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Alternative Financing Instruments in the Public Sector

CIGFARO
Chartered Institute of
Government Finance, Audit & Risk Officers

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www.cigfaro.co.za

SAQA Recognised Professional Body

AfriCGE – Our Work in Practice

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AfriCGE: Solving the Delivery Challenge

Transition initiatives fail not because of a lack of ambition, but because projects stall, institutions struggle to coordinate, communities are misaligned, and capital cannot deploy.

Our Three Pillars:

AFRICGE PILLARS

SYSTEMS TRANSFORMATION

- Policy & strategy
- Just transition pathways

CLIMATE FINANCE & INVESTMENT

- Project preparation
- Blended finance
- Investment pipelines

GREEN ENTERPRISE & JOBS

- SME support
- Innovation
- Green jobs
- Market access

Our Initiatives:

Green Innovation Hub (2014): Connecting local entrepreneurs to continental markets

Climate Finance Masterclasses: Turning ideas into fundable projects

Just Transition Innovation Platform: Bridging policy and implementation

CLIMATE FINANCE: FROM NICHE TO MAINSTREAM

A shift from optional to essential for sustainable and resilient development

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THEN: NICHE

Limited scope, limited impact

Environmental projects on the margins

- Small funding pools
- Few instruments
- Specialist focus
- Low investor appetite
- Limited integration

THE SHIFT

Stronger policies, investor demand, innovation and partnerships are accelerating the transition

NOW: MAINSTREAM

Integrated, scaled, transformative

Climate-resilient economies and green growth

- Large and diverse funding pools
- Wide range of instruments
- Integrated across sectors
- Strong investor appetite
- Embedded in policy and planning

PAST → FUTURE

THE OUTCOME: More capital, lower risk, greater impact – driving a just and resilient future.

The Reality – South Africa's Development Priorities

We are **not** short of priorities:

Sector	Needs
Water	Reliable systems, security
Energy	Resilient infrastructure
Sanitation	Improved wastewater treatment
Stormwater	Better management systems
Transport	Climate-resilient roads
Housing	Affordable, resilient options
Ecosystems	Healthier catchments, disaster risk reduction

The Traditional vs. Emerging Reality

The Old Model

- Government budgets
- Conditional grants
- Traditional borrowing

The Emerging Reality

- Climate finance
- Green investment funds
- Transition finance
- Nature finance
- Impact investment
- Institutional investors seeking sustainable infrastructure

The Changing Investment Landscape

Sustainable finance is one of the fastest-growing segments of capital markets

Trends:

- Banks assess climate risks before approving infrastructure finance
- Institutional investors ask about climate resilience contributions
- DFIs require environmental/social safeguards as standard

Impact across sectors:

- Water
- Transport
- Energy
- Waste
- Agriculture
- Housing
- Urban Development

CLIMATE FINANCE ECOSYSTEM

Alternative Instruments - Green Bonds

Green Bonds

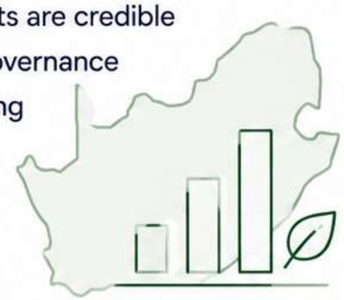
Allow governments and municipalities to raise capital specifically for environmentally sustainable investments.

Typical Projects:

- Renewable energy
- Wastewater treatment
- Water security
- Energy-efficient buildings
- Sustainable transport

South African Success:

- Municipal green bond issuances demonstrate investor appetite
- Investors are willing to finance sustainable infrastructure where projects are credible and governance is strong



Alternative Instruments - Blended Finance

Blended Finance

Many climate adaptation projects produce enormous public value but modest commercial returns

How it works:

Layer	Role
Grant funding	Supports project preparation
Concessional finance	DFIs provide below-market rates
Guarantees	Reduce investment risk
Commercial capital	Additional investment flows in

Mobilise More Capital → De-Risk Projects → Deliver Climate Resilience → Maximise Public Value

Alternative Instruments - Results-Based & Nature Finance

Results-Based Finance

Finance linked to measurable outcomes:

- Verified improvements in water efficiency
- Reduced emissions
- Improved waste recovery
- Restored ecosystems

Encourages stronger performance while improving accountability

Nature Finance

Healthy ecosystems as financial assets:

- Wetlands reduce flood damage
- Catchments improve water security
- Urban green spaces reduce heat stress
- Nature is becoming investable infrastructure.

Mobilise Capital > Drive Measurable Outcomes > Strengthen Accountability > Build Resilient, Sustainable Systems

The South African Green Finance Taxonomy (SA GFT)

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What is it?

A clear framework for identifying environmentally sustainable activities and assets

Three Core Principles :

1 Substantial Contribution
Activities must advance at least one of six environmental objectives

2 Do No Significant Harm (DNSH)
Avoid material harm to other environmental objectives

3 Minimum Social Safeguards (MSS)
Uphold social standards and human rights

Sectors Covered:

- Agriculture
- Industry
- Energy
- Water & Waste
- Transportation
- ICT
- Construction

Alignment with EU Taxonomy strengthens global **interoperability and investor confidence**

SA GFT – Challenges & Opportunities

Adoption challenges identified (2025 Review):

- Lack of regulatory embedding
- Capacity constraints among potential users
- Need for clearer DNSH and MSS guidance
- Data collection hesitance

Recommendations:

Area	Action
Interoperability	Balance international alignment with localisation
Usability	Provide clearer guidance and quantitative thresholds
Disclosure	Develop common metrics aligned with global standards
Collaboration	Position SA as a leader – first taxonomy in Africa

The taxonomy provides a common language for project developers and financiers.

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Why Project Preparation Matters

The Biggest Challenge:
Not access to finance, but **PROJECT PREPARATION**

THE INVESTMENT JOURNEY

Idea → Feasibility → Technical Studies → Financial Modelling
↓
Environmental Assessment → Stakeholder Engagement
↓
Risk Allocation → Investment Structuring → Financial Close
↓
Implementation

Every stage **reduces uncertainty.** Every stage **builds investor confidence.**

Current Initiatives Supporting Project Readiness

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Examples of progress:

Initiative	Focus
IFISA + IFC Partnership	Accelerating water, sanitation & waste infrastructure. Strengthening project preparation and bankability
Metro Trading Services Program	Performance-based grants for water, electricity & waste in metros. Linked to climate targets
Budget Facility for Infrastructure (BFI)	Reconfigured to attract private sector participation
New PPP Regulations	Effective 1 June 2025. Reduced procedural complexity

Blended finance and PPPs are unlocking private sector capital and expertise

The Municipal Reality

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Municipalities face significant challenges:

- **22 million** people live in metros (85% of economic output)
- **R467.2 billion** in municipal consumer debt
- **22.5%** underperformance in capital expenditure
- **50%** of wastewater treatment plants not operating optimally
- **40%+** of treated water lost through leaks
- **Less than 10%** of climate finance reaches municipalities

Recent Action:

- **Treasury** enforcing funded budgets requirement
- **Supporting** revenue value chain reforms
- **Implementing mSCOA** for transparency

Implications for Finance Professionals

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Your role is expanding:

Traditional		Emerging
Custodian of public resources	→	Facilitator of investment
Budget management	→	Understanding climate finance
Compliance	→	Working with DFIs
Audit preparation	→	Structuring blended finance
Grant management	→	Supporting project preparation
	→	Understanding sustainable finance taxonomies

These capabilities will become increasingly important over the next decade.

Five Recommendations

1

Treat climate finance as mainstream public finance

Not a specialist environmental issue

2

Develop investment-ready project pipelines

Not isolated, one-off projects

3

Invest much more in project preparation

Quality of preparation determines access to finance

4

Use the South African Green Finance Taxonomy

Improves project design and investor confidence

5

View public budgets as catalytic capital

Mobilising much larger pools of finance

Thank You!

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