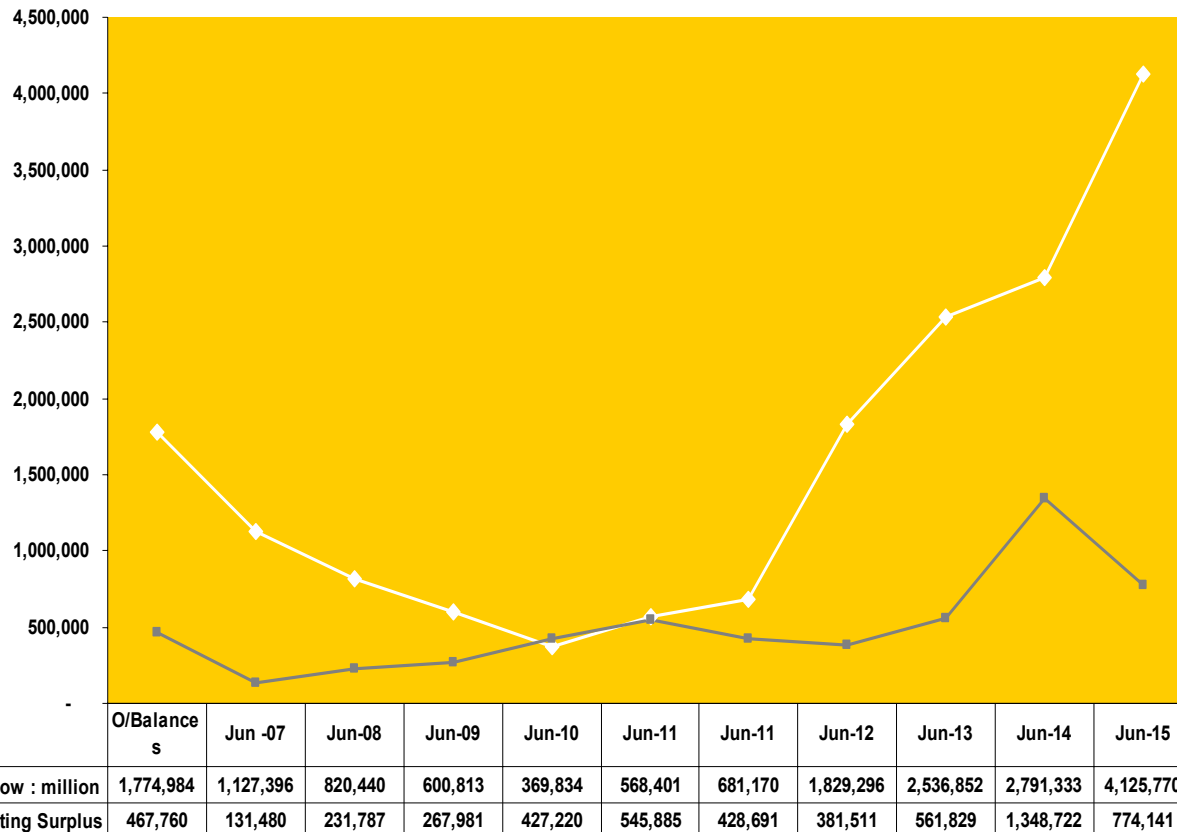
Funding Instruments availability:

- Short Term Bank Loans (Repayment > period 12 months)
- Commercial Paper
- Vanilla Bonds
- Index-Linked Bonds
- Revenue Bonds
- Retail Bonds
- Project Financing
- Asset Backed Finance
- Public Private Partnership (PPP Funding)

Long-term Financial Planning

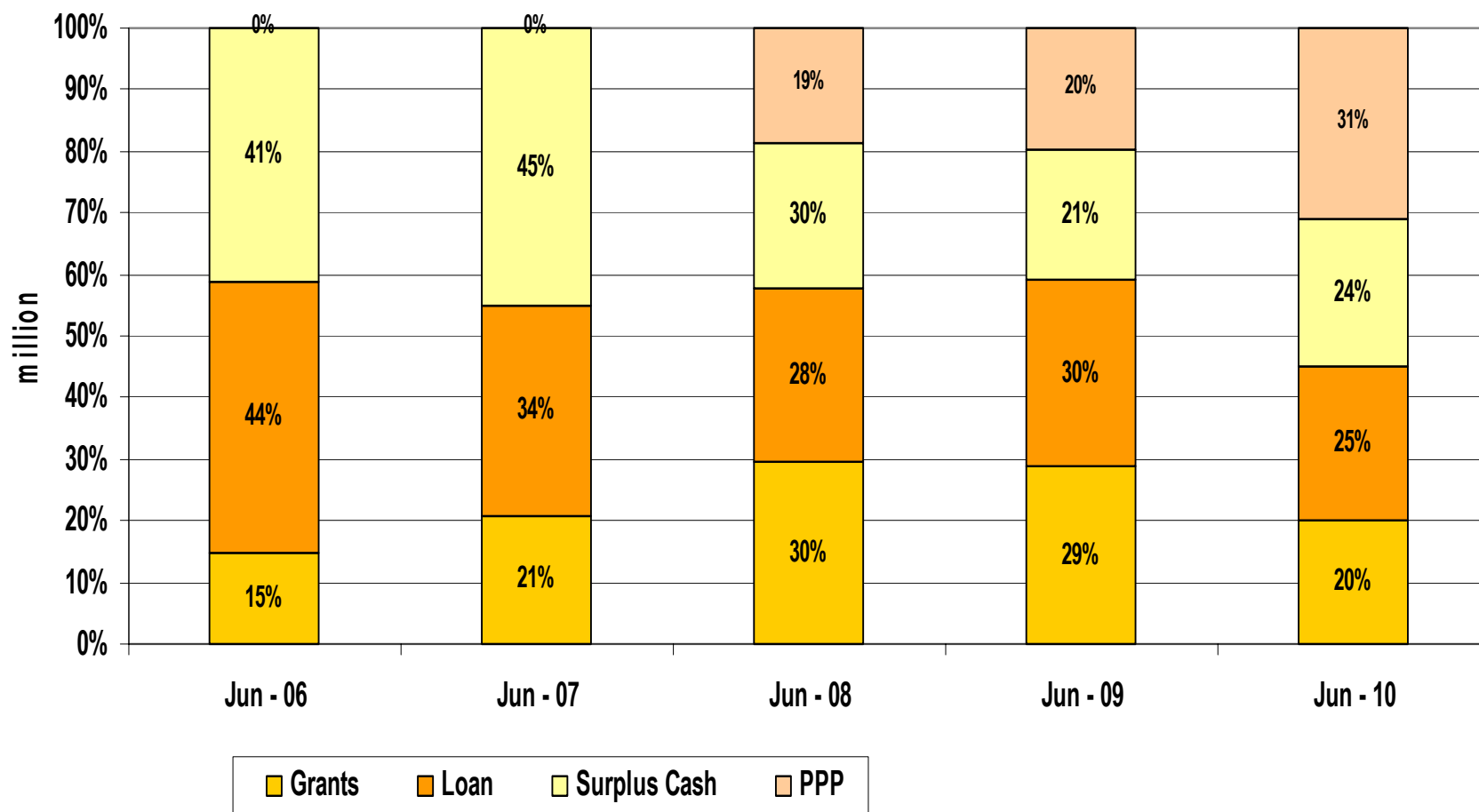


10 Year Cumulative Cashflow and Operating Surplus



- *The City will maintain an operating surplus in each FY*
- *Cash Surplus will be applied towards capital infrastructure*
- *Lower and maintain operating expenses to inflation level to realise operating surplus.*
- *Cash surpluses will be applied to reduce borrowing.*
- *Through special levy (fund specific projects)*

Future Funding Sources



Historical Credit Rating



Rating	Fitch Ratings			CA Rating			
National Ratings	Current Rating	Previous Rating	Rating Action	Current Rating	Rating Action	Previous Rating	Rating Action
Short-term	F1 (zaf)	F2 (zaf)	April 2005	ZaA1	April 2005	ZaA1	May 2006
Long-term	A (zaf)	A - (zaf)	May 2006	ZaA+		ZaA	
Outlook	Positive	-	-	Stable		Stable	
Partial guarantee d Bonds	AA (zaf)	AA – (zaf)	May 2006				

Use of listed funding instruments

Rationale for accessing Debt Capital Markets...

- ❑ *The City's capital investment requirements are too large for traditional bank loans (single obligor limits per institution)*
- ❑ *Cost of funding will be reduced*
- ❑ *Funding liquidity management will be enhanced*
- ❑ *Interest rate risk management strategies are confined to a simpler debt portfolio*
- ❑ *Transparency and frequency of reporting to investors and stakeholders*

...Rationale for accessing Debt Capital Markets

- ❑ *The proceeds will be invested mainly in revenue-generating capital projects ...*
 - ❑ *... resulting in an expanded revenue base for the City*
- ❑ *Great potential for further credit rating improvement due to a stable financial profile*
- ❑ *Employment is generated and poverty alleviation enhanced*

DMTN Program

- ❑ **The City has a R6 billion DMTN listed on the BESA**
- ❑ **Four bonds are currently in issue in the local Domestic Capital Markets, of which two bonds (CoJ01 & CoJ02) were issued outside the program**
- ❑ **In June 2006 the City issued its 4th bond (CoJ04) which was well received by the market with an over-subscription more than 4 times, clearing at 120 basis points above government benchmark**
- ❑ **In September 2007 the City issued its first Retail Bond, the first to be issued by a municipality in the history of debt capital markets in South Africa.**
- ❑ **The program enables the City to issue various funding instruments and listing same with BESA**

CoJ experience in the bond market

The City of Johannesburg successfully launched 4 Institutional bonds totalling R3.9 billion listed on BESA

Bond Code	COJ01	COJ02	COJ03	COJ04
<i>Date of issue</i>	<i>13 April 2004</i>	<i>30 June 2004</i>	<i>26 April 2005</i>	<i>05 June 2006</i>
<i>Nominal Amount</i>	<i>R 1 Billion</i>	<i>R 1 Billion</i>	<i>R 700 Million</i>	<i>R 1.2 Billion</i>
<i>Tenure</i>	<i>6 Years</i>	<i>12 Years</i>	<i>8 Years</i>	<i>12 Years</i>
<i>Maturity Date</i>	<i>13 April 2010</i>	<i>15 September 2016</i>	<i>26 April 2013</i>	<i>05 June 2018</i>
<i>Comparison Bond</i>	<i>R153</i>	<i>R157</i>	<i>R157</i>	<i>R203</i>
<i>Spread</i>	<i>96 bps</i>	<i>120 bps</i>	<i>100 bps</i>	<i>115 bps</i>
<i>Coupon %</i>	<i>11.95</i>	<i>11.90</i>	<i>9.70</i>	<i>9.00</i>

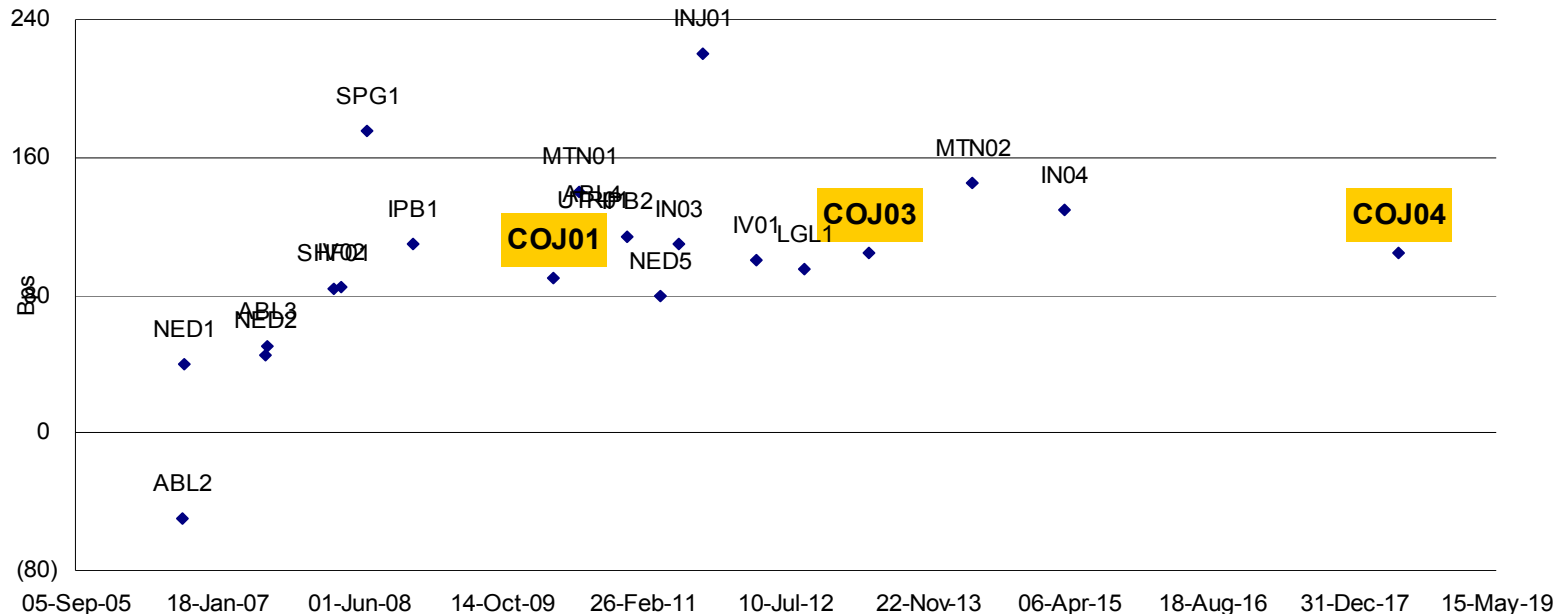
Comparative Pricing Analysis with similar rated bonds

City of Johannesburg



A rated domestic institutional bond benchmarks

Date: Issuer	Bond Code	Summary Rating	Issue Size (R Bln)	Coupon (%)	Issue date	Maturity Date	Govi Benchmark	Spread over benchmark AT ISSUE	1 Month ago	04/07/2007	ASW 04/07/2007
African Bank	ABL3	A	0.91	11.75	12-Jul-04	12-Jul-07	R196	215/R194	27	75	85
African Bank	ABL4	A	0.80	9.00	23-Aug-05	31-Aug-10	R153	150	122	122	29
African Bank	ABL5	A	0.75	9.70	11-Aug-06	11-Aug-11	R153	135	123	123	43
City of Johannesburg	COJ01	A+	1.00	11.95	13-Apr-04	13-Apr-10	R153	230	96	90	-3
City of Johannesburg	COJ03	A+	0.70	9.70	26-Apr-05	26-Apr-13	R157	154	100	100	-16
City of Johannesburg	COJ04	A+	1.20	9.00	05-Jun-06	05-Jun-18	R203	120	103	103	22
Group Five	GFC1	A	0.30	9.05	27-Feb-07	27-Feb-10	R153	120	120	120	19
Group Five	GFC2	A	0.55	9.20	27-Feb-07	27-Feb-12	R153	134	125	125	51
Imperial Bank	IPB1	A	0.52	13.50	13-Jun-02	04-Dec-08	R196	182/R194	156	156	79
Imperial Bank	IPB2	A	0.50	8.38	30-Mar-06	30-Dec-10	R153	117	130	120	42
INCA	IN03	A+	2.52	14.00	06-Mar-97	30-Jun-11	R153	80	120	115	38
INCA	IN04	A+	0.65	8.90	15-Mar-05	15-Mar-15	R157	-	127	127	28
INCA	INJ01	A-	0.10	10.96	21-Sep-04	21-Sep-11	R153	220	220	220	141
Investec	IV01	A	1.96	16.00	31-Mar-00	31-Mar-12	R153	190	105	105	33
Investec	IV02	A	1.00	12.55	31-Mar-03	31-Mar-08	R196	214/R194	73	73	30
Investec	IV03	A	1.44	16.00	30-Mar-07	31-Mar-12	R153	116	116	116	43
Liberty	LGL1	A+	2.00	8.93	12-Sep-05	12-Sep-12	R153	120	95	95	28
Metropolitan Life Ltd	MET01	A	0.50	9.25	15-Dec-06	15-Dec-14	R201	128	121	121	28
MTN	MTN01	A+/A-	5.00	10.01	13-Jul-06	13-Jul-10	R153	145	115	115	20
MTN	MTN02	A+/A-	1.30	10.19	13-Jul-06	13-Jul-14	R201	150	115	115	18
Nedbank	NED2	A+	4.00	13.15	09-Jul-02	09-Jul-07	R196	70/R194	87	87	109
Nedbank	NED5	A+	1.50	7.85	24-Apr-06	24-Apr-11	R153	70	85	85	1
Nedbank	NED6	A+	1.80	9.84	20-Oct-06	20-Sep-13	R201	105	120	115	16
Nedbank	NED7	A+	0.65	9.03	08-Feb-07	02-Aug-12	R153	95	95	95	21
Nedbank	NED8	A+	1.70	8.90	08-Feb-07	02-Aug-14	R201	117	130	120	30
PSG Financial Services	PSG01	A-	0.11	10.79	13/10/2006	13-Oct-11	R153	205	165	165	87
Steinhoff	SHF01	A	1.00	10.00	08-Dec-03	28-Feb-08	R196	170/R194	130	130	49
Super Group	SPG1	A-	0.90	12.50	25-Jun-04	25-Jun-08	R196	240/R194	111	145	69

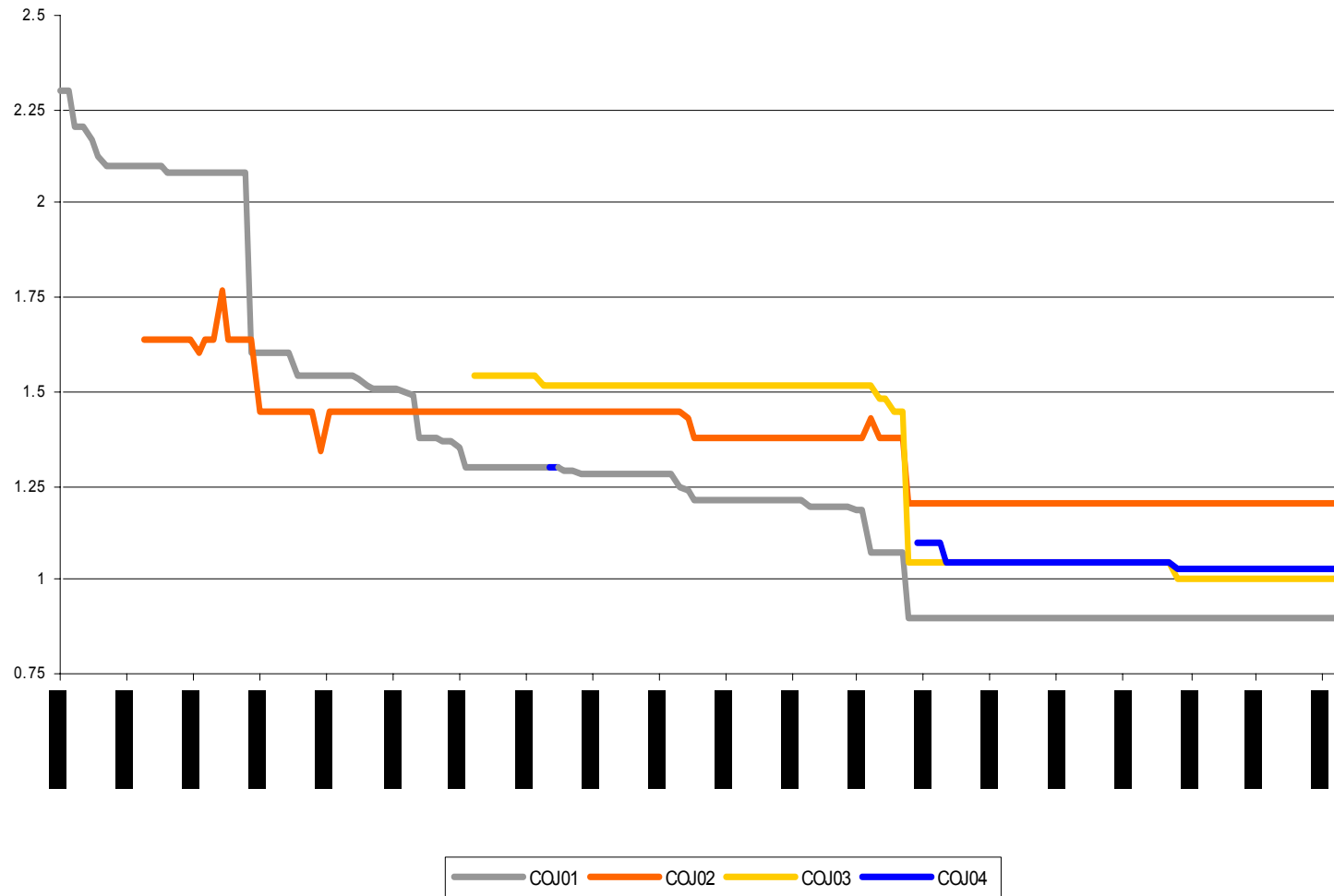


City's bond spreads continue to compress against government comparisons.

Compression compare with other similar rated and similar maturity bonds.

Experience in the Bond Market

City of Johannesburg



The City Issues a Retail Bond

Jozibonds Key Features

- ***Competitive wholesale interest rates for retail investors***
- ***Safe and reliable investment option***
- ***Affordable – minimum investment of R1000***
- ***Liquid investment – can be traded. City of Johannesburg as market maker***
- ***No service or commission charges and no UST (only brokerage and bid offer spread in the secondary market)***
- ***Floating rate instrument:- interest over term of the note adjusts to prevailing interest rate conditions and relatively small interest rate risk (versus fixed-rate instruments)***
- ***Capital ‘guarantee’: note trades at par at reset dates (barring trading costs) and close to par between reset dates***

JOZIBONDS
Everybody wins.

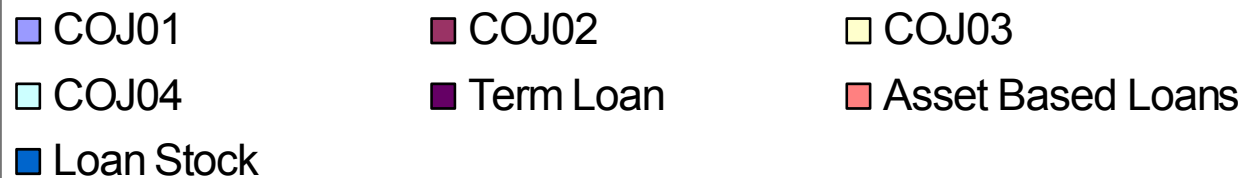
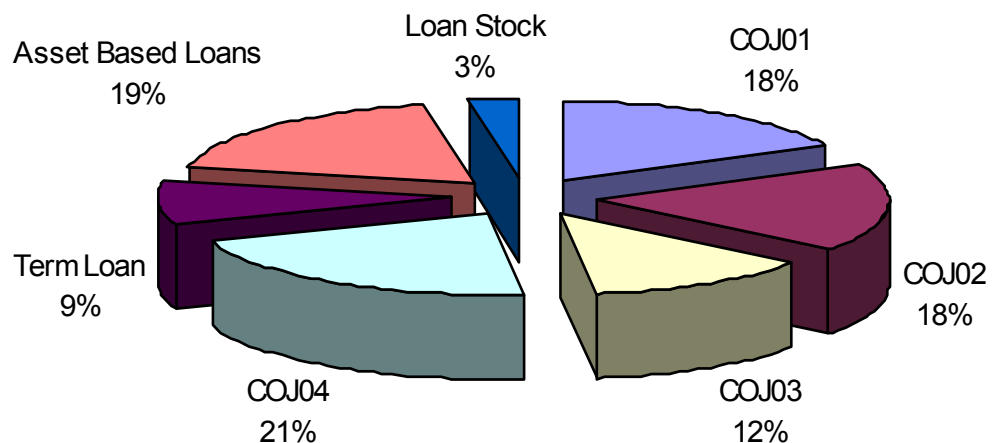
Jozibonds Book build

<i>Tenor</i>	<i>Rand Value</i>	<i>Number of Bonds</i>
<i>2- year</i>	<i>R 8,843,000</i>	<i>8,843</i>
<i>3-Year</i>	<i>R 20,722,000</i>	<i>20,722</i>
<i>5-Year</i>	<i>R 127,300,000</i>	<i>127,300</i>

Secondary Market Trading Performance

- ***Since listing on the JSE Main board in September, there has been over 1000 trades and they have been trading at R1007.53***
- ***Standard Bank has been appointed as market makers to sell and buy Jozibonds on behalf of the City.***
- ***The City's strategy is to tap the 2,3, and 5 year bonds depending on demand and prevailing interest environment***

COJ DEBT STRUCTURE



Lessons learned and Benefits

Why few or no other municipal debt issues

- *Availability of established traditional funding mechanisms such as Bank loans*
- *Lack of real and immediate short-term benefits that can be used as sell points to politicians whose office tenure may be prohibitive*
- *Inadequate skills and expertise at municipal level, where such skills are highly competed for and sometimes unaffordable to municipalities*
- *Lack of credit rating or even credit rating history where such municipalities are rated*
- *Inability to spend and/or slow real capital expenditure growth, resulting with minimum pressure on funding*
- *Very high exposure to single obligor limits and biased loan covenants and yet fewer lenders*

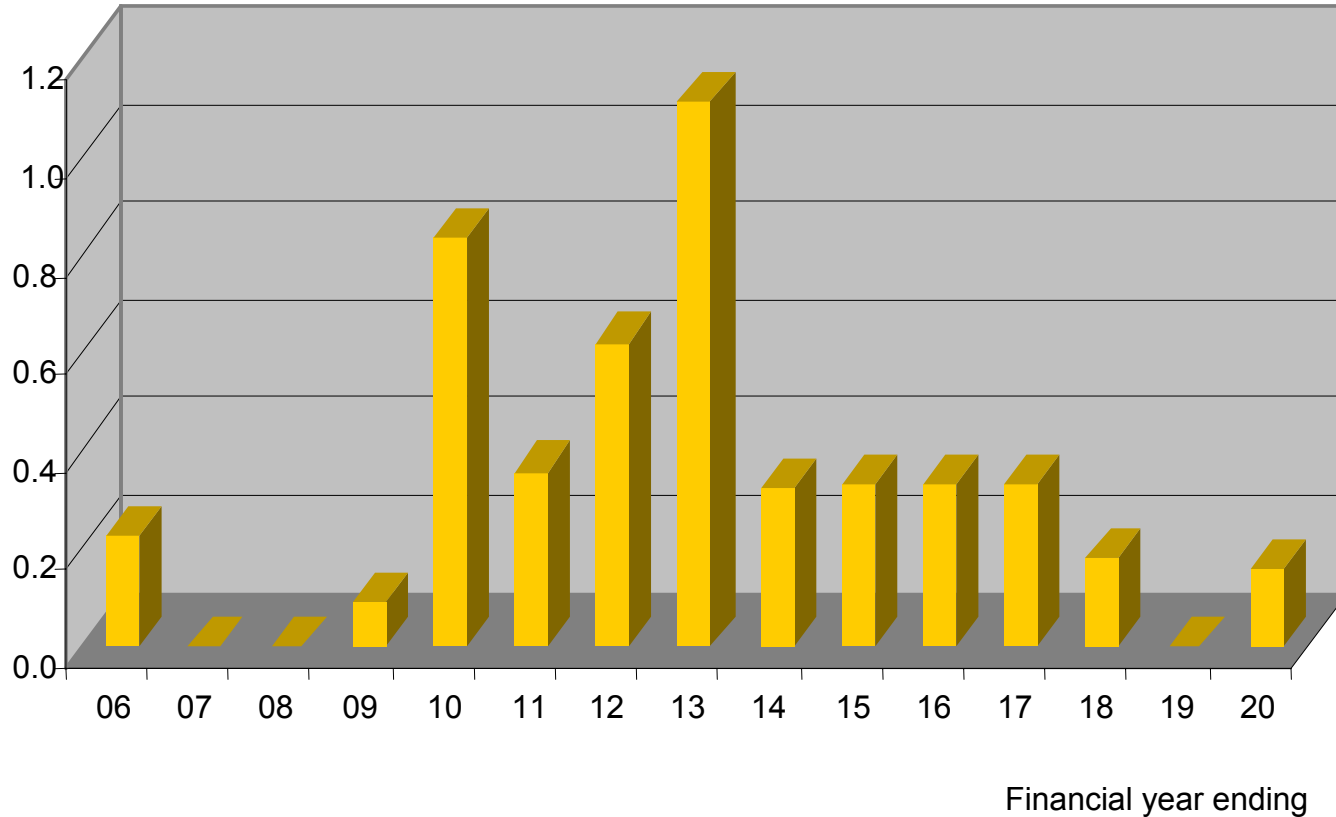
DCM Benefits for the City of Johannesburg

- *The City's bonds are continuing to benefit from the **diversification** offered to investors, being the only muni-bonds currently available in the local DCM;*
- *With the exception of CoJ02 the bonds have displayed strong spread compression since initial issue, rewarding investor participation and further lowering the City's **cost of funding**;*
- *The City has a fairly **optimum maturity profile** of its debt instruments, after initially using bond proceeds to restructure its portfolio;*
- *The City has a **prudent redemption strategy** for its bonds, which includes the use of a "sinking fund";*
- *The City has established its **own credit curve**, which will enable future issues at suitable points on the yield curve*

Example of benefits accruing from the issuances

Current debt (maturity) profile

ZAR billions



The bonds enabled the city to spread its debt maturities

DISCUSSION & QUESTIONS

For more information please visit the following websites ...

- <http://www.Joburg.org.za>
- Joburg Home page
- http://www.joburg.org.za/city_vision/index_plans.stm
- 2030 Vision
- http://www.joburg.org.za/cmu/cmu_uac.stm
- Utilities