



UMGENI WATER

Finance Division	FIN/ TREA/ POL/ 01
POLICY FOR THE SOURCING OF FUNDING	Rev.: 01

POLICY FOR THE SOURCING OF FUNDING

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Originator:		
Senior Manager	Acting Manager: Treasury and financial planning	11/05/2021
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1. PURPOSE AND SCOPE

- This Policy establishes a framework for Sourcing of Funding that is cost-effective, flexible and responsive to Umgeni Water (UW) funding requirements.
- The overall intent is to ensure that the application of this Policy results in all UW's funding requirements are being fully and adequately funded at all times, and that UW's liquidity management is supported, taking into account the constitutional principles of fairness, equitability, transparency and competitiveness in the selection of Potential Lenders that shall provide funding to UW.
- The Policy seeks to ensure that UW has a diversified pool of lenders, thus strengthening competition and market depth.

2. APPLICABLE LEGISLATION & REGULATIONS

- This section 217 of the Constitution requires all organs of state in the national, provincial or local sphere of Government to contract for goods and/or services in a manner that is fair, equitable, transparent, competitive and cost-effective. Accordingly, various statutes were enacted for purposes of establishing frameworks to be followed by organs of state for the procurement of goods and services.
- However, the Constitution and the legislative framework statutes only deal with sourcing of goods and services and do not deal specifically with the Sourcing of Funding by organs of state. Notwithstanding this exclusion, in keeping with the spirit of the Constitution and taking into account the realities of the funding market, this Policy aims to promote the Constitutional principles in the Sourcing of Funding.
- In terms of the section 52 of the Public Finance Management Act (PFMA) - Annual budget and corporate plan by Schedule 3 public entities and government business enterprises which states "The accounting authority for a public entity listed in Schedule 3 must submit to the accounting officer for a department designated by the executive authority responsible for that public entity or government business enterprise, and to the relevant treasury, at least one month, or another period agreed with the National Treasury, before the start of its financial year **(a) a projection of revenue, expenditure and borrowings for that financial year in the prescribed format;** and (b) a

corporate plan in the prescribed format covering the affairs of that public entity or business enterprise for the following three financial years, and, if it has subsidiaries, also the affairs of the subsidiaries.”

- Paragraph 69 of the PFMA provides further details on the Regulations on borrowing by public entities.
- Paragraph 66 of the PFMA provides that UW may only borrow money within a borrowing limit approved by the Minister acting with the concurrence of the Minister of Finance.
- In light of the above, Umgeni Water wishes to implement this policy to govern the sourcing of Funding guided by the principles of fairness, equity, transparency, competitiveness and cost-effectiveness in order to align its operations and business with the spirit and purport of the Constitution.

3. AUTHORITY & RESPONSIBILITY

- The procedure is managed by the Finance division with consultation and input from all divisions of the organization.
- 3.1. Approval and adoption: Board.
- 3.2. Custodian: Chief Financial Officer
- 3.3. Execution: Treasury department

4. DEFINITIONS AND ACRONYMS

- In this Policy, the following words shall, unless otherwise stated or inconsistent with the context in which they appear, bear the following meaning and cognate words shall bear corresponding meaning
- “Board” – means the board of directors of UW, being the accounting authority of UW;
- “CE” – means the Chief Executive of Umgeni Water;
- “CFO” – means the Chief Financial Officer of Umgeni Water;

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- “Commercial Paper” – means the debt instruments issued from time-to-time by UW under the provisions of Project Commercial Paper Programmes as contemplated by Government Notice 2172 (Government Gazette Number 16167) of 14 December 1994;
- “Constitution” – means the Constitution of the Republic of South Africa of 1996;
- “Cost-effectiveness” – means the best achievable combination of costs and utility of the overall funding solution to UW;
- “Cost of funding” – means the internal rate of return calculated by considering the estimated amounts and timing of all cash-flows flowing from the utilisation of funding facilities, including without limitation disbursements, interest payments, debt repayments, fees and other funding costs;
- “DFI” – means development finance institution and “DFIs” shall have corresponding meaning;
- “Directives” – means the directives issued by the Minister to UW
- “DoA” – means the approved Delegation of Authority for UW, as may be amended;
- “Evaluation Committee” – means the committee tasked with evaluating Funding Proposals received from Potential Lenders in accordance with the Evaluation Criteria;
- “Evaluation Criteria” – means the evaluation criteria, which shall be transaction specific and adopted by the Evaluation Committee;
- “Existing Lender” – means any person, organisation or institution who is a lender party to an existing funding arrangement with UW;
- “Funding” – means the procuring of a financial commitment from a financial institution with an obligation by UW to honour the debt and the associated interest payment;
- “Funding Process” – means the process pertaining to the Sourcing of Funding, informed by this Policy and as set out in the Procedure for Sourcing of Funding;

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- “Funding Proposals” – means funding proposals submitted by Potential Lenders to UW in response to the invitation contemplated in paragraph 7 below;
- “Government” – means the national government of the Republic of South Africa;
- “Grant Funding” – means the non-repayable funding from the Government and/or lending institutions towards UW projects;
- “Invitations” – means the invitations issued by UW to Potential Lenders, which invitations shall detail UW’s Funding requirements as well as the Evaluation Criteria;
- “JSE” – means the Johannesburg Stock Exchange Limited;
- “JSE Debt Listing Requirements” – means the JSE Debt Listing Requirements as updated on 31 August 2020, as may be amended;
- “Long-term Funding” – means funding with an original tenure of more than 5 (five) years;
- “MDB” – means multi-lateral development banks and “MDBs” shall have a corresponding meaning;
- “Medium-term Funding” – means funding with an original tenure of a minimum of 3 (three) and a maximum of 5 (five) years;
- “Minister” – means the executive authority responsible for UW;
- “National Water Act” – means the National Water Act No 36 of 1998, as amended;
- “Original Lender” – means the original lending party that has concluded active finance arrangements with UW to the exclusion of its successors, assignees and/or transferees (if any);
- “PFMA” – means the Public Finance Management Act 1 of 1999, as amended;
- “Policy” – means the policy for the Sourcing of Funding contained in this document, as amended, re-stated and replaced from time to time;

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- “Potential Lender” – means any juristic person, organisation or institution that is considered by UW to be a potential lender, acting as a principal and not an agent of a third party, who is not on the United Nations Security Council sanctions list and in good standing with all of its applicable laws in its jurisdiction, for the purposes of Sourcing of Funding and whose appointment shall be subject to this Policy;
- “Preferred Lender” – means any Potential Lender that has undergone and successfully concluded the process under the Evaluation Criteria;
- “Procedure for Sourcing of Funding” – means the guideline procedure for the Sourcing of Funding, dated 06 May 2020;
- “Project Preparation Funding” – means the Sourcing of Funding from the Government and / or any Potential Lender to support project preparation activities of projects;
- “SCM Policy” – means the UW Supply Chain Management Policy for Procurement of General Goods, Services and Works, as amended from time to time;
- “Short-term Funding” – means funding with an original tenure of a maximum of 3 (three) years;
- “Sourcing of Funding” – means the sourcing of funds from Potential Lenders in accordance with this Policy;
- “Standard Bidding Process” – means the bidding process for the Sourcing of Funding, which shall, save as provided otherwise in this Policy, be the default process for the Sourcing of Funding, as fully described in paragraph 8.1 below;
- “Unsolicited Proposal” – means any proposal/concept received by an institution outside its normal procurement process that is not an unsolicited bid (a submission that must be innovative, unique and provided by a sole supplier) as contemplated in National Treasury Note 11 of 2008/2009: Guidelines for institutions dealing with unsolicited proposals/concepts; and
- “Urgent Sourcing of Funding” – means the Sourcing of Funding subject to time constraints, when any of the provisions of this Policy may be waived – in order to avert a possible event of default under existing funding facilities

that could arise if such provisions were followed, or if it would ensure compliance with the timelines specified in a Directive.

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5. POLICY PRINCIPLES

This Policy is based on the following principles:

- 5.1 Transparency: Information pertaining to the requirement for Funding shall be made available to all Potential Lenders without favouring any Potential Lender over another.
- 5.2 Equitable treatment of lenders: UW shall ensure fair and equitable treatment of all Potential Lenders.
- 5.3 Cost-effectiveness (value-for-money): UW strives to achieve cost-effective Funding for all its projects that shall ensure that water users benefit from infrastructure development.
- 5.4 Competitiveness: UW shall follow competitive funding processes unless there are justifiable reasons for Urgent Sourcing of Funding as outlined in paragraph 7.2 below. UW shall also strive to diversify its pool of lenders to strengthen competition and market depth.
- 5.5 Efficiency: An ad-hoc committee shall be appointed and the members of the committee working on each transaction shall be drawn from UW personnel with the requisite skill, experience and capability ensure an efficient process of securing funding for UW projects.
- 5.6 Ethics: All members of committees appointed for each transaction shall abide by the Terms of Reference for such a committee and any breach of ethical conduct shall be dealt with in terms of UW's disciplinary policy.

6. APPLICABILITY

The Policy shall further apply to the following types of funding:

- 6.1 Short-Term Funding
- 6.2 Medium-Term Funding; and
- 6.3 Long-Term Funding.

7. EXCLUSIONS

Save as provided for in paragraph 8.4 below, this Policy shall not apply to:

- 7.1 The Sourcing of Funding through JSE-listed instruments and unlisted Commercial Paper;
- 7.2 Grant Funding; and
- 7.3 Project Preparation Funding.

8. PROCESSES FOR SOURCING OF FUNDING

Sourcing of Funding shall follow one or more of the processes outlined in this paragraph 8. Any process for sourcing of funding that is not consistent with any of the processes listed in this paragraph 8 may only be followed with the prior approval of the Board on a transaction by transaction basis.

8.1 Standard Bidding Process

- 8.1.1 Standard Bidding Process shall commence with an invitation to Potential Lenders to submit Funding Proposals, which invitation shall be published on UW's website for a period of 15 (fifteen) calendar days.
- 8.1.2 To encourage responses from the market, UW may issue written notifications to Potential Lenders which shall include, as a minimum, all the Existing Lenders.
- 8.1.3 Upon receipt of satisfactory Funding Proposals from Potential Lenders, UW shall determine Preferred Lenders in accordance with the Evaluation Criteria.

8.2 Urgent Sourcing of Funding

In the event of an Urgent Sourcing of Funding, the following principles shall apply:

- 8.2.1 UW shall, on an urgent basis and through the issuance of written invitations to a minimum of 3 (three) Potential Lenders (which may include the Existing Lenders), invite Funding Proposals;
- 8.2.2 the invitation to submit Funding Proposals shall not be open to the general public but shall be extended only to the Potential Lenders contemplated in paragraph 8.2.1 above; and

8.2.3 Upon receipt of satisfactory Funding Proposals from Potential Lenders as contemplated in this paragraph 8.2, UW shall determine Preferred Lenders in accordance with the Evaluation Criteria.

8.3 Sourcing of Funding from DFIs and MDBs

8.3.1 UW acknowledges that certain DFIs and MDBs may, as a result of their policies, be precluded from participating in bidding processes, such as the Standard Bidding Process. Accordingly, and in accordance with the Policy principles set out in paragraph 4 above, UW shall also invite Potential Lenders who are DFIs or MDBs to indicate whether they are precluded from participating in bidding processes but would still be interested in funding the project subject to the conditions appearing in paragraph 8.3.10 below.

8.3.2 In the event that a DFI and/or MDB is not precluded from participating in bidding processes, such DFI and/or MDB may participate in the Standard Bidding Process.

8.3.3 UW may enter into direct negotiations with DFIs/MDBs (as case may be) if:

8.3.3.1 such DFIs/MDBs are subject to existing and legitimate rules or policies that prevent them from participating in bidding practices, provided that:

(a) the DFI/MDB can provide evidence or warrant to that effect; and

(b) it has expressed its interest to fund the project in response to UW's request for expression of interest mentioned in 8.3.1; or;

8.3.3.2 the DFI/MDB operates in South Africa under protocols with National Treasury for engaging with SOEs

8.3.4 The direct negotiations with DFIs/MDBs in terms of paragraph 8.3.3 may be followed if the Standard Bidding Process did not yield the desired market response (for example in terms of the amount, maturity, cost or reasonableness of terms and conditions of funding).

8.3.5 UW may also enter into direct negotiations with DFIs/MDBs if it deems that DFIs/MDBs may play a lead role in undertaking project evaluation and due diligence (including internationally accepted social and environmental safeguards standards, as well as project governance, technical, procurement, financial and socio-economic aspects of the project), provided that the DFI/MDB agrees to make the project evaluation and due diligence reports and any other reports which may emanate from its studies in connection with the project, available to other relevant Preferred Lenders.

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- 8.3.6 Without detracting from 8.3.10, for the purposes of paragraph 8.3.5 UW shall approach all Potential Lenders who are DFIs/MDBs, and they may independently or jointly evaluate the project and conduct due diligence provided that they shall all agree to appoint a lead DFI/MDB in relation to the lenders’ monitoring and supervision of the project.
- 8.3.7 The participation of the DFI/MDB under the provision of 8.3.5 shall be capped at 50% (fifty percent) of the required amount of project funding, unless there is insufficient interest from commercial lenders to provide the rest of the Funding.
- 8.3.8 The maximum participation referred to in 8.3.7, above, may be reduced, in UW’s discretion, if the terms offered by the DFI/MDB are no less favourable overall than those which may be obtained from the other Preferred Lenders.
- 8.3.9 UW shall, by written request to a minimum of 2 (two) DFIs/MDBs, request the DFIs/MDBs to furnish UW with term sheets detailing their Funding Proposals to UW.
- 8.3.10 The determination of which DFIs/MDBs shall participate shall be transaction specific and may be based on locality, commencing with local, then regional/continental and ultimately international DFIs/MDBs.

8.4 Sourcing of Funding through conditional Grant Funding or Project Preparation Funding

Grant Funding or Project Preparation Funding which is offered by a Potential Lender subject to conditions that may bind UW to a future financial commitment may be accepted on condition that the Potential Lender agrees to capping the cost of funding of the ensuing funding to the weighted average cost of any other project funding that may be sourced from other Preferred Funders (taking into account the Grant Funding or Project Preparation Funding).

8.5 Unsolicited Proposals

Unsolicited Proposals may only be considered if both the Standard Bidding Process and the process for Sourcing of Funding from DFIs/MDBs have been unsuccessful, or efforts at developing a viable and sustainable project funding model have not been successful, and it is deemed that the Unsolicited Proposal will lead to the development and approval of a viable funding model by National Treasury.

8.6 Government Mandate

Subject to the provisions of the Water Services Act and UW’s status as a PFMA Schedule 3 Entity, which vest the authority to borrow money with the Board, UW may enter into direct negotiations with a potential funder pursuant to a legitimate mandate



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from the Department of Water and Sanitation, the Minister of Human Settlements, Water and Sanitation, and with National Treasury’s concurrence. This could be considered where Government has facilitated funding on behalf of SOEs, including UW. For the avoidance of doubt, UW shall not be under any obligation to conclude or enter into any funding agreement with such potential funder following the negotiations.

9. EVALUATION PROCESSES

Funding Proposals under paragraph 8 above shall be received, evaluated and adjudicated in terms of the administrative process described in the Sourcing of Funding Procedure.

10. GENERAL

10.1 Services related to the Sourcing of Funding, such as structuring, arranging of funding through syndication, market-making or otherwise, which are rendered for a consideration, shall be subject to the SCM Policy. For the avoidance of any doubt, arrangers and agents of the lenders shall be regulated outside the scope of this Policy.

10.2 Underwriting of Funding is considered to be Sourcing of Funding and shall be conducted in accordance with this Policy.

10.3 Refinancing terms concluded under the conditions of each finance agreement shall not be subject to this Policy.

10.4 Assignment and transfers of rights and/or obligations under each finance agreement to third parties shall be governed by the provisions of such finance agreement.

11. RECORDS

Record Name	Responsibility	Location	Archive Period On-site	Archive Period Off-site

12. CROSS-REFERENCE TO OTHER POLICIES/PROCEDURES

- 12.1 Corporate Business Plan
- 12.2 Corporate Business Cycle
- 12.3 Pricing Policy
- 12.4 Business plan process
- 12.5 Treasury policy & control manual
- 12.6 Delegated powers of Authority

13. FLOWCHARTS

Not Applicable

14. ANNEXURES



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Date: xx/xx/xx
2012/2013/#x

Stamp Date

Stamped by Company Secretary