



NATIONAL TREASURY
REPUBLIC OF SOUTH AFRICA



Neighbourhood Development Partnership Grant

NDPG Toolkit (No 1 of 5)
Grant Overview

Version 5
July 2007

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1 What is the NDPG?

1.1 Introduction

The Neighbourhood Development Partnership Grant (NDPG) was announced by the Minister of Finance in his budget speech on 15 February 2006. **The primary focus of the NDPG is to stimulate and accelerate investment in poor, underserved residential neighbourhoods by providing technical assistance and capital grant financing for municipal projects that have either a distinct private sector element or an intention to achieve this.**

The NDPG is structured in the form of a conditional grant to municipalities through the Division of Revenue Act (DoRA), 2007 and is administered by the Neighbourhood Development Programme (NDP) Unit. DoRA stipulates the goal of the NDPG as:

"To support neighbourhood development projects that provide community infrastructure and create the platform for private sector development and that improve the quality of life of residents in targeted areas"

The grant's purpose is therefore:

"To provide municipalities with technical assistance to develop appropriate project proposals for property developments in townships and new residential neighbourhoods that include the construction or upgrading of community facilities, and where appropriate, attract private sector funding & input" (DoRA, 2007)

1.2 Principles

The NDPG is underpinned by four key principles, namely, **Partnership; Innovation, Equity and Community.**

1.2.1 Partnership

Central to the NDPG is the encouraging and fostering of partnerships at all levels – project level, municipal, provincial, regional and national – between key stakeholders in the public and the private sectors. The NDP Unit is of the firm view that the challenges of township development cannot be addressed without a cooperative and coordinated approach between all actors.

1.2.2 Innovation

The programme will continuously identify opportunities for learning and innovation both to further the objectives of the programme but also to support township investment in South Africa more broadly and drive the development of appropriate responses to support investment. In particular the NDP strives to promote the concept and practice of township development and investment, also to municipalities that may not be recipients of the NDPG.

1.2.3 Equity

Key to the Programme is the principle of contribution and ownership. The programme recognizes and strives to ensure local buy-in and contribution (which could be in the form of financial or "sweat equity) of local communities, SMMEs and other local role players.

1.2.4 Community

The central role of the local beneficiary community and their activate consultation and participation is critical to the success of any initiative. Projects should also contribute to an improved sense of place and community. The NDP Unit advocates the adoption of a community-minded approach by municipalities.

2 Why the NDPG?

2.1 Background

The social and economic re-development of South Africa's townships has been identified as a national priority. These areas represent a significant proportion of South Africa's population as well as vast amounts of underutilised social and economic potential.

The primary focus of the NDPG is to stimulate and accelerate investment in poor, underserved residential neighbourhoods by providing technical assistance and capital grant financing for municipal projects that have either a distinct private sector element or an intention to achieve this.

The NDP has its genesis in the recognition that strategic public sector investment in community facilities and places can provide the impetus for sustainable private sector investment and improvement in the collateral value of township properties. Thus the NDP focuses specifically on how this investment can lead to the sustained improvement in the investment desirability of the township.

Box 1: Key Definition: Townships

Townships: The term "township" has no formal definition but is commonly understood to refer to the underdeveloped, usually (but not only) urban, residential areas that during Apartheid were reserved for non-whites (Africans, Coloured and Indian) who lived near or worked in areas that were designated 'white only' (under the Black Communities Development Act (Section 33) and Proclamation R293 of 1962, Proclamation R154 of 1983 and GN R1886 of 1990 in Trust Areas, National Home lands and Independent States).

Although formal segregation ended with the new democracy, many of these township areas as well as other low-income housing areas (such as informal settlements and low-income housing estates) have seen rapid growth.

Consequently target areas include the following:

- Townships that were originally created as separate areas for black people (or Coloured or Indian), generally located on the periphery of towns and cities
- Low-income housing estates, which are generally not fully functional neighbourhoods
- Informal settlements

All these areas are characterized by low levels of community facilities and commercial investment, high unemployment, low household incomes and poverty.

2.2 Key Challenges the NDPG aims to address

The central development challenge the NDP seeks to address is the relative lack of (primarily economic) development in Townships including informal settlements and more recent low-income housing estates.

It is estimated that well over 60% of South Africa's population live in townships, informal settlements and low-income housing developments.

However, broad forward-oriented regeneration and/or redevelopment plans are not in place for these areas. The areas tend to lack both community and commercial infrastructure, such as town centres, nodes, high streets and other economic activity areas which provide places for communities to live, work and play. Also, internal linkages limit internal mobility and hamper access to markets. External linkages to economic centres are either non-existent or very poor. Township environments are usually lacking in quality and can be characterized by pollution, low levels of greening and no 'sense of place'.

Despite their proximity of many townships to the major urban economic nodes, township areas often contain the bulk of the population of the municipalities, yet contribute little to the municipal GGP, and are characterised by minimal and marginalised local economies, with little access to economic opportunities and typically house the greatest percentage of the population in any municipal area.

2.2.1 Socio-Economic Challenges

Typically township areas are characterised by a number of overlapping features:

- **Large concentrations of poor households in both urban and rural locations**
- **High levels of unemployment:** Unemployment is typically higher than national and municipal averages, often in excess of 50%
- **Poorly performing residential property markets:** In a climate of significant property value escalation and activity across in established (predominately “white”) areas, property markets in township areas have lagged and residents have generally not benefited from the national property “boom”
- **Slower household income growth:** Increases in household incomes are typically lower than national and municipal averages
- **Limited income retention:** While townships have significant aggregate local buying power the absence of retail and commercial facilities results in significant leakage from the local economy to other more established urban centres
- **Undiversified and marginal local economies:** Most township area can be characterised as residential reflection the original “dormitory” intentions of Apartheid planners. There is little; commercial, retail or industrial activity. Commercial activity is generally informal, un-diversified and non-competitive
- **Limited private sector investment:** While some exceptions exist (such as Soweto) private sector investment is very low in most township areas
- **Considerable fiscal burden:** Many townships constitute major areas of service backlog with little direct or indirect financial contribution to municipal income

2.2.2 Planning and Investment Challenges

Historically, a number of issues have stood in the way of coordinated public sector planning and investment and its ability to creatively attract private and community investment. While a number of initiatives have been undertaken in recent years, significant development challenges remain:

- The realities of **exclusion by design** which limit investment leverage potential and require significant coordinate resource mobilisation to effect sustainable improvements in people’s quality of life
- The **absence of township, and township nodal development plans and limited municipal capacity to develop integrated projects** contributing to the economic growth of these areas (lack of focus on forward-oriented planning versus backlog-orientation)
- **Limited funding for capital works for public facilities and places** that unlock collateral value of fixed investment and investment potential
- **Low levels of private sector investment**
- **Limited municipal capacity to assemble and align multiple funding sources** in a single large-scale multi-faceted property development project
- **Risk of mismatch between capital investment made and maintenance and operational budgets of municipalities**
- **Focus on inner city metropolitan areas and established business centres** where private investment is easier to attract

3 How does the NDPG work?

3.1 Stimulating Investment

The NDPG has its genesis in the recognition that strategic public sector investment in public facilities, infrastructure and places can provide the impetus for sustainable private sector investment and improvement in the collateral value of township properties.

NDPG funding should thus play a key role in unlocking the resources and initiating the property developments required to transform NDPG target areas into vibrant and economically functional neighbourhoods that are pleasant to live in and provide residents with access to shops, markets, recreational and community facilities, and public transport. Hence, the NDPG does not target poverty alleviation, but hopes to achieve this as one of its outcomes.

3.2 Interventions supported

The NDP Unit and consequently the NDPG supports a number of interventions:

- **Township areas:** The explicit focus of this programme is township areas broadly defined as spatially distinct neighbourhoods that were previously zoned for residential use for non-white people by apartheid-era municipalities. The bias of the programme is towards urban areas and larger populations as these are more likely to satisfy the DORA conditions of attracting private sector investment
- **Strategic economic development projects:** A clear economic rationale should be available for the projects by identifying and quantifying economic opportunities of all financial flows and other impacts of projects. Projects should demonstrate potential to contribute to local economic activity and must be sustainable in the longer-term. Projects must also have reference to a wider township regeneration strategy. Projects can take the form of the development of nodes and/or precincts, of internal and external linkages, and of the general improvement of township environments
- **Land use restructuring:** The NDP has as a principle the promotion of projects that facilitate spatial restructuring, specifically the diversifying of land use away from mono-use (predominantly housing), as well as the promotion of black property ownership
- **Stimulating property markets:** The NDP in its work is intent on stimulating and revitalizing township property markets (including residential) through its investments. The long-term success of the NDP will in part be linked to its ability to mobilize 'dead' capital in residential stock and support the emergence and growth of a secondary property market
- **Purchasing power retention:** The NDP will focus initiatives on retaining an increased share of household purchasing power within township nodes
- **Public sector investment as catalyst:** the NDP envisages public sector investment (whether in the form of capital grants or technical assistance), both NDPG and other sources, as a stimulus to development. The intention is that wide-ranging partnership with all key role-players (including government, communities, NGO's etc.) should be established and multiple-funding sources accessed – not in the least from municipalities as well as the private sector
- **Leveraging non-governmental investment:** One of the NDP's major goals is to attract and increase the level of non-government investment – both private sector, NGOs and community – in township areas. Consequently projects should seek to maximise leverage of non-government funding and should contribute to the creation of an improved investment climate in these areas

- **Ensuring municipal support:** The NDP believes that the success of projects requires the active and full support and involvement of local authorities. Most critically success will depend on local authorities' ability to harness and bring on board private sector and community involvement
- **Kick-starting township regeneration:** The technical assistance can be applied to the development of a broad township regeneration strategy which may have a medium-to-long term implementation horizon. Implementation of the broader strategy can be kick-started with the NDPG capital grant being directed at catalytic projects (e.g. node or nodes, key linkages elements, township environmental improvements)

Box 2: Key Definition: "Private Sector"

"Private Sector": The NDP has as a core principle the mobilisation of private sector investment and support for any of the projects funded.

It is however important to understand "private sector" in its broadest sense. While the NDP aims to coordinate and mobilise multiple sources of public sector funding it equally aims to mobilise non-governmental support and resources.

Such "private sector" resources should not be understood as purely financial, but could include financial, "sweat equity" and other commitments.

The private sector consequently could comprise:

- Formal developers
- Project financiers
- Equity investment funds
- Community investment funds
- Stokvels
- NGOs, CBOs and other community organisations
- Cooperatives
- Any non-government organisation or individual

3.3 Approach

The NDPG aims to address the key causes of limited township development and the consequential lack of opportunities. This will primarily occur by supporting municipalities to design and implement projects, within the context of overarching township regeneration strategies, which attract private sector investment and contribute to the overall social and economic development of townships.

Generally urban projects will be prioritised as the number of beneficiaries and levels of investment by the private sector are likely to be higher thus better enabling these projects to attain the NDPG's goals. However rural projects will also be funded where appropriately motivated.

In particular the programme may seek to support projects already located within, or supported by, other key national and local initiatives such as the URP to more effectively harness all available funding and resources in order to maximise impact.

Overall it is important to acknowledge that the NDPG on its own can only have a limited impact on the overall challenge of township development, hence the emphasis on drawing in public and private sector partners where possible.

3.4 NDPG Target Areas

NDPG target areas include the following:

- **Townships** that were originally created as separate areas for Black people (generally those without franchise prior to the 1994 elections), or Coloureds or Indians. Typically these represent dormitory suburbs, located on the periphery of towns and cities (and may also be located in rural areas), and whose development as full functioning neighbourhoods was curtailed

- And, also:
 - New, post 1994 (generally), RDP **housing and low-income housing estates**, which have often repeated the same planning and locational patterns of the dormitory townships and which have not had the time and/or resources to develop their status as fully functional neighbourhoods
 - **Areas and town centres** which, although previously demarcated homeland areas under Apartheid, are populated mainly by Black people and low-income communities
 - **Informal settlements**

All NDPG target areas are characterized by low levels of community facilities and commercial investment, high unemployment, low household incomes and poverty. Note that the term 'township' is used herein and is deemed to include all NDPG Target Areas.

NDPG Target Areas include any of the above in all Metropolitan Councils, District Councils and Incorporated Local Municipalities.

3.5 Funding and Eligibility

3.5.1 Types of Funding Available

There are two categories of funding available under the NDPG – namely, funding for Technical Assistance (TA), and Capital Grant (CG) funding.

3.5.2 Technical Assistance Fund

It is envisaged that TA will play a critical role in assisting municipalities in three ways.

1. In the preparation of township development strategies and plans, and the identification of projects to support township regeneration within the context of an overall plan.
2. In the development of a business case for identified projects (including preparation of feasibility studies and business plans, etc.) for release of the capital grant funding in line with the aims and strategic intent of the NDPG.
3. By providing funding for training, capacity building, facilitation, project management and knowledge management in the context of supporting capital investment (i.e. in combination with capital grant funding).

In the first instance, the TA component of the NDPG may be accessed and used by the municipality to undertake an assessment of possible projects wherein investment in public facilities, spaces and places could potentially result in the leveraging and/or partnering of private sector investment. In other words, TA could be used by a municipality to determine whether there are sufficient grounds to pursue with a more detailed project proposal.

Where a municipality already has grounds to believe that a capital funded project of the sort envisaged under the NDPG is feasible (either by having done a feasibility study of the sort envisaged above, or through other strategic planning processes), TA could be accessed to be used for the development of a detailed project proposal or business case for capital grant funding and implementation.

Given that the NDPG represents a new approach by a government grant, it is important that municipalities do not submit Capital Grant registrations if they cannot illustrate how this converges with the strategic intent of the fund. In such instances it would thus more appropriate for municipalities to seek Technical Assistance in framing their Capital Grant registrations so that these are properly considered and motivated in terms of the NDPG.

In the context of actual project implementation, TA may also be used for project management during the course of the project, and the close-out phase of the project (particularly for building capacity within the Municipality for ongoing management).

The approach of the NDP Unit is to work in partnership with municipalities that qualify, to undertake project preparation. From here the next step is to define the key opportunities and priorities and build a business case that details all aspects of the project and NDPG and other funding streams required.

3.5.3 Capital Grant Fund

The Capital Grant (CG) funding component of the NDPG will be used to cover the capital, maintenance and operational costs (only in the short-term and if required in terms of the business case) associated with the implementation of projects, programmes and strategies identified for funding. This component of the NDPG will be accessed by municipalities who submit a Business Plan. The size of CG allocations will vary depending on the nature and scope of the project. It is expected that the average project size will be in the R30m to R100m range, although projects may be significantly larger, or smaller.

Aspects to be covered by the CG include:

1. Capital funding to construct, purchase, refurbish and re-utilise any public facilities or places.
2. Funding associated with implementing any of the above (e.g. marketing and information campaign associated with a new development initiative as a central component of its successful implementation – like attracting additional investors) (this may be funded through the TA fund).
3. Medium-term (less than one year) operational and maintenance expenditure associated with the implementation of new or innovative approaches (this may be funded through the TA fund).

3.5.4 Types of Projects and Eligibility

One of the key objectives of the NDPG programme is to fund public infrastructure, places and facilities that will attract private and community sector investment and enable better access to government services, within the context of an overarching township regeneration strategy. Examples of such projects include, but are not necessarily limited to, the development of the following:

- Nodal and/or precinct projects
- Linkage projects (internal and/or external)
- Environmental Improvement projects

In each instance the key focus is not necessarily on the facilities themselves, but how the investment both addresses a need and contributes to the economic and social development prospects of a node or neighbourhood), and may leverage investment from public and private sectors. CG can be directed, for example to:

- Public transport interchanges and linkages
- Libraries as hubs of information, education and e-government
- Tourism precincts
- Heritage, cultural, social, and traditional amenities and/or precincts
- Sports precincts (providing it can be demonstrated to fulfill a critical community and economic role in the township)
- Educational precincts
- Revitalisation of existing nodes/centres/precincts/high streets/economic activity centres
- Multi-Purpose Community Centres (MPCCs), including town halls and youth centres
- Informal trading facilities
- Any element that may be required in order to secure private sector investment, providing it can form part of the project, and can be demonstrated to be instrumental in securing that investment into the project area

NOTE: The NDPG funds can only be utilised in respect of the capital grant component at elements that local government normally supplies. However, TA can be provided to prepare the framework for the investments to be made by other spheres of government and the private sector. NDPG funds should compliment, not duplicate, other sources of funding (e.g. MIG, PIG, PTIF, and so forth).

It is important that, where single facility funding applications are made, these make reference to a broader development framework so that the project may contribute to a critical mass. If this approach is not adopted by the municipality, the project is unlikely to be ranked highly in the evaluation process.

3.5.5 Conditions of NDPG

The NDPG funds will not be allocated as one lump sum. Funds will be disbursed according to agreed milestones as set out in the Business Case for the project.

Projects will only receive NDPG funds on the basis of a council resolution. For the purposes of initial registration, an 'in principle' support from the City Manager will be sufficient.

In terms of the institutional mechanisms, the Project Manager for each NDPG project must report directly to the Municipal Manager (or via the NDPG Coordinator who will have the mandate to report directly to the Municipal Manager).

The Municipality receiving the NDPG will be responsible for:

- Project Management of the project
- Procurement of relevant services, in line with MSA and MFMA compliant procurement procedures
- Creation and management of partnerships with the private sector and other players

Failure to comply with NDPG conditions may result in withholding of further funds and/or return of funds to the NDPG.

In funding any project, the National Treasury reserves the right to put a project under direct administration of the NDP Unit should the project and/or municipality fail to comply with conditions or display problems in managing the project.

National Treasury reserves the right to modify, refine and structure evaluation criteria at its discretion if, in its opinion, this will result in better projects and outcomes.

3.5.6 Who can apply?

The NDPG is a resource to municipalities that will enable them to put human, physical and environmental resources and infrastructure in place that will enable the private sector to invest with reduced risk and in a positive physical setting. The funding will enable the municipality to work with locally-owned businesses and entrepreneurs in jointly developing investment opportunities. Applications may **only be submitted by a municipality**.

3.6 Evaluation

3.6.1 NDPG Evaluation Criteria

A NDPG Reference Group, internal to National Treasury represents the key screening mechanism and it will recommend funding on a discretionary basis, according to available budget.

Applications for NDPG funding compete with other applications on the following basis, inter alia:

- Whether the area is a township
- Whether there is Council support for project
- Whether there is a prospect for a partnership with the private sector
- Whether the project is in alignment with national and provincial initiatives and priorities

- Whether the project has a large catchment area reinforcing the possibility of private sector investment
- Whether there is a potential to create the critical mass of both commercial and community facilities and amenities that the NDPG requires
- Whether the project is ready to implement
- Whether the project is sustainable at all stages of its life cycle
- Any criteria as amended by the National Treasury from time to time

3.7 NDPG Disbursement Mechanisms

3.7.1 Funding Agreement

If a project is adopted by National Treasury and included in its portfolio of NDPG projects, the Municipality will be obliged to enter into a Funding Agreement with the National Treasury for the lifecycle of the project.

3.7.2 Disbursements for Technical Assistance

Progress payments are made directly to consultants (as appointed by the municipality for the project) by the National Treasury, upon receipt of municipality-verified invoices by the National Treasury on a monthly basis.

3.7.3 Disbursements of Capital Grant

Quarterly advances are made to the municipality by the National Treasury for the payment by the municipality to a Contractor in terms of any Payment Certificates or similar.

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