

# Tshwane free wi-fi project provides model for social impact bond

A free Wi-Fi project that has successfully taken root in Tshwane could set the pattern for social impact bonds in South Africa in which the private sector guarantees delivery of services and the public sector guarantees payment and commercial funding is accessed upfront from the financial markets.

## Social impact bonds



Social impact bonds are a form of innovative funding that gives service providers, including nonprofit organisations, access to upfront resources to tackle social problems by tapping private funding to cover the upfront costs of social programmes approved by government institutions.

Kasief Isaacs, the portfolio manager for infrastructure investments at Mergence Investment Managers, says that Mergence has recently provided financing to Project Isizwe to accelerate the roll-out of a free Wi-Fi project supported by the Tshwane Municipality. Project Isizwe is a hi-tech non-profit organisation headquartered in Stellenbosch which was also responsible for rolling out that city's free WiFi project from 2013 to 2015.

"Mergence Investment Managers seeks to invest in projects that will make a social impact as well as provide a competitive return for our institutional clients. The social impact of free WiFi in lower income areas has been well documented; indicating on average that every 10% increase in broadband penetration increases a country's GDP per capita by 1.28%, employment by 0.28% and facilitates the growth of small and medium sized enterprises," Isaacs says.

## Connecting Tshwane

The first phase of the Tshwane Municipality free Wi-Fi project launched in November 2013 with five sites and a capacity of 25,000 users spread across five locations in Soshanguve, Mamelodi and Atteridgeville. Phase two with a further 213 sites was launched in mid-2014 while phase three, currently underway, will take the total number of sites to over 600, connecting over 700,000 users. Tshwane executive mayor Kgosientso Ramokgopa in his state of the capital address on 14 May said the intention was to provide every citizen of Tshwane - potentially two million people - with free Wi-Fi within walking distance by the end of 2016.

## The Project Isizwe business model

The Project Isizwe business model revolves around obtaining government funding for the installation of free public Wi-Fi zones located in low-income communities. The high cost of bandwidth is reduced using local service providers and partnerships with companies such as Neotel. Isizwe works with the owners and managers of fibre networks to give access to low-income communities and geographically diverse areas which are viewed as uneconomical by many for-profit providers and telecommunications companies.

## Funding and investments

According to Isaacs, Mergence's involvement in the Tshwane free Wi-Fi project is to provide capital to businesses that are aligned with the investment objectives of institutional clients. The investment allows Isizwe to accelerate the Wi-Fi roll-out by funding the interim outlay of capital necessary to speed up deployment while allowing the flow of money from the municipality to proceed as agreed outcomes are achieved.

"Most importantly, the funding significantly reduces the risk for the municipality, enabling a demonstrable shift towards an outcomes-based procurement model", says Isaacs

Zahir Khan, chief operating officer of Project Isizwe, says: "Some municipalities have been burnt through non-delivery and misallocated spending. Through the private sector - or non-profits such as ourselves - a combination of service delivery guarantees and upfront funding from the commercial sector can ensure payment by a government only upon successful outcomes."

"The Mergence investment represents a key building block for Project Isizwe accessing commercial funding (from fund managers) and the financial markets to help raise capital for further roll-out of the Tshwane project. Over the long term we could develop a funding and deployment model, in the form of a social impact bond, for similar Wi-Fi projects in other municipalities across South Africa and potentially into the wider African market."

"This model could be used to support the national broadband roll-out envisaged by government and Telkom, with fibre as the backbone and municipal Wi-Fi as the last mile (meaning the process used to connect the end user to the communications network)," he says.

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