Economic Development is at the centre of the provincial strategy, Broadband is a key enabler of this strategy

“Economic development is key to addressing the many challenges facing the Province. Strategies adopted must subscribe to the paradigm that there cannot be development without economic growth”

1. Increasing opportunities for growth and jobs
2. Improving education outcomes
3. Increasing access to safe and efficient transport
4. Increasing wellness
5. Increasing safety
6. Developing integrated and sustainable human settlements
7. Mainstreaming sustainability and optimising resource-use efficiency
8. Increasing social cohesion
9. Reducing poverty
10. Integrated service delivery for maximum impact
11. Increasing opportunities for growth and development in rural areas
12. Building the best-run regional government in the world

Cost Efficiency
Increased Effectiveness & improved Government Service Delivery
Economic and Social Development

Western Cape Government
Economic Development and Tourism
Problem Statement
Government Efficiency & Effectiveness

Government is scattered all over the province.

However each level of government runs its own systems and networks - many of which do not meet business requirements and are not properly integrated.

Leads to duplication of expenditure and sub-optimal usage of public funds (i.e. extremely costly)

Processes are largely paper based which is labour intensive, prone to error and information cannot be shared – prevents effective service delivery
Problem Statement

Economic Development

Internet Penetration in Africa
2009 Second Quarter

Africa
6.7%
World Avg.
24.7%
Rest of World
27.7%

Penetration (% Population)

65,603,900 estimated Internet users in Africa for June 2009
Copyright © 2009, Miniwatts Marketing Group

Internet Penetration in Africa
March 31, 2011

Africa
11.3%
World Avg.
30.2%
Rest of World
33.5%

Penetration (% Population)

Source: Internet World Stats - www.internetworldstats.com/stats1.htm
118,605,620 estimated Internet users in Africa for March 31, 2011
Copyright © 2011, Miniwatts Marketing Group

Africa Top 10 Internet Countries
June 2009

Egypt
12.6
Nigeria
11.9
Morocco
10.3
South Africa
4.6
Sudan
3.8
Algeria
3.5
Kenya
3.4
Tunisia
2.8
Uganda
2.5
Zimbabwe
1.4

Millions of Users

Copyright © 2009, Miniwatts Marketing Group

Africa Top Internet Countries
March 31, 2011

Nigeria
44.9
Egypt
20.1
Morocco
13.2
South Africa
6.8
Algeria
4.7
Sudan
4.2
Kenya
4.0
Tunisia
3.6
Uganda
3.2
Zimbabwe
1.4

Millions of Users

Source: www.internetworldstats.com/stats1.htm
Copyright © 2011, Miniwatts Marketing Group
Finding:
Status Quo “As is”: Provincial Spend 2009/10 & 2010/11 (Rm)

Total telecom spend for 2009/10 was R198.6m and was down to R183.3m in 2010/11

Findings:
Status Quo “As is”: Big ticket items

Source: National Treasury, BMI-T analysis
Findings: Gap: Connecting Government

Around 4,000 unique government building facilities in the Western Cape

Less than 20 PGWC and around 50 CoCT and 50 municipal sites are connected at true speeds of 10Mb/s or more

Current plans include transitioning 76 PGWC buildings in CBD to CoCT fibre and 2 more hospitals to 10M

Hence less than 3% of government buildings meet the 2014 targets and the resultant gap is > 97%

It is crystal clear that without intervention by the PGWC, the gap within the Western Cape will remain large while the gap between us and the RoW will widen.
Findings:
Status Quo “As is”: Municipal Telecom Expenditure

Total spend for 2009/2010 was around R175m.

CoCT alone accounted for R117m of this i.e. 66.9%

However there is a low spend on data services (mainly voice). Limited use of ICT solutions

Extensive use of wireless (mainly WiFi) and some use of fibre to interconnect buildings

Large degree of self-reliance on internal resources but there are shortcomings and limitations

Significant gap between highest and lowest levels of built infrastructure

Keenness and willingness to learn to implement systems

<table>
<thead>
<tr>
<th>Range</th>
<th>Municipalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;R5m</td>
<td>Drakenstein, Saldhana Bay, Stellenbosch, Overstrand</td>
</tr>
<tr>
<td>&gt;R2m</td>
<td>Eden DM, Cape Winelands DM, Breede Valley, Knysna, Hessequa, Theewaterskloof</td>
</tr>
<tr>
<td>~R1m</td>
<td>Balance (20 DMs &amp; LMs)</td>
</tr>
</tbody>
</table>
Stage of rolling out Municipal network and Reasons for not building a network

Stage of rolling out Municipal network
- Rolled out, 62%
- Rolling out, 15%
- Discussions, 23%

Reasons for not building a network
- Not necessarily: 27%
- Too complex: 9%
- Too expensive: 45%
- Too busy with day to day matters: 27%
- Not been instructed to investigate: 0%
- Other: 9%
Level of support for building a Provincial network

Attributes municipalities would consider when deciding to move to the PGWC broadband network

- Network reliability: 15% not important, 38% important, 40% very important
- Security of service: 15% not important, 38% important, 40% very important
- Customer service: 27% not important to very important, 38% important, 35% very important
- Faster upload speeds: 27% not important, 38% important, 35% very important
- Faster download speeds: 27% not important, 38% important, 35% very important
- More bandwidth: 27% not important, 38% important, 35% very important
- Cheaper prices: 8% not important, 27% not important to important, 62% important

Western Cape Government Economic Development and Tourism
Calling destinations

<table>
<thead>
<tr>
<th>Department</th>
<th>Other departments with the PGWC</th>
<th>National</th>
<th>To municipality</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universities</td>
<td>35</td>
<td>10</td>
<td>8</td>
<td>50</td>
</tr>
<tr>
<td>Social Development</td>
<td>28</td>
<td>14</td>
<td>15</td>
<td>62</td>
</tr>
<tr>
<td>Justice</td>
<td>31</td>
<td>15</td>
<td>12</td>
<td>44</td>
</tr>
<tr>
<td>Home Affairs</td>
<td>35</td>
<td>31</td>
<td>12</td>
<td>32</td>
</tr>
<tr>
<td>Health Hospital</td>
<td>50</td>
<td>15</td>
<td>13</td>
<td>38</td>
</tr>
<tr>
<td>Health Clinic</td>
<td>44</td>
<td>13</td>
<td>20</td>
<td>41</td>
</tr>
<tr>
<td>Education (excl. Universities)</td>
<td>34</td>
<td>16</td>
<td>11</td>
<td>50</td>
</tr>
<tr>
<td>Economic Development</td>
<td>21</td>
<td>12</td>
<td>31</td>
<td>48</td>
</tr>
<tr>
<td>Municipality</td>
<td>20</td>
<td>13</td>
<td>18</td>
<td>55</td>
</tr>
<tr>
<td>Culture and Sport</td>
<td>32</td>
<td>13</td>
<td>16</td>
<td>50</td>
</tr>
<tr>
<td>Police</td>
<td>26</td>
<td>19</td>
<td>18</td>
<td>56</td>
</tr>
<tr>
<td>Community Safety (excl Police)</td>
<td>36</td>
<td>16</td>
<td>29</td>
<td>48</td>
</tr>
<tr>
<td>Agriculture and Environment</td>
<td>20</td>
<td>47</td>
<td>11</td>
<td>27</td>
</tr>
<tr>
<td>Average</td>
<td>34</td>
<td>18</td>
<td>18</td>
<td>46</td>
</tr>
</tbody>
</table>
Findings:
Connecting Communities: Gap

International metric & Statistic SA data – +/- 1,500 to 2,700 Telecentres needed
National Target - Public ICT Access within a 2 km radius of anyone by 2019
– implies much more than 2700.

Not achievable, affordable or sustainable in PGWC context. Therefore as phase 1, chose wards (386)

In the Metro, there are 44 (of the 110) wards that do not have libraries, so do not have Smart Cape (public ICT facilities)
Other districts (and municipalities reflected left
Gap across Western Cape on wards = 44 + 189 = 233
Represents 60% of all wards

Also note that this figure represents new facilities. It does not represent facilities that have to be upgraded to bring to standard or facilities that need to be expanded.
Connecting Households Gap
Relative household Internet distribution gap in City of Cape Town

-14% Gugulethu
-8% Mitchells Plain
-5% Kuilsrivier / Belhar
-5% Athlone
-2% Retreat
-1% Parow / Goodwood
1% Houtbay
2% Milnerton
4% Constantia
4% Noordhoek
5% Belville / Durbanville
7% Seapoint / Camps Bay
11% Southern Suburbs

Source: ROOTS 2010 survey. Note no data available for Khayelitsha
Findings: Connecting Business Gap

<table>
<thead>
<tr>
<th># countries measured</th>
<th>172</th>
<th>172</th>
<th>64</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td></td>
<td>9.34</td>
<td>3.41</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Download speed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rank</td>
<td>172</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mbps</td>
<td>50.16</td>
<td>27.66</td>
<td>23</td>
</tr>
<tr>
<td>Estonia</td>
<td>2</td>
<td>31.44</td>
<td>27.52</td>
</tr>
<tr>
<td>S. Korea</td>
<td>3</td>
<td>34.85</td>
<td>9.36</td>
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<tr>
<td>Sweden</td>
<td>7</td>
<td>24.48</td>
<td>6.67</td>
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<tr>
<td>Netherlands</td>
<td>8</td>
<td>22.92</td>
<td>12.28</td>
</tr>
<tr>
<td>Singapore</td>
<td>10</td>
<td>12.02</td>
<td>1.74</td>
</tr>
<tr>
<td>US</td>
<td>42</td>
<td>9.92</td>
<td>1.23</td>
</tr>
<tr>
<td>Canada</td>
<td>51</td>
<td>7.48</td>
<td>6.54</td>
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<tr>
<td>Ghana</td>
<td>80</td>
<td>4.22</td>
<td>4.65</td>
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<tr>
<td>Rwanda</td>
<td>84</td>
<td>4.88</td>
<td>2.16</td>
</tr>
<tr>
<td>Kenya</td>
<td>86</td>
<td>3.87</td>
<td>1.02</td>
</tr>
<tr>
<td>South Africa</td>
<td>106</td>
<td>2.81</td>
<td>1.06</td>
</tr>
</tbody>
</table>

Businesses in the Western Cape experience far lower broadband speeds and face far higher broadband costs than many of their international competitors, impacting on their overall competitiveness and strategic possibilities.
Findings: International Connectivity
Precedent: What Tenet achieved

Non-Profit-Company connecting 120 campuses of 53 R & E institutes in South Africa.

Network connects to the SANReN, Telkom and Neotel.

10Gb/s link to Europe (IRU from SEACOM)

Opex budgets of R&Es, DBSA loan FETs and Schools could benefit

From R60k → R15k → R2k per Mb/s
Infrastructure development is a key catalyst and that Government’s role has to be to facilitate and drive the development of telecommunications infrastructure in the province.

National Targets
- Universal broadband access by 2020
- Public ICT Access within a 2 km radius of anyone by 2019

2014
- 70% government buildings & 100% of public schools connected.
- All communities have access to public ICT facilities (in every ward)
- Large government buildings and specific targeted industries in the metropolitan area are connected via “fibre to the premises”.

2020
- Every citizen in every town and village has access to affordable broadband infrastructure.
- Citizens in the metropolitan area have access to affordable broadband infrastructure at network speeds in excess of 100Mbps.

2030
- Every citizen in every town and village has access to affordable broadband infrastructure at a minimum network speed of 1000Mbps.
Recommendations - 8 core projects

Connected Leadership
- Broadband Advisory Council
- Broadband Programme Office
- Manage & Direct ensuring integration & synergy
- Monitoring & Evaluation

Connected Government
- Part 1: Build Provincial backbone
  - Phase 1, Phase 2 & Phase 3
- Part 2: Connect government facilities (via building municipal infrastructure)

Connected schools
- Connect all schools in by 2014
- Utilise schools network as a basis for connecting other government facilities & for connected communities

Connected Communities
- Phase 1: ensure that there is at least one public ICT access facility in every ward by 2014, so all communities are serviced.

Connected Household
- Create a wireless mesh networks as a “last mile” open access network connecting all households in Khayalitsha/Mitchells Plain and Saldana

Low cost computing
- Seeding the environment with low cost computing devices
- Refurbishment and pilot other low cost devices (esp. in schools)
- E-Waste

Connected Business
- connecting of businesses directly into the City’s fibre backbone
- Creating high speed “cloud based” services hub

Connecting to the world
- Reduce international bandwidth costs by using government as a demand aggregator & anchor client
Timeline with significant milestones

- **2012/13**
  - Broadband Programme commences with key task of establishing PMO with capacity to drive programme (April 2012). Only interim capacity at this stage.
  - Connecting Schools starts by mid 2012
  - Stakeholder Management & Marketing
  - Project Initiation / Startup activities
  - Analysis, Solution Design & Solution Development
  - Solution Deployment
  - Post implementation Activities
  - Connecting Households
  - Stakeholder Management & Marketing
  - Project Initiation / Startup activities
  - Khayelitsha & Mitchell’s Plain Backbone Network construction
  - Khayelitsha & Mitchell’s Plain Wireless Mesh

- **2013/14**
  - Fibre backbone to K/MP – run by City of Cape Town, commenced March 2012
  - Khayalitsa & Mitchell’s Plain Wireless Mesh
  - Refurbishment Centre
  - E-Waste Management Centre
  - Low cost computing devices
  - Connecting Business

- **2014/15**
  - Connecting to the World
  - PMO formally open on 2 July 2012
  - Connecting Schools complete March 2014
  - Connecting Communities completed by Jan 2014
  - Wireless Mesh Deployment starts in first quarter of 2013
  - Wireless Mesh network live by March 2014
  - Open Access ISP (lower cost international connectivity by mid 2012)
  - Various activities needed before anything else can happen, tenders, etc.
  - Phase 1 complete March 2014
  - Phase 2 complete end 10/2014
  - Phase 3 complete end 2/2016
  - Phase 4 (municipalities) on-going
  - Schools connected by March 2014

- **2015/16**
  - Various activities needed before anything else can happen, tenders, etc.
Institutional model - BWired Case Study

- A ringfenced special purpose vehicle (spv) will be needed for the implementation of this programme.
- There is already a National Treasury approved model that we could learn from.

Largest gov. funded fibre network in SA: R4.185bn over 15 yrs

Not a PPP, section 33 of MFMA approved by treasury

Salient points:
1. 15 year contract: 3yr build and 12yr operate & renew
2. Capitalised cost = R1 billion (Start up costs R152m)
3. Build operate and transfer (BOT) with extension
4. R279 m/pa fee (off take) for 15 yrs
5. No real CBA- argued fully on a ‘cost replacement process
6. “Aggregated demand” of R382m pa versus R279m pa thus a ‘saving’ motivation
Official agreement: Joburg pays Ericsson R279m/pa for 15 years (OPEX) R4.185Bn

BWIRED Business Model

City of Joburg

Ericsson

Official agreement: Joburg pays Ericsson R279m/pa for 15 years (OPEX) R4.185Bn

Operate Agreement

Services

"Royalties"

Fin SPV

BWIRED

External market

Services

Revenue

Debt facility

Debt service

Funders

R1 billion

Off take agreement as security
PGWC Potential Business Model and Key Role Players

Wholesale Service providers – Government and Private Sector

Western Cape Municipalities

Licenced Telcoms Service providers

PPP/ SPV

Broadband Western Cape

Services

Operating agreement i.e. Aggregated demand, Off take agreement & grants

“Royalties”

Revenue

Services (open access basis)

Revenue

Debt facility

Debt service

Funders

Commercial Banks

DBSA/IDC

Others

Consumers and Businesses

Purchase/ rent existing Infrastructure & Services (where affordable)

Other possible partners

Green indicates money flow

Grey indicates service flow
Stepped Approach (linked to Funding approach)

**Step 1: Startup activities (Broadband Programme Office)**
Set up Broadband Programme Office to get the programme off the ground. Drive the creation of the Broadband Leadership Council, Start and co-ordinate initial programmes (Schools connectivity, wireless mesh, connecting PGWC building, connecting communities, etc.), advocacy, investigate & setup SPV. Funded by PGWC MTEF funding.

**Step 2: Migrate to SPV**
SPV based on cost replacement business case motivation. Also leverage EPWP and Municipal Contributions. Funded on the basis of long term contact from PGWC. Will drive the creation of Provincial Fibre backbone (Phase 1 & Phase 2).

**Step 3: Leveraging Private Sector and social investment the basis of funding**
Incorporate SPV into either a Public Entity or PPP if required. A Transaction Advisor (TA) must be appointed with Treasury. Private sector commitment added to the funding mix – increased capital leverage for Phase 3.
## Consolidated Budget (Capex & Opex)

### Cost in Millions

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Connected Leadership</td>
<td>R 30</td>
<td>R 33</td>
<td>R 36</td>
<td>R 40</td>
<td>R 44</td>
<td>R 48</td>
<td>R 53</td>
<td>R 58</td>
<td>R 64</td>
<td>R 71</td>
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<tr>
<td>Connected Government</td>
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<tr>
<td>Provincial Backbone (Fibre)</td>
<td>R 84</td>
<td>R 240</td>
<td>R 327</td>
<td>R 441</td>
<td>R 465</td>
<td>R 116</td>
<td>R 115</td>
<td>R 114</td>
<td>R 114</td>
<td>R 113</td>
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<tr>
<td>Access Network (Municipal network support)</td>
<td>R 99</td>
<td>R 194</td>
<td>R 195</td>
<td>R 194</td>
<td>R 147</td>
<td>R 146</td>
<td>R 147</td>
<td>R 146</td>
<td>R 147</td>
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<tr>
<td>Connected Communities</td>
<td>R 36</td>
<td>R 36</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Connected Households</td>
<td>R 15</td>
<td>R 30</td>
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<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Low Cost Computing Devices</td>
<td>R 10</td>
<td>R 10</td>
<td>R 10</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Connected Business</td>
<td>R 10</td>
<td>R 10</td>
<td>R 7</td>
<td></td>
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</tr>
<tr>
<td>Connecting to the World</td>
<td>R 10</td>
<td>R 24</td>
<td>R 29</td>
<td>R 28</td>
<td>R 27</td>
<td>R 26</td>
<td>R 24</td>
<td>R 24</td>
<td>R 24</td>
<td>R 25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>R 294</td>
<td>R 576</td>
<td>R 604</td>
<td>R 702</td>
<td>R 683</td>
<td>R 339</td>
<td>R 343</td>
<td>R 349</td>
<td>R 355</td>
<td></td>
</tr>
</tbody>
</table>

### Other related activities & funding

<table>
<thead>
<tr>
<th>Activity</th>
<th>FY2012</th>
<th>FY2013</th>
<th>FY2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connecting CEI buildings to City fibre (CEI funded)</td>
<td>R 19</td>
<td>R 19</td>
<td>R 19</td>
</tr>
<tr>
<td>Connected Schools (WCED Funded)</td>
<td>R 35</td>
<td>R 35</td>
<td>R 35</td>
</tr>
<tr>
<td>City fibre (funded by City)</td>
<td>R 70</td>
<td>R 45</td>
<td>R 45</td>
</tr>
</tbody>
</table>

Important to note that this reflects what it would cost. This is not necessarily the budget that needs to be allocated. If a financing (spv) route is pursued, then the budget implication is between R200 to R250 million per annum for a period of 10 years.
Funding model

PGWC and Municipalities are currently spending approx. R375 million per annum on Telecoms (PGWC - R200 Mil, Municipalities – R175 Million)

For the purposes of the business case we believe that R250 million is a reasonable off-take (i.e. cost replacement over a period of time)

Based upon this and calculating over a 10 year period at 10% pa the total investment based on a cost-replacement model is R1.535bn
Funding model:

New investment needed initially

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</thead>
<tbody>
<tr>
<td>R 294</td>
<td>R 576</td>
<td>R 604</td>
<td>R 702</td>
<td>R 683</td>
<td>R 336</td>
<td>R 339</td>
<td>R 343</td>
<td>R 349</td>
<td>R 355</td>
</tr>
</tbody>
</table>

Important to note that this reflects what it would cost. This is not necessarily the budget that needs to be allocated. If a financing (spv) route is pursued, then the budget implication is R250 million per annum for a period of 10 years as reflected below:

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>R 294</td>
<td>R 250</td>
<td>R 250</td>
<td>R 250</td>
<td>R 250</td>
<td>R 250</td>
<td>R 250</td>
<td>R 250</td>
<td>R 250</td>
<td>R 250</td>
</tr>
</tbody>
</table>

It is also important to understand that the cost replacement occurs over time – as the new infrastructure is built and commissioned. Therefore if we only look at the Provincial R200 million, and new funds required, we see that new costs reduces over time:

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>&quot;New money&quot; required: R 200 R 170 R 152 R 134 R 87 R 66 R 29 R - R - R -</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>&quot;Old Money&quot; - Cost recovery from PGWC + Munics: R - R 30 R 48 R 66 R 113 R 134 R 171 R 205 R 244 R 261</td>
<td></td>
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<td></td>
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</tbody>
</table>
Breakeven Analysis (Financial Breakeven)

This is pure financial breakeven with very conservative assumptions.
Essentially payback in about 10 years.
Becomes an income generator after that.
Economic breakeven will be much sooner.

P3 (International connectivity) has a projected breakeven of 2 years. Essentially it is a “no brainer”
## Economic Impact

### Macroeconomic Analysis

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual GDP contribution</th>
<th>Cumulative GDP contribution</th>
<th>Direct &amp; indirect Jobs created pa</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/16</td>
<td>R2.92 Billion</td>
<td>R8.78 Billion</td>
<td>13136</td>
</tr>
<tr>
<td>2030</td>
<td>R22.95 Billion</td>
<td>R184.6 Billion</td>
<td>33112</td>
</tr>
</tbody>
</table>

### Cost Benefit Analysis (CBA)

<table>
<thead>
<tr>
<th>Project</th>
<th>NPV (Rm)</th>
<th>BCR</th>
<th>IRR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project 1: Connected Government - Public and private sector benefits</td>
<td>17 494</td>
<td>7.5</td>
<td>42%</td>
</tr>
<tr>
<td>Project 2: Connected Households - Mitchell’s Plain and Khayelitsha</td>
<td>1 425</td>
<td>14.1</td>
<td>1004%</td>
</tr>
<tr>
<td>Project 2: Connected Households - Saldanha Bay</td>
<td>84</td>
<td>6.6</td>
<td>197%</td>
</tr>
<tr>
<td>Project 3: Connected Business - Reducing cost international bandwidth to the film industry</td>
<td>374</td>
<td>4.5</td>
<td>215%</td>
</tr>
<tr>
<td>Project 4: Connected Business - Broadband internet &amp; cloud computing services to businesses in the proposed Fringe district</td>
<td>106</td>
<td>12.7</td>
<td>70%</td>
</tr>
</tbody>
</table>

A BCR greater than 1 indicates that the completed project would constitute an economic asset; a BCR less than 1 implies that the project would be an economic liability. The higher the BCR the less risk there is that the proposed investment could turn out to be less than beneficial economically.
Conclusion

Cost Efficiency

Increased Effectiveness & improved Government Service Delivery

Economic and Social Development
Discussion

Contact Details:
Jo-Ann Johnston, Chief Director: Strategic Initiatives,
jo-ann.johnston@pgwc.gov.za