The Western Cape Government Alternative and Blended Finance Framework

April 2025

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Acronym	Definition
ABF	Alternative and Blended Finance
AfDB	African Development Bank
AOPMII	Adjusted Overview of Provincial and Municipal Infrastructure Investment
B-BBEE	Broad-Based Black Economic Empowerment
BPC	Budget Policy Committee
BPPGA	Borrowing Powers of Provincial Governments Act
CRA	Credit Rating Agency
DBSA	Development Bank of Southern Africa
DFI	Development Finance Institution
DoI	Department of Infrastructure
DSD	Department of Social Development
EAs	Executive Authorities
ECD	Early Childhood Development
EIA	Environmental Impact Assessment
EPC	Engineering, Procurement, and Construction
FCDO	Foreign, Commonwealth and Development Office
HC	Hybrid Capital
IBIF	Impact Bond Innovation Fund
ICG	Innovation, Culture and Governance
IDMS	Infrastructure Delivery Management System
IFC	International Finance Corporation
IFI	International Finance Institution
IMC	Infrastructure Ministerial Committee
JSE	Johannesburg Stock Exchange
LCC	Loans Coordinating Committee
MDB	Multilateral Development Bank
MFMA	Municipal Finance Management Act
MLCC	Municipal Loans Coordination Committee
MTBPS	Medium-Term Budget Policy Statement
MTEF	Medium-Term Expenditure Framework
NGO	Non-Governmental Organisation
NPV	Net Present Value

Acronym	Definition
PPA	Power Purchase Agreement
PCG	Partial Credit Guarantee
PFMA	Public Finance Management Act
PLCC	Provincial Loans Coordinating Committee
PPP	Public-Private Partnership
PSP	Provincial Strategic Plan
PT	Provincial Treasury
PTM	Provincial Top Management
PRG	Partial Risk Guarantee
PYEI	Presidential Youth Employment Initiative
RFQ	Request for Quotation
RFP	Request for Proposal
SIB	Social Impact Bond
SIDAFF	Sustainable Infrastructure Development and Finance Facility
SIDP	Strategic Infrastructure Development Programme
SME	Small and Medium-sized Enterprises
SPV	Special Purpose Vehicle
TA	Technical Assistance
TPLCC	Technical Provincial Loans Coordinating Committee
U-AMPS	User-Asset Management Plans
WCIF	Western Cape Infrastructure Framework
WCG	Western Cape Government
WCIIP	Western Cape Infrastructure Implementation Plan

Glossary

Term	Definition
Alternative Finance	Alternative Finance refers to non-traditional ways to finance and deliver development outcomes from private or public sources including philanthropic and impact capital.
Blended Finance	Blended finance is the combination of catalytic capital from public or philanthropic sources with private, development, and multilateral financing to increase investment in public goods and services, drive sustainable development, and share risk. By strategically leveraging limited public funds, it mobilises finance from outside the fiscus to bridge funding gaps for high-impact projects.
Catalytic Capital	Investment that accepts greater risk or lower returns to attract additional funding from more risk-averse investors.
Concessional Finance	Concessional finance refers to funding provided on softer terms than those available in commercial markets. It includes low interest loans, guarantees, and equity from Development Finance Institutions such as the World Bank and African Development Bank. These terms often involve reduced rates, longer repayment periods, or risk-sharing features. Development agencies and philanthropic investors may also contribute through grants or impact-linked investments to support high-priority public projects and attract private co-investment.
Crowdfunding	Collecting small amounts of money from many individuals, usually via an online platform, to fund a project or business.
De-risking	Strategies such as guarantees or insurance that reduce risk for private investors and make projects more investable.
Development Finance Institution (DFI)	Government-backed entity that finances private sector projects in developing countries to support sustainable development. An example of a DFI is the Development Bank of South Africa (DBSA) they can lend money to Provinces at lower than market rates to finance a variety of projects including catalytic infrastructure projects.
First Loss Capital	Capital that absorbs initial losses, protecting other investors and encouraging broader participation.
Green Bonds	Bonds issued to raise capital for projects with environmental benefits, such as renewable energy or conservation.
Green Infrastructure	Infrastructure designed with sustainable and environmental practices, such as green buildings or clean transport systems.
Guarantees	Commitments from third parties to cover losses in case of default, thus reducing investment risk.
Impact Investing	Investments intended to generate positive social and environmental outcomes alongside financial returns.
Impact Measurement	The process of assessing the social, environmental, and economic results of an investment or intervention.

Mezzanine Finance	Financing that blends debt and equity features, ranking below senior debt but above equity in claims, often with flexible terms. A hybrid form of financing that bridges the gap between debt and equity.
Microfinance	Small-scale financial services for low-income individuals or small businesses, including loans, savings, and insurance.
On and Off Balance Sheet	**On-balance sheet instruments** are financing mechanisms where the government (or any public entity covered by the framework) directly incurs a debt or liability that appears on its own financial statements. These instruments increase the public sector's recorded debt stock or financial obligations and must be serviced through the budget or other public resources. **Off-balance sheet instruments** are financing structures where the primary debt, liability, or repayment obligation does not fall directly on the government's financial statements. Instead, an independent entity (e.g., a private partner, or joint venture) raises the bulk of financing, with the government's role limited to specific forms of support (e.g., grants, or performance-based payments), or contingent liabilities that only materialise if certain events occur.
Outcomes Funding	Is a contract or funding pool where private investors fund a service (delivered by service providers) and government commits to pay only upon verified achievement of agreed social outcomes. For example, improving employment rates or education outcomes over a baseline. The instrument will establish clear outcome metrics, independent verification, and an outcomes fund (possibly in partnership with donors) to make success payments. This instrument shifts performance risk to the investors while enabling innovation in service delivery. Unlike Social Impact Bonds (SIBs), which involve private impact investors committing upfront working capital for service delivery, with repayment contingent on achieving outcomes; with Outcomes Funds, resources are pooled by fund partners, and service providers must independently secure the necessary working capital from impact investors or their own revenue.
Project Finance	Project finance is a financing method commonly used for large-scale infrastructure and capital-intensive projects, including but not limited to public-private partnerships (PPPs). It involves limited or non-recourse lending to a special purpose vehicle (SPV) established solely for the purpose of developing, owning, and operating the project. Under this structure, lenders primarily rely on the project's future cash flows, rather than the balance sheets of the project sponsors, for loan repayment. Collateral typically includes the project's assets and revenue streams. In a non-recourse arrangement, sponsors are not obligated to cover repayment shortfalls; in limited-recourse models, their liability is capped or contingent on specific events (e.g. cost overruns or regulatory delays).
Project Pipeline	A structured flow of projects at various development stages to ensure a steady stream of investment-ready opportunities.
Public-Private Partnership (PPP)	Long-term collaboration between the public and private sectors to finance, build, and operate infrastructure or services. PPPs are primarily an alternative procurement method and usually have a blended finance/capital structure.

Resilience Financing	Investment strategies focused on helping systems, communities, or infrastructure adapt to and recover from shocks.
Risk Capital	Capital invested in high-risk, high-return projects, often in early or innovative ventures.
Social Enterprise	A mission-driven business that prioritises social or environmental impact and re-invests profits toward its goals.
Social Impact Bonds (SIBs)	Private investors, usually impact investors, fund social initiatives and are repaid only if agreed outcomes are met, usually by a public sector entity or large charitable fund.
Sustainable Development Goals (SDGs)	17 global goals set by the UN to address key challenges like poverty, inequality, and climate change by 2030.
Technical Assistance	Non-financial support (e.g., training, studies, advisory services) provided to enhance project viability and impact.

1. Introduction

The global economy has become more fragile in 2025, with growth projected at 3.3 per cent for the year, below historical trends, as several economies continue to struggle with weak exports, policy uncertainty, and structural issues. Even though inflation has eased somewhat, consumer sentiment has deteriorated amid concerns that trade tensions and tariff competition could negatively impact economic growth in both South Africa and the Western Cape. Severe energy and infrastructure challenges, including frequent power cuts, have also constrained economic activity. Fiscal constraints, such as rising public debt and higher borrowing costs, after credit downgrades, have resulted in limited investment in the infrastructure necessary for growth. Growth in conditional grant allocations for infrastructure and health services fail to keep up with the ever-growing demand for services. Amid growing economic and fiscal challenges and the urgent need for sustainable development, the Western Cape Government (WCG) has identified alternative and blended financing mechanisms as promising strategies to help contribute to financing critical infrastructure and funding public services. These mechanisms integrate public and private financial resources, mobilise institutional investments, and make use of innovative funding models.

1.1 Background

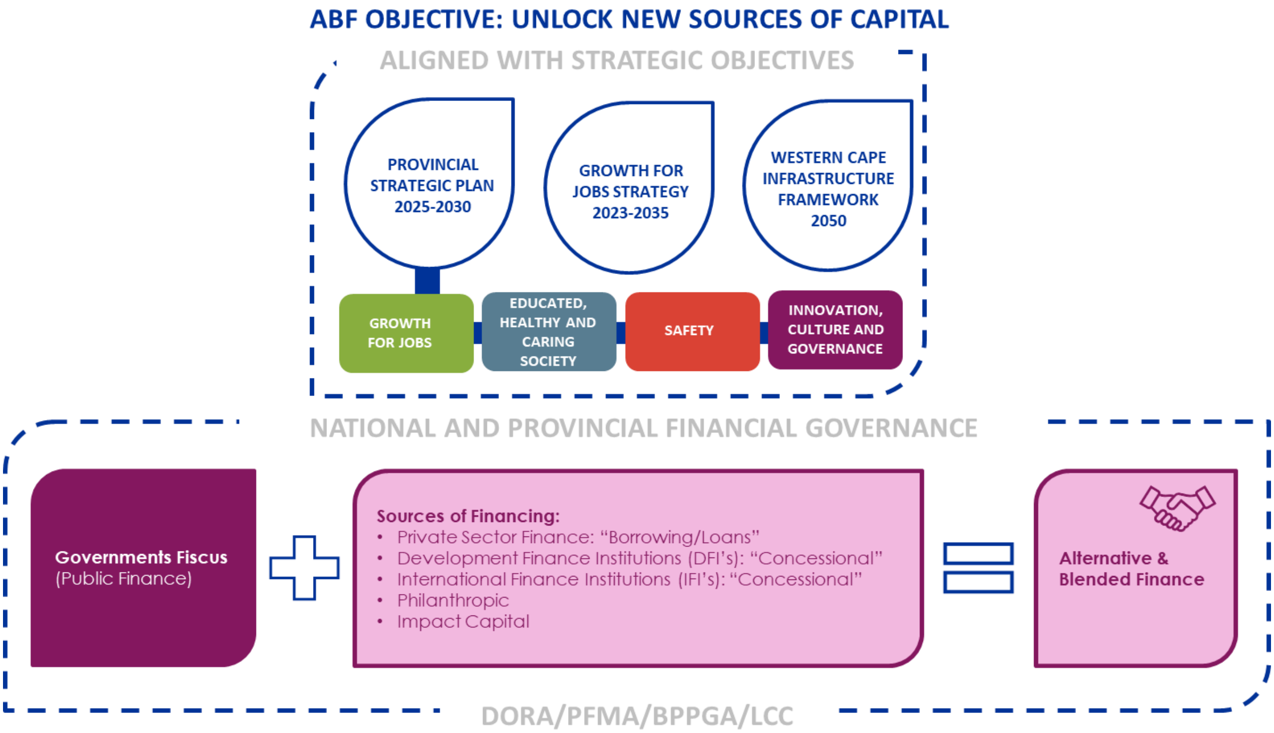
South Africa has implemented several alternative and blended finance mechanisms over the years including one of the largest employment and skills-based outcome funds in the southern hemisphere – the R300 million Jobs Boost Outcome Fund developed by the Presidential Youth Employment Initiative (PYEI). Based on the lessons learned from initiatives such as these and the growing alternative and blended finance market in South Africa, the WCG is exploring opportunities and advancing its efforts to secure alternative and blended finance.

1.2 Purpose, aim and objectives

The WCG's Alternative and Blended Finance (ABF) Framework is designed to guide departments and entities to mobilise new sources of capital in support of the Province's socio-economic development objectives, while maintaining fiscal prudence and compliance with prevailing public finance legislation. It operates within the existing legislative landscape, which includes the Public Finance Management Act (PFMA) and the Division of Revenue Act (DoRA), among others, and supplements existing financial governance prescripts. The ABF Framework does not displace existing financial governance mechanisms but rather complements them by offering a coherent and strategic guide to ABF for WCG departments and public entities.

The framework provides a structured, principles-based approach, ensuring that all financial commitments entered into by the WCG are legally sound, constitutionally mandated, and aligned with national and provincial regulatory obligations. It reflects an intentional alignment with the Western Cape's economic governance architecture and is informed by international best practice, while remaining contextually attuned to the reality of South Africa's national and the Western Cape's provincial context.

Figure 1 Illustrated Summary of ABF Framework



1.3 Non-binding Nature of this Framework

This ABF Framework is issued by the Western Cape Government solely for informational and guiding purposes. Neither the Western Cape Government nor any participating stakeholders shall incur any legally binding obligations or liabilities by virtue of this ABF Framework alone. Any binding commitments or legal obligations shall arise solely pursuant to duly executed, definitive written agreements between the relevant parties, which shall supersede, but may be informed by, the terms of this ABF Framework.

Crucially, the ABF Framework is integrated with the Province's long-term development planning ecosystem – this includes the 2025 - 2030 Provincial Strategic Plan, the Growth for Jobs Strategy 2023 - 2035, and the Western Cape Infrastructure Framework 2050. This comprehensive integrated approach ensures that ABF initiatives are selected and executed based on clearly defined roles, robust accountability mechanisms, and strategic criteria such as developmental impact, institutional readiness, and potential for long-term value creation.

Figure 2 Key Definitions Relating to ABF

What is Alternative and Blended Financing?

Public Finance

Government revenue through taxation and other means to fund public expenditures.

Private Finance

Borrowing from the private sector through various loan structures for projects.

Project Finance

Project financing is a specialised funding structure that relies on the future cash flow of a project as primary source of repayment, and holds the project's assets, rights and interests as collateral security.

Concessional Finance

Repayable capital offered on terms substantially more generous than generally available commercial terms, includes grants.

Blended Finance

Blended finance is the combination of catalytic capital from public or philanthropic sources with private, development, and multilateral financing to increase investment in public goods and services, drive sustainable development, and share risk. By strategically leveraging limited public funds, it mobilises finance from outside the fiscus to bridge funding gaps for high-impact projects.

Detailed definitions are provided in Annexure A

2. Legislative and Regulatory Provisions and Foundations

This Framework operates within the existing national and provincial financial governance framework and must (where applicable) be implemented in full compliance with the Public Finance Management Act (PFMA) and the Division of Revenue Act (DoRA), providing operational guidance without overriding these laws. All WCG departments and public entities must ensure alternative financing initiatives comply with Constitutional provisions, legislative requirements, and National Treasury regulations. This clear legal foundation aims to foster confidence among stakeholders that WCG's blended finance activities are **lawful, just, and fiscally prudent**. Accordingly, all borrowing or debt-like commitments as outlined in this ABF Framework must be undertaken within these legal confines.

2.1 Constitutional and Legislative Mandates

The ABF Framework is grounded in the Constitution of the Republic of South Africa, 1996 and all applicable financial management legislation. Section 230(1) of the Constitution empowers provinces to **borrow for capital expenditure or bridging finance** under conditions determined by national legislation. In compliance, the WCG shall ensure all alternative financing initiatives adhere to the **Borrowing Powers of Provincial Governments Act, 1996 (BPPGA)**, the **Public Finance Management Act, 1999 (PFMA)**, the **Municipal Finance Management Act (MFMA)** (where projects require cooperation between municipal and provincial government), and associated National Treasury Regulations. The BPPGA establishes a strict regime for provincial borrowing, including oversight by the National Treasury's **Loans Coordinating Committee (LCC)** to align any provincial debt with national macroeconomic objectives. The framework's instruments shall be implemented only within the limits permitted by these laws.

Section 66(1) of the PFMA states that an institution to which this PFMA applies may not borrow money or issue a guarantee, indemnity or security, or enter any other transaction that binds or may bind that institution or the Revenue Fund to any future financial commitment, unless such borrowing, guarantee, indemnity, security or other transaction:

a) is authorised by the PFMA;
b) in the case of public entities, is also authorised by other legislation, not in conflict with [the] PFMA; and
c) in the case of loans by a province or a provincial government business enterprise under the ownership control of a provincial executive, is within the limits as set out in terms of the BPPGA.

Section 66(2)(b) of the PFMA states that only the Provincial Minister of Finance may borrow money, or issue a guarantee, indemnity or security, or enter into any transaction in Rands that binds or may bind a Provincial Revenue Fund to any future financial commitment and the Provincial Minister of Finance should be acting per the BPPGA.

National Treasury Approvals: Where a proposed financing structure constitutes a **Public-Private Partnership (PPP)** or similar obligation, the WCG must obtain the requisite **National Treasury approvals** at defined stages.

Public-Private Partnerships (PPPs): are governed by National Treasury Regulation 16 which is issued in terms of the PFMA. The implementation of PPPs is highly regulated with Treasury Approvals mandated throughout the PPP Project Cycle. Therefore, all new PPPs will follow this established process for notification and assessment by the Provincial Treasury.

In areas of regulatory uncertainty, it should be ensured that clarity is sought and that projects comply with all legislative, constitutional and legal requirements.

2.2 Innovative Alternative and Blended Financing Models and Legal Clarity

The WCG recognises that certain **innovative ABF instruments,** such as outcome-based payment contracts, social impact bonds, or special purpose vehicles may not be explicitly detailed in current legislation. For example, the City of Cape Town's recent experiments with an outcomes-based contract required structural adjustments to fit within the MFMA.

In such cases, WCG will proactively seek **legal clarification or guidance** prior to implementation. Provincial Treasury (in consultation with National Treasury related national structures, and provincial Legal Services) will issue **interpretive guidance** or where necessary, initiate processes to amend applicable regulations to fit within the PFMA. Any financing model that falls outside clear existing categories will be approached with caution and may be piloted only with explicit National Treasury approval or enabling legislative authority.

This Framework will be updated as national guidance evolves so that all WCG alternative and blended financing innovations remain **legally compliant** and auditable.

2.3 Alignment with WCG Plans and Policies

This Framework is fully aligned to the Western Cape's strategic development plans, ensuring that alternative finance mobilisation directly supports provincial goals. In particular, it upholds the principles and priorities of the **2025 - 2030 Provincial Strategic Plan (PSP),** the **Growth for Jobs Strategy (2023 – 2035)**, which aim to accelerate economic growth and job creation, and the **Western Cape Infrastructure Framework, Strategy, and Implementation Plan (WCIF, WCIS, WCIIP 2050)**[1]**, as well as departmental and public entities' infrastructure planning documents**. All projects identified for alternative and blended finance will be drawn from or be consistent with the WCIF's sector plans and the Growth for Jobs pillars. By doing so, WCG ensures that mobilised funds address identified infrastructure gaps and binding constraints on growth through the prioritisation of projects. This alignment also ensures compliance with the **WCG's planning and budgeting cycle.** Cross-reference to these guiding policies is provided throughout this document, reinforcing a **"policy coherence"** approach. This Framework aims to enable departments and entities to more confidently pursue and source alternative and blended finance to fund projects and programmes that align with the WCG's policy priorities and are well-suited to such funding, rather than relying solely on traditional public funding.

> Not all legal issues pertaining to ABF mechanisms are clarified in this Framework i.e. it is not exhaustive. There will undoubtedly be project and mechanism specific legal issues and matters that will need to be clarified with the Provincial Treasury as and when they come up. This framework seeks to offer guidance and not a definitive policy position on all matters relating to ABF.

[1] A long-term roadmap for infrastructure provision and investment in the Province.

3. Policy Principles and Objectives

3.1 Core Objective: Expanding Public Services and Infrastructure Investment

The core objective of the WCG's ABF Framework is to guide departments in unlocking **new sources of capital** to supplement the provincial budget, thereby accelerating socio-economic development despite fiscal limitations.

The Western Cape faces an urgent need to invest in expanding and maintaining public programmes, services, and infrastructure. However, traditional funding sources, such as provincial budget allocations and national grants are under increasing strain, and insufficient to meet the rising demand for service delivery demands. This Framework therefore seeks to **mobilise private sector, DFI, philanthropic, and donor financing and funding** alongside public funds to bridge the financing gap. By doing so, the WCG aims to **increase public programmes, services, and infrastructure investment** without jeopardising fiscal sustainability.

This Framework will promote innovative commercial and developmental financing solutions that maximise the impact of public funds; for instance, a modest public contribution could unlock substantial private co-investment, thereby delivering greater socio-economic benefits for Western Cape communities than would be possible through government spending alone.

3.2 Guiding Principles

In implementing this Framework, the WCG will be guided by the following set of principles.

Guiding Principles

These principles will inform ABF decision-making (It should be noted that these principles are equally weighted and will be evenly applied):

- **Additionality:** Ensure that public inputs (funding or guarantees) are used only where they make a project happen that otherwise would not, given current market dynamics. Or the input would enhance development outcomes of an intervention significantly. Essentially, this principle ensures the WCG avoids crowding out private initiative.
- **Policy Alignment and Holistic Impact:** Prioritise projects that align with existing Western Cape policy imperatives (2025 - 2030 PSP, Growth for Jobs 2023-2035, WCIF, WCIS, and WCIIP 2050, etc.) and offer co-benefits – economic, social, and environmental.
- **Result Orientation:** Promote a focus on outcomes and impact. The success of this policy should be measured by tangible improvements in the number of projects, amount of non-government financing raised to deliver public programmes, services, and infrastructure, ability to unlock projects, and how this improves socio-economic indicators in the Province and leads to societal improvements. Therefore, each project must have a monitoring and evaluation plan linking financing to final results.
- **Accountability:** Define clear roles, responsibilities, and performance indicators for all stakeholders (government departments, private partners, and funders). Maintain strong oversight and hold partners accountable to deliver on outputs and outcomes.
- **Fiscal Sustainability:** Ensure that all alternative and blended financing arrangements are structured to protect the Province's long-term fiscal health. This includes prudent assessment of contingent liabilities, debt servicing obligations, and any potential off-balance-sheet risks. All projects should be designed and financed in a manner that does not jeopardise the Western Cape Government's ability to meet future obligations, ensuring robust financial stewardship over the medium to long term.
- **Legal Compliance:** All structures must comply with South African legal and fiscal frameworks. In areas of regulatory uncertainty (e.g., outcome-based contracts, equity participation), legal clarity must be sought prior to implementation. Projects should also anticipate and structure for evolving regulations, especially in climate finance, digital infrastructure, and concessional instruments.
- **Transparency:** Commit to open processes – from the selection of projects to procurement and contracting and ensure information is disclosed to all relevant oversight bodies.
- **Integrity and Fairness:** Conduct all transactions ethically, free from corruption or undue influence. The selection of partners should be merit-based and competitive, in line with procurement law, ensuring the best value and integrity.
- **Collaboration:** Foster a cooperative approach across government departments, and between government and external investors. Blended finance requires breaking silos – e.g., joint planning between finance, sector departments, and external partners to structure deals.
- **Capacity Development:** Recognise that WCG needs to build new skills to manage alternative and blended financing. Embrace learning-by-doing and formal training so that over time the Province can independently originate and manage sophisticated and innovative ABF projects.

By committing to these objectives and principles, the WCG, through the implications and application of this Framework, aims to establish a robust and sustainable foundation for alternative and blended finance solutions. This approach will enable the Province to fulfil its development mandate more effectively, fostering partnerships that achieve outcomes beyond what either the public- or private sector could accomplish independently.

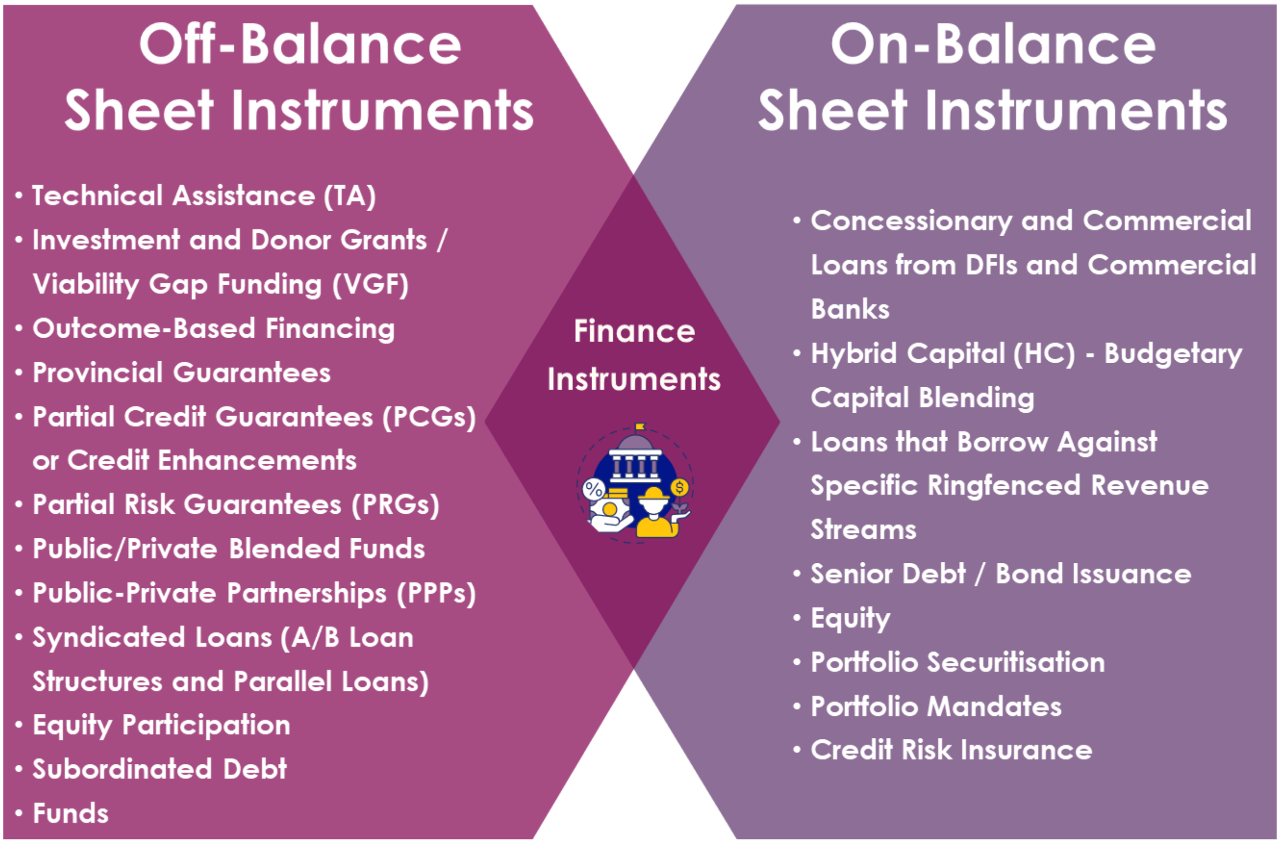
4. Guidance on Financing Instruments and Structures

The WCG will employ a diverse set of financing instruments to structure transactions, broadly classified into **on-balance sheet** and **off-balance sheet** categories.

On-balance sheet instruments are recorded as direct liabilities on the government's financial statements as they may increase government debt and fiscal risk. **Off-balance sheet instruments**, conversely, involve financing raised at the project level or by third parties, with limited or no recourse to the government's balance sheet, aiming to minimise direct liabilities while potentially introducing contingent risks.

The selection of an appropriate instrument hinges on factors such as project size, duration, revenue potential, risk profile, and alignment with the WCG's fiscal capacity. This section provides high-level guidance on these instruments, supported by illustrative case studies from South Africa, with detailed pros, cons, and further information available in Annexure B.

Figure 3 Blended Finance Instruments



The most likely off and on balance sheet instruments to be utilised by the WCG are described below, therefore not all instruments above are described in detail, however, all instruments in Figure 3 are covered in Annexure B, barring PPPs.

Off-Balance Sheet Instruments: These instruments enable the WCG to finance projects where the primary repayment obligation lies with a dedicated project entity or private partner, with the WCG assuming only contingent or performance-based liabilities. Key modalities include:

- **Technical Assistance (TA):** While not a direct financing instrument, TA is vital for improving project viability. Provided as grants from donor agencies or DFIs, TA can fund feasibility studies, project preparation, and departmental capacity-building. Such support reduces risks, particularly for technically complex, early-stage projects in underserved areas or specialised sectors (e.g., ecological infrastructure). Departments are encouraged to pursue TA from sources like the World Bank, European Union, or national programs, especially for innovative or challenging initiatives. Well-prepared projects are more likely to attract alternative and blended finance solutions.

- **Investment and Donor Grants/Viability Gap Funding (VGF):** These non-repayable funds strategically bridge financing gaps for high impact projects that lack full commercial viability. They provide one-time capital injections (typically from government or donors) to cover the "viability gap". This renders socially significant projects feasible (e.g., affordable housing, rural broadband, off-grid renewable energy and ecological restoration) by reducing investment risk and demonstrating potential, thus attracting further spending. ***Note*** Current BFI criteria align closely with VGF for social projects.

- **Outcome-Based Financing:** Social Impact Bonds (SIBs) and Outcomes Funds both finance social outcomes but differ structurally. Each ties payments to verified outcomes, aligning incentives, but requires robust measurement and verification systems, which may increase administrative costs. In SIBs, private impact investors commit upfront working capital and are only repaid if the envisaged outcomes are achieved. Outcomes Funds pool resources for successful interventions, requiring service providers to independently secure the necessary working capital from impact investors. A SIB for Early Childhood Development (ECD) has already been piloted in the Western Cape by the Department of Social Development (DSD) via the Impact Bond Innovation Fund (IBIF).

- **Provincial Guarantees:** The WCG **will not issue any open-ended guarantees** or **financial commitments** that create unbounded contingent liabilities, in compliance with Section 3(3) of the Borrowing Powers Act. Instead, risk-sharing will be achieved through **budgeted contributions to structured funds or facilities**, ensuring the WCG's maximum exposure is capped by appropriated amounts. If a WCG guarantee is required for some reason then it must be in accordance with section 218 of the Constitution, section 5 of the BPPGA and section 67 of the PFMA, which means guarantees must be in local currency. Where the WCG enter into loans in foreign currency such guarantees may be furnished only in terms of a national Exchequer Act as per section 5(2) of the BPPGA. This approach is most suitable for high-value projects with below-investment-grade ratings.

- **Partial Credit Guarantees (PCGs) or Credit Enhancements:** In this mechanism, a DFI or a guarantee fund agrees to cover a portion of a given project's debt service if the borrower defaults. Unlike WCG-issued guarantees for a project or municipality this is a DFI or guarantee agency issuing a partial guarantee to the WCG. A PCG effectively **"credit-enhances"** the project, improving its credit profile so that commercial banks or bond investors are willing to lend on better terms. For instance, the Western Cape could partner with an institution like the Development Bank of Southern Africa (DBSA) or the World Bank's Guarantee Agency (MIGA) to backstop, say, 50 per cent of a loan for a logistics hub or water treatment plant. By reducing lenders' risk, PCGs can unlock financing for projects that have solid fundamentals but are perceived as risky by the market. This Framework notes that while PCGs are off-balance sheet for the Province (the DFI provides the guarantee), any indemnity or counter-guarantee the Province offers would be a contingent liability that must be carefully vetted.

- **Public/Private Blended Funds:** Blended finance funds combine public, donor or philanthropic seed capital with private investment, to finance a portfolio of projects to spread risk across multiple initiatives. By de-risking investments, blended funds leverage limited public resources to attract private capital, amplifying the WCG's investment capacity. The Sustainable Infrastructure Development and Finance Facility (SIDAFF) is a provincial example, though it involves sharing governance control with partners. This approach suits infrastructure projects needing specialised management and access to domestic capital markets.

- **Public-Private Partnerships (PPPs):** PPPs are long-term agreements where a private partner designs, builds, finances, and often operates a public asset. The WCG compensates the partner through availability payments, user fees, or other arrangements, sharing risks and rewards. Governed by PFMA Treasury Regulation 16, PPPs are well-suited for large projects where substantial risk can be transferred to the private sector. Typically, the private party –
    - performs an institutional function on behalf of the institution; and/or
    - uses state property for commercial purposes; and
    - assumes substantial financial, technical and operational risks in connection with the performance of the institutional function and/or use of state property; and
    - receives benefits for delivering the institutional function or utilising the property.

On-Balance Sheet Instruments: These financing methods directly appear as liabilities on the government's balance sheet, even when used in blended finance structures:

- **Concessionary and Commercial Loans from DFIs and Commercial Banks:** The WCG can secure loans for capital projects from institutions like the DBSA or international DFIs. Loan terms are evaluated to ensure cost-effectiveness relative to other financing options. These loans, whether concessionary (with favourable terms) or commercial, increase the Province's debt and must be managed within sustainable fiscal limits. Loan terms are carefully assessed to ensure they are cost-effective compared to alternative financing options.

- **Hybrid Capital - Budgetary Capital Blending:** This method combines grant funding, own-source funds, and borrowings into a project. For instance, road upgrades might be funded with a mix of national grants, provincial funds, and loans. By diversifying funding, this approach reduces dependence on any single source, mitigates financial risk, and maximises efficiency.

- **Loans that Borrow Against Specific Ringfenced Revenue Streams:** The Province could borrow against dedicated future revenue streams to fund investments, subject to National Treasury clearance and careful structuring.

- **Provincial Bonds:** With National Treasury approval, bonds (e.g., a "Western Cape Infrastructure Bond") can raise long-term funds from institutional investors. Bonds require a strong credit rating and investor confidence to secure cost-effective rates, ideal for stable, large-scale projects. While increasing provincial debt, bonds can support large-scale programs if structured with clear use-of-proceeds and robust reporting.

The following diagram (Figure 4) offers further guidance on which instruments may be best suited to WCG priority sectors.

Figure 4 WCG's Best Fit Blended Finance Instruments for Key Sectors

WCG's 'best fit' Blended Finance instruments for Key Sectors

Economic Sector	Digital Sector	Energy Sector	Social Sector	Ecological Sector
Suggested Instruments: • Partial Credit Guarantees (PCG) for projects with strong fundamentals but facing high perceived risks. • Syndicated Loans for large-scale projects requiring significant capital investment. • Senior Debt/Bond Issuance for projects with low to moderate risk profiles and reliable revenue streams. • Hybrid Capital-Budgetary Capital Blending for projects requiring significant capital investment and risk- sharing.	**Suggested Instruments:** • Investment and Donor Grants/Viability Gap Funding (VGF) for rural broadband expansion and digital inclusion programs. • PCGs for broadband infrastructure projects and digital platform development. • Equity Participation through entities for technology startups and digital platform development. • Portfolio Securitisation for large-scale broadband infrastructure projects.	**Suggested Instruments:** • PCGs for renewable energy projects, particularly those with long-term Power Purchasing Agreements (PPAs). • Syndicated Loans for large-scale renewable energy projects and energy efficiency upgrades. • Equity Participation through entities for renewable energy startups and energy innovation projects. • Hybrid Capital – Budgetary Capital Blending for large-scale renewable energy projects and energy efficiency upgrades.	**Suggested Instruments:** • Investment and Donor Grants/VGF to catalyse Social Impact Bonds (SIBs) and outcomes funds for projects with high socio-economic returns but limited commercial viability. • PCGs for PPPs in healthcare and education sectors. • Aggregator and convenor of funds for NGOs, NPOs, social enterprises, and community- based organizations. • Subordinated Debt for projects with strong revenue potential.	**Suggested Instruments:** • Investment and Donor Grants/VGF for restoration projects and climate adaptation initiatives. • PCGs for water infrastructure projects and climate resilience initiatives. • Equity Participation through entities for innovative environmental startups and conservation projects. • Hybrid Capital-Budgetary Capital Blending for large-scale water infrastructure and renewable energy projects.

This analysis equips departments with clear options and guidance to match instruments to project needs. This section along with Annexure B, constitutes an ABF Toolkit that helps departments and entities structure each project appropriately by considering factors such as the project's sector, level of risk transfer, capital cost, administrative complexity, urgency, and potential impact on debt ratios.

Lessons learned

Local Case Studies: Real-World Insights and Lessons

Case 1: City of Cape Town Green Bond (2017) – As noted, a R1 billion bond listed on JSE, used to finance water, wastewater, and electric bus projects amid a drought crisis. The City's success demonstrates the importance of creditworthiness, clear use-of-proceeds, and investor confidence in governance. This aligns with WCG's transparency objectives – the City had to commit to regular reporting to bondholders on how funds were used. WCG can emulate this by ensuring any of its bond or loan-financed projects have robust reporting and ring-fencing of funds for intended projects.

Case 2: Gautrain PPP (Gauteng) – A provincially-led PPP of unprecedented scale, blending funding from Gauteng Province (~R12bn approved via Budget Facility for Infrastructure) and private finance. The case study underscores the need for strong contract management capacity (Gautrain Management Agency was created to manage the concession) and highlights key risk allocation lessons. Demand risk was ultimately borne largely by government through patronage guarantees, leading to significant payments when ridership fell short - while delivering a valuable asset, the project ended up requiring significant operational subsidies, straining that province's budget and "crowding out" other services. For WCG, the lesson is to structure user-pay projects carefully: if revenue risk is high, consider viability gap subsidies or scaled-down scopes to avoid contingent liability blowouts. Also, to ensure large projects do not divert funds from core services, impose **cap limits** and link such projects to broader economic development justifications (Gautrain was positioned as an economic catalyst). A further lesson from this case study is that provinces have limited revenue-raising powers in South Africa (they largely depend on national transfers), so WCG cannot simply raise taxes if a project's revenues fall short.

Case 3: Western Cape Impact Bond (IBIF) – A pioneering outcomes-based contract for early childhood development in two low-income communities. Private investors fronted ~R9m and were repaid by the Department of Social Development and a foundation only if pre-agreed improvements in child learning outcomes were achieved. The project succeeded in reaching over 2000 children and demonstrated improved school readiness. The contractual setup had to be tailored because standard procurement rules didn't envisage this structure. It shows that with innovation and collaboration (multiple partners including an intermediary NGO and an external evaluator), social outcomes can be achieved more efficiently. It also built valuable capacity within WCG on managing and measuring outcomes. Under this framework, more such small-scale but high-impact financing models can be tested in areas like job training, health prevention programs, or housing upgrades, especially when external social investors show interest.

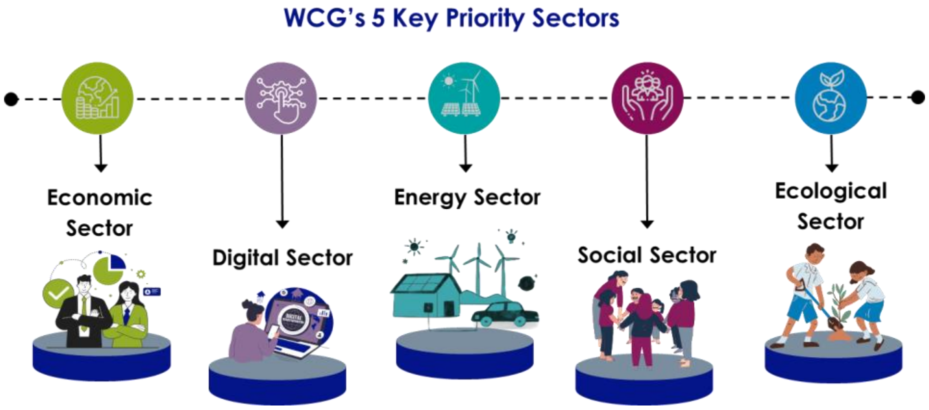
By learning from these cases, the WCG has refined its approach to each financing instrument. As a result, this ABF Framework does not operate in a vacuum – it draws from real-world experiences to guide future decisions.

The WCG acknowledges that **one size does not fit all** in alternative and blended finance. This Framework provides WCG with a versatile toolkit that balances innovation and fiscal discipline to meet diverse project demands. The subsequent sections, section 5 and 6 will ensure that whichever instrument is used, it is deployed with a keen eye on protecting the public interest and purse as well as enabling long-run fiscal sustainability.

5. ABF Project Preparation and Approval Process

To align with WCG policy imperatives and the WCIF's five priority sectors, the ABF project process begins by categorising each potential project into one of these sectors (see Figure 5).

Figure 5 WCG's 5 Key Priority Sectors



This step is critical because ABF project requirements vary significantly by sector. A continuous pipeline of viable projects—spanning social programs and infrastructure initiatives suitable for alternative or blended financing - is essential for this Framework's success.

5.1 Overview of ABF Project Process Flow

With the sector approach in mind and to leverage the considerable work and progress already made on the WCIF, Western Cape Infrastructure Strategy (WCIS), and Western Cape Infrastructure Implementation Plan (WCIIP), many of the projects that land in the ABF Pipeline in the future will also be present in the WCIIP 2050's Integrated Pipeline. With specific reference to projects relating to infrastructure, each department, as part of its annual planning and budgeting cycle, will be required to submit potential ABF projects into a central **project pipeline database which will be complemented by departmental and public entities' infrastructure planning documents.**

5.1.1 Maintaining a Dynamic Pipeline

Pipeline development is a **rolling portfolio**, meaning new projects can enter as they are identified (especially as new needs arise), and existing projects may be delayed, reconceptualised or exit, if conditions and priorities change. The pipeline database will be updated quarterly in collaboration with the DoI's WCIIP Delivery Unit with the status of each project (e.g., Inception, Concept, Design Documentation, etc.). A summary of the pipeline status will be published annually to inform stakeholders (and potential investors) of upcoming opportunities, however, engagement with prospective investors or sponsors will be ongoing as and when ABF projects reach bankability.

In summary, strategic pipeline development driven by DoI through the WCIIP 2050 and in collaboration with the PT, and enabled by this Framework, will create a **steady funnel of**

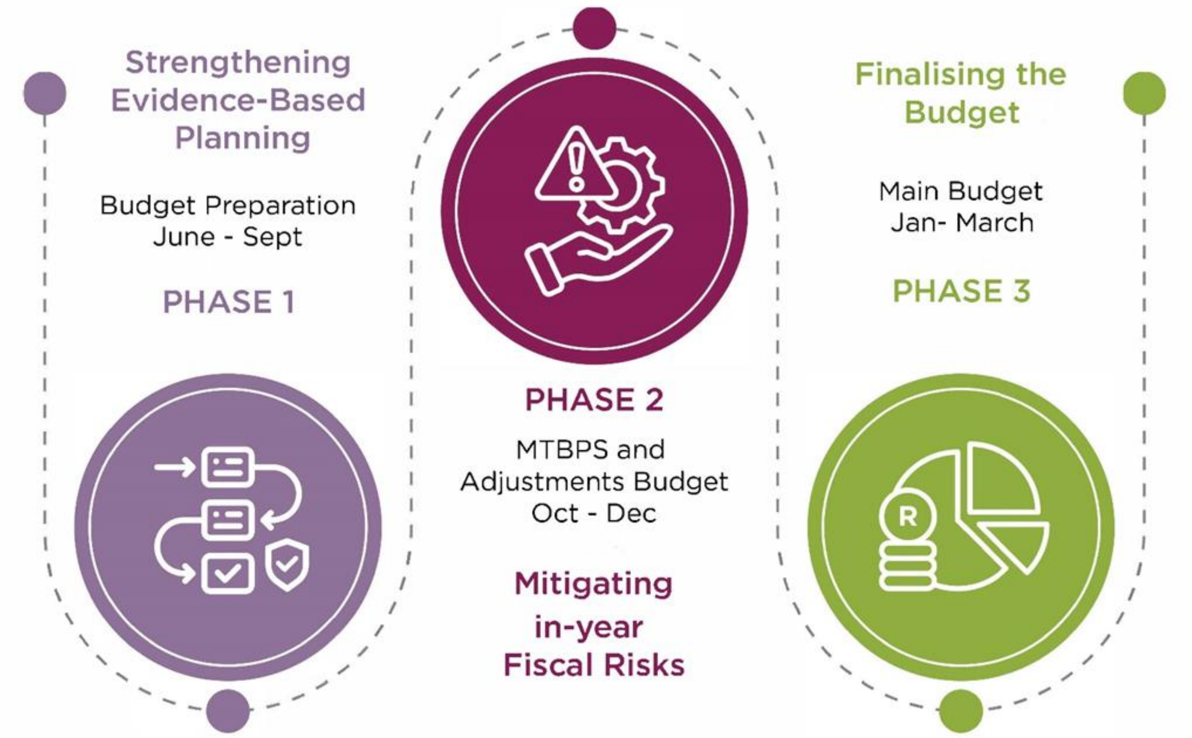
investment-ready projects. As a result, the Western Cape will be well-positioned to respond to a key question from potential partners: *"What priority projects do you have that need financing, and are they ready for partnership?"* This will markedly improve its engagement with the private sector and financing institutions.

5.1.2 Integration with Planning and Budget Process

The dynamic pipeline management described above will be closely integrated with the annual budget process **of determining the Medium-Term Expenditure Framework (MTEF)**. This integration is vital as it ensures that any future financial obligations (like PPP unitary payments, outcome payments, or loan repayments) are incorporated into the WCG's forward estimates (i.e. MTEFs), enabling fiscal discipline to be practised.

The typical workflow of an ABF project from inception to closure will span multiple years and so when seeking to understand how the ABF project preparation and approval process and the WCG planning and budget process are integrated, it is important to not think linearly. For example, a department may take a year (**Year 1**) to complete ABF project process stages 1, 2, 3 and 4, then it may take another year (**Year 2)** to complete a full feasibility study and submit it to PT for review and approval, then it may take 1 to 2 years to finalise the transaction structuring (**Year 3 and 4)** before it can then acquire the necessary provincial and national approvals for procurement to be launched or the final term sheet to be signed. Finally, it may take another 2 – 5 years **(Year 6+)** for the ABF project's implementation and/or disbursement. This means that that because all three phases of the WCG budget process (Figure 6) occur within one year, an ABF project may for example, only qualify for Phase 2 of the budget process (PG MTEC 1) 2 years after it was initiated by a department, and likewise it may only qualify for Phase 3, 5 years after the project is initiated because the transaction structuring of the deal/project took 3 years.

Figure 6 Depiction of Provincial Budget Process



Why this is the case is explained in detail below, through describing how the ABF Project Process and the WCG Budget Process are integrated.

- **Phase 1**

  Stages 1, 2, 3, and 4 of the ABF project process, as detailed in the proceeding section and summarised in Figure 8, are to occur in phase 1 of the budget process (Strengthening Evidence Based Planning). This integration is organic as the process and content of project identification, concept note development, pre-feasibility study, identifying the type of ABF instrument that is most suitable for the ABF project, and acquiring the in principle approval from the Technical Provincial Loans Coordinating Committee (TPLCC) via their assessment of the pre-feasibility and concept note are congruent with the objective of Phase 1 of the budget process to strengthen evidence-based planning.

- **Phase 2**

  Stages 5 and 6 of the ABF project process are to occur in phase 2 of the budget process (Mitigating in-year Fiscal Risks). Phase 2's most relevant event to the ABF project process is the first round of Medium-Term Expenditure Committees (MTEC) engagements that occur with each department, otherwise known as PG MTEC 1. Given that stage 5 and 6 of the ABF project process involves, the completion of a full feasibility study, and its review and contingent PT approval; it is practical to make this review and assessment part of the PG MTEC 1 assessments that the PT already undertakes. Therefore, departments with a completed full feasibility study for an ABF project that is intending to utilise an on-balance sheet instrument or an instrument that creates significant contingent liabilities must submit this study (and any other project related documents the department deems necessary) to the PT as part of its required PG MTEC 1 submission.

- **Phase 3**

  Only once stage 7 of the ABF Project Process (transaction structuring) is complete, which can potentially take multiple years, can an ABF project resume its process flow and re-enter the Budget Process to receive its final approval for procurement launch or loan terms signature (ABF project process Stage 8). Accordingly, stage 8 of the ABF project process is to occur during Phase 3 of the Budget Process (Finalising the Budget). Phase 3's most relevant event to the ABF project process is the second round of PG MTEC engagements that occur with each department to finalise their allocations and budgets, otherwise known as PG MTEC 2. These engagements are where the ABF project's final transaction structure and or loan terms will be discussed with the Provincial Treasury and thereafter the detailed financial structure, legal structure, tax structure, risk allocation, and governance arrangements of the transaction/deal must be submitted to the PT. The PT will then take the ABF project through the remaining steps by liaising with the National LCC and the Minister of Finance to determine whether the project can be approved or not. This process will ideally take place between a department's PG MTEC 2 engagement and the attestation of its final budget.

5.1.3 The Detailed ABF Project Preparation and Approval Process

The steps for preparing, approving, and implementing a new ABF project and having it registered in the ABF Pipeline are described in detail below. Proceeding this detailed explanation of each step and what each step involves, per this Framework, there is a diagram (Figure 8) that summarises and visualises the ABF project preparation and approval process.

Donation Process

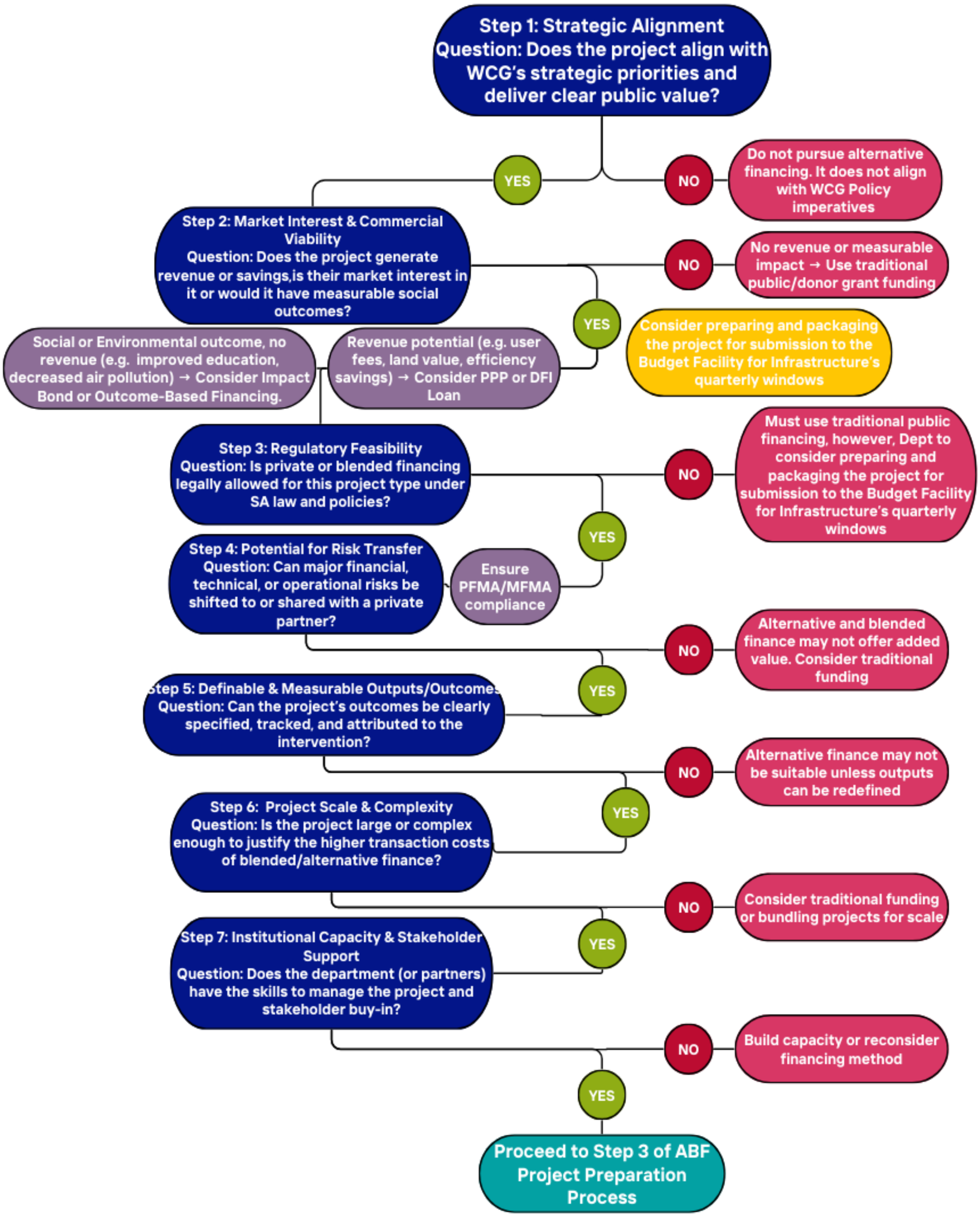
Donations are not required to go through this process as they follow a pre-established process. However, donations should be reported on through the respective budget, annual financial statement, and annual report documentation. The donations guidelines/template is available in Annexure D.

1. **Project Identification and Department Screening:** Provincial Treasury, in consultation with departments, will maintain a call or inventory of projects that could benefit from alternative financing. Departments will nominate projects that are high-priority but constrained by conventional funding. The department will identify a potential project and prepare a comprehensive brief. This brief should include a brief description, estimated cost, potential revenue streams (if any), and preliminary rationale for why alternative financing might be appropriate (e.g., project is too large for the current budget, or private sector expertise would add value). If the project is endorsed by the departments internal approval process and screening, it is incorporated into the department's planning process.

2. **Pre-Feasibility and Concept Development:** The department, potentially with support from external advisors/service providers, undertakes a pre-feasibility study and develops a concept note that outlines the project's scope, estimated costs, and preliminary market interest.

2.1 The TPLCC will then apply a **screening filter** (as described below in Figure 7)

Figure 7 ABF TPLCC Screening Criteria



This screening is to discern, from an early stage, whether the project is suitable for alternative and blended finance or not. Where this screening tool results in the project not moving through to the next branch of the decision tree, the Provincial Treasury may support departments/public entities in rethinking the project and identifying a suitable funding strategy.

3. **Is the Conceptualised Financing Instrument On or Off Balance Sheet:** Once step 2 and 2.1 are completed the department will know if the envisaged mechanism is on or off balance sheet.

    i. If it is a PPP, then it will go through the established process for PPPs as laid out by GTAC and National Treasury and which is available here.

    ii. If the project's mechanism is an off-balance sheet instrument with no or limited contingent liabilities envisaged, such as an arrangement with external partners like DCAS's managed network model, or an outcomes fund funded from within the baseline budget of any department/s then it will not go through the rest of the ABF project process (Steps 4 to 14). Rather, the originating department/s should notify the treasury of the project, and it will be placed into the ABF Pipeline and reported on in the EPRE, OPRE, and departments' annual reports. Furthermore, the final approval and assessment of such mechanisms fall within the responsibility of the Accounting Officer of each department.

    iii. If it is another type of off-balance sheet mechanism such as a Social Impact Bonds (SIB) or outcomes fund **that requires additional funding from the Provincial Treasury and requires the Province to carry significant contingent liabilities**, then the project will be required to go through Steps 4 to 14.

4. **Obtain In-Principle Support:** At this stage of the process it will have been determined that the ABF mechanism being developed and assessed is an on-balance sheet mechanism or an off-balance sheet mechanism with significant contingent liabilities. Accordingly, the TPLCC will screen and assess the pre-feasibility and concept note of the proposed project and its proposed ABF instrument. An initial high-level risk assessment will also be conducted during this stage. Based on this assessment the TPLCC will either recommend the project, giving it in-principal support, or not. If the project is not recommended by the TPLCC then it will be returned to the originating department for reconceptualisation or it may be shelved until further notice – this is up to the originating department. At this stage, National Treasury's Infrastructure Finance Team via the Provincial Treasury, may also be consulted (especially for large projects), to gauge any 'showstoppers' or catalytic projects.

5. **Full Feasibility Study:** Having TPLCC's in principle approval the department then commissions a full feasibility study covering all required analyses (technical, financial, legal, socio-economic etc). Stakeholder engagement starts here (affected communities, labour, etc., are consulted as needed for Environmental Impact Assessments (EIA) or social impact assessments). The department may approach Infrastructure South Africa (ISA) and other donors to apply for project preparation funding to fund the feasibility study and other project preparation costs related to this stage.

6. **Feasibility Review and Treasury Approval:** The completed feasibility study is then reviewed by the TPLCC and its partners. Once they are satisfied with the findings of the review the PLCC will recommend the project to Provincial Top Management (PTM) who will consider it for formal recommendation to the Provincial Cabinet. For ABF projects

that depend on borrowing, a draft term sheet may need to be prepared for the national Loan Coordination Committee's (LCC) consideration for in principle approval. It is suggested that at this stage if the project is one that will go to market, that the department who owns this project considers packaging the project in a way that resonates with the potential bidders or financiers.

7. **Transaction Structuring:** The department, possibly with the support of transaction advisors, prepares the procurement documents or financing proposals as well as the capital structure and risk-sharing arrangements. It is acknowledged that determining the appropriate procurement and contract model for each type of financing mechanism may be a challenge for some departments/public entities and therefore the TPLCC and partners will provide guidance in this regard. In the case of loan financing, the department negotiates loan terms with potential lenders such as DFIs or banks and prepares the necessary documentation. This stage of the process can potentially take several years, as this is the stage that involves the most negotiation and back and forth between the prospective partners. It also requires numerous technical reports and financial scenario modelling in order for all the partners to feel all matters and risks have been taken into consideration and appropriately assigned and shared.

8. **Approvals for Procurement Launch:** Only once the ABF Project has completed its deal and capital structuring or loan term agreement (financial close is reached) and been assessed and approved by Provincial Cabinet and the next meeting of the National LCC can there be any movement towards the procurement launch or signing of the final terms sheet. Additionally, for any procurement to occur that relates to the project, there must be an allocated budget. Accordingly, this is where the Provincial Treasury, via Phase 3 of the official budget process i.e. PG MTEC 2, will then support in ensuring the necessary funds are available as part of the finalisation of the budget.

The proceeding steps may or may not apply to all ABF Projects

9. **Market Engagement and Bidding:** The process may begin with market sounding to refine the project approach. Thereafter, competitive procurement is conducted by inviting bids or proposals. A multidisciplinary team, which includes observers from the Provincial Treasury to ensure fairness, evaluates the submissions.

10. **Bid Evaluation and Preferred Bidder:** For all projects, the department will select a preferred bidder based on clearly defined criteria such as cost, quality, qualifications, etc. An evaluation report is then submitted to the Provincial Treasury. Final terms are negotiated with the preferred bidder to ensure there are no material deviations from the approved parameters.

11. **Final Approval and Contract Award:** The final step in the approval process is effectively the final green light for the contract. Depending on legislative or policy requirements, additional approval may be needed from the Provincial Cabinet or the relevant Provincial Minister. Once all approvals have been secured, the contract is signed. The obligation is then registered with both the Provincial Treasury and the National Treasury

to be recorded in their respective liability registers, and public disclosures about the contract award are made in accordance with existing legislation.

12. **Implementation and Contract Management:** Following the contract award, the project moves into the execution phase. The responsible department mobilises contract management teams to oversee the delivery of the project. These teams are tasked with tracking performance indicators, managing any variations or disputes, and ensuring that the private partner or borrower meets all contractual obligations. Regular progress reports are submitted to the Provincial Treasury, highlighting both achievements and any issues, challenges and risks that may arise during implementation.

13. **Monitoring and Evaluation:** Throughout the implementation phase, the project's outcomes are measured against established targets on a quarterly basis. For outcomes-based projects, independent evaluators are engaged to verify the results. The TPLCC and PLCC monitor the overall performance across projects and provides additional support if problems occur - such as when penalty clauses need to be triggered or contract terms need to be renegotiated.

14. **Project Close-out/Hand back:** At the conclusion of the contract term, the project is formally closed out. For loan-dependent projects, confirming that the final payment has been made, and any security has been released. A post-project evaluation is then conducted by the department who led the project, to capture lessons learned regarding both successes and areas for improvement. This evaluation is compiled into a Project Evaluation and Lessons Learned Report, which is subsequently submitted to the TPLCC.

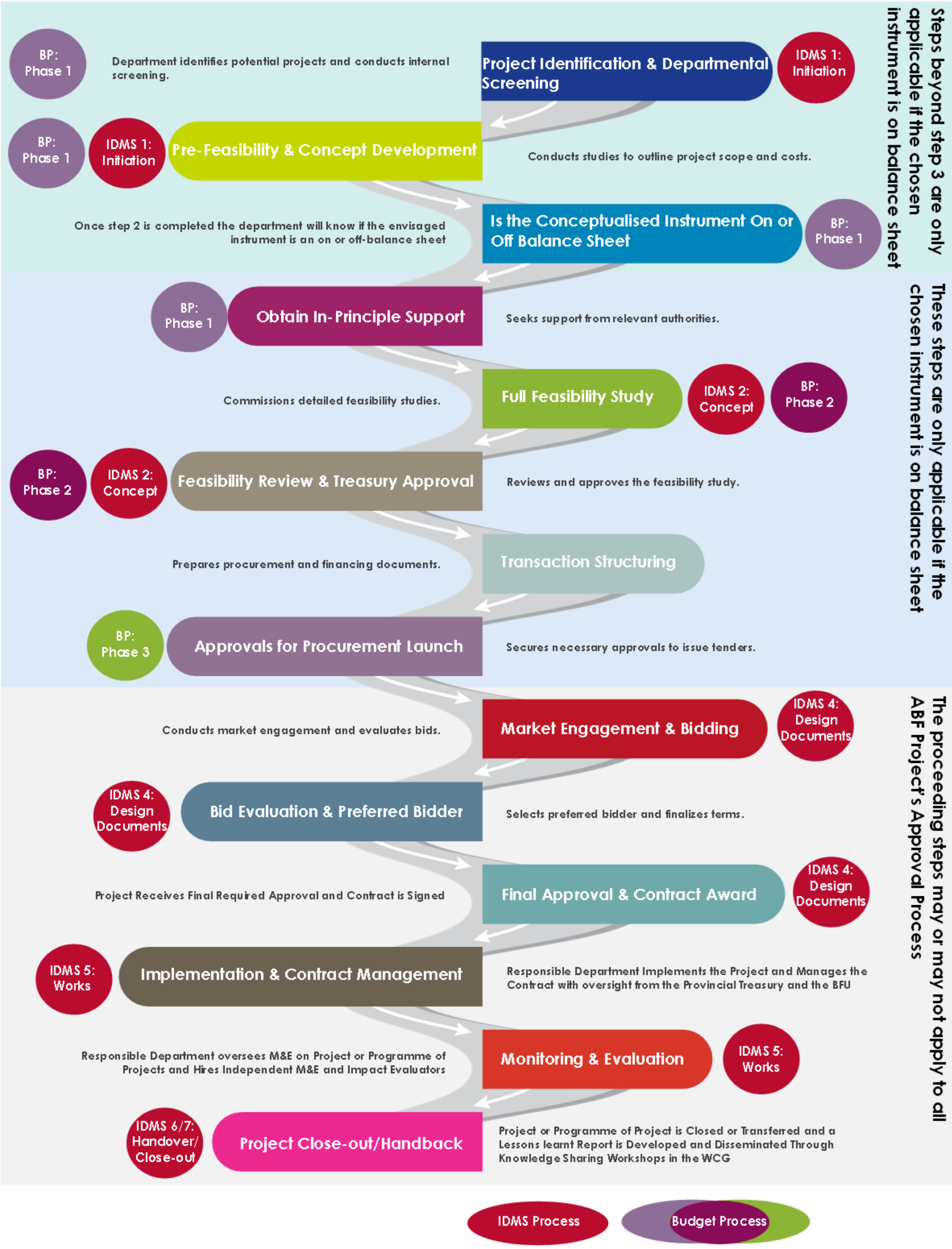
In the case of PPP projects, the PPP Project Cycle as per the Public Private Partnership Manual issued by National Treasury will be followed in parallel to the above ABF Project Process. Annexure C depicts the Project Preparation and Project Term of PPPs as well as the various mandated Treasury Approvals to be obtained from both National and Provincial Treasury, in order to reach financial close and start the project development phase (construction, operations etc).

The ABF process depicted and detailed on the preceding pages and in Figure 8 below is the process for **new projects that come after the approval and adoption of this Framework**. All infrastructure projects are still to comply with the core legislative requirements of the IDMS. Related to this, all ABF infrastructure projects should broadly align with the approach of National's Strategic Infrastructure Development Programme (SIDP).

> ***Important to Note*:*** *If a prospective ABF project seeking to make use of an on-balance sheet instrument has already gone through IDMS stages 1,2,3, and 4 or stages 1, 2, and 3 of the WCIIP's Integrated WC Pipeline, the originating department can and* ***must slightly modify the existing concept note, pre-feasibility study, feasibility study etc. to take into account ABF considerations*** *before the TPLCC, PLCC and LCC can review and approve it or not.*

The outcome of the above extended process, which will be done in conjunction with the DoI, where necessary, will be a **prioritised ABF project pipeline** that is updated quarterly and would include some pre-existing projects determined to be suitable for ABF, as well as new projects suitable for ABF. This process ensures that there is no duplication of efforts between DoI and the PT, and that WCG is **"investment ready"** – having well-defined opportunities to present to potential ABF funders, financiers, and partners.

Figure 8 Overview of ABF Project Preparation and Approval Process and its Integration with the Provincial Budget Process and the IDMS Stage Gates



6. Risk Management and Fiscal Sustainability

The Western Cape's pursuit of inclusive growth through ABF presents opportunities for innovation and investment but also introduces complex risks that must be carefully managed.

Infrastructure projects in areas like transport, water, and energy offer high potential for private investment but must be structured in a manner that prevents undue fiscal strain. In attracting alternative financing, WCG seeks to:

- Balance growth ambitions with fiscal responsibility, optimise risk allocation, and ensure long-term affordability;
- Leverage private sector expertise and capital without exposing the Province to untenable contingent liabilities; and
- Foster innovation - especially around technology and climate resilience, while ensuring service delivery remains affordable and sustainable.

This context underlines WCG's commitment to sound risk management to uphold its financial stability while pursuing development opportunities.

Effective risk allocation and sharing is at the heart of alternative and blended financing. The guiding principle is that each risk should be allocated to the party best able to manage or mitigate that risk at lowest cost, thereby optimising the project's overall risk profile and value for money. Each project should have a **Risk Allocation Matrix**, which identifies all major risk categories across the project life cycle, assesses their likelihood and impact, and assigns them to the Government, the Private Partner, shared, or to a third-party (e.g., insurer) as appropriate. This matrix should be developed during the feasibility stage and updated throughout the project lifecycle to reflect changing risk profiles.

Typical risk allocations anticipated when engaging in contracts related to alternative and blended finance instruments are summarised below:

- **Construction and Completion Risk:** Allocated to the private sector in PPPs or turnkey contracts. The private party must deliver on time, on budget, and to specifications and projects are generally — secured by performance bonds or penalties. The WCG's role is due diligence on contractor capability and enforcing step-in rights. The Province only shares this risk in exceptional cases (e.g., government-caused delays or community unrest).
- **Cost Overrun Risk:** Typically borne by the private contractor through fixed-price contracts. In SPV-financed projects, a fixed-price Engineering, Procurement, and Construction (EPC) contract protects lenders from overruns except in force majeure events.

- **Demand or Revenue Risk:** For projects with user fees (e.g., toll roads, utilities, hospitals), WCG must decide whether to transfer, share, or retain the risk. Retaining risk — as seen with minimum ridership guarantees in Gautrain — requires budgeting for shortfalls. For social infrastructure, revenue risk shifts to budget management, while a hybrid model (e.g., shadow-toll or availability payments) may be used for economic projects. The decision should be based on the predictability of demand, the project's strategic importance, and WCG's risk appetite.

- **Financing and Interest Rate Risk:** Private financing typically locks in or hedges interest and currency risks. WCG should mandate such hedging for privately financed deals. If directly borrowing, WCG will follow its Debt Management Policy to secure favourable terms, ideally avoiding or mitigating foreign currency exposure. The use of hedging instruments will be subject to PFMA Section 66 and 67, the BPPGA, and **prior written approval from National Treasury**.

- **Operating Risk:** After construction, the party responsible for operations bears the risk of maintaining asset performance. In PPPs, the private operator faces penalties for underperformance; in government-operated projects, the risk remains with the respective department, with long-term maintenance contracts or warranties as safeguards.

- **Regulatory/Political Risk:** The government generally bears risks from discriminatory legal changes, while general regulatory shifts (e.g., tax changes) fall on the private party. Contracts will include change-in-law clauses and may incorporate political risk insurance to cover events like expropriation or civil disturbances.

- **Climate Risk:** Risks from natural disasters or unforeseeable events are typically shared. Force majeure clauses excuse performance during such events. WCG will assess climate risks in project design and may consider insurance solutions (including catastrophe bonds or parametric insurance) for high-risk sectors.

- **Technology Risk:** When a project relies on new or unproven technology, risk is assigned to the private party if proposed by them or shared if jointly decided. The government will specify desired outcomes rather than dictating specific technologies, allowing the private sector to manage tech-related risks.

The **Risk Allocation examples** above provide some examples that indicate the default risk allocation WCG will aim for in typical infrastructure and other alternative and blended finance mechanisms, which will need to be adapted per project.

6.1 Liabilities Management

- **Uncertain Obligation/Contingent Liability Management**

  Many alternative finance structures can create obligations that are not certain or not immediately due but may arise under certain conditions (e.g. an outcomes payment, or a termination payment to a PPP if the contract is ended early by the WCG). Accordingly, the WCG will update the **Section 66 Register** to record all outcome payments, indemnities, letters of comfort, and other contingent commitments arising from alternative and blended finance projects. This register will be maintained by Provincial Treasury and updated as and when the obligations are approved (as per Section 66 of PFMA).

If an uncertain obligation/contingent liability is called, the department involved must immediately inform Provincial Treasury in writing, and the principle and current practice is that the Department will fund the fulfilling of the obligation from within its baseline. Therefore, departments implementing ABF projects must budget for foreseeable operational risks or cost overruns on their projects. Over time, as the WCG builds a track record with alternative and blended finance mechanisms, it may consider more formal contingent liability budgeting for alternative and blended finance, wherein The Provincial Revenue Fund (PRF) or a designated contingency reserve could potentially cover any realised contingent liabilities, subject to the normal budget and appropriation processes.

- **Debt Management**

For direct borrowing arrangements (such as loans or bond issuances), the WCG must secure the National LCC's endorsement, and the concurrence of the National Minister of Finance as required by the BPPGA. In practice, this means that any loan, guarantee, or bond issue by the WCG will only proceed after review by the LCC and final approval by the National Minister of Finance in line with Section 230 of the Constitution and the PFMA, specifically Section 66. In line with the Provincial Treasury's principle of ensuring long-run fiscal sustainability, the WCG will adhere to conservative limits on direct debt and will comply with the ranges and limits stipulated by the National Minister of Finance.

With the above in mind, the WCG will adhere to the following key principles when considering borrowing in relation to alternative and blended finance:

- **Project-Based Approach:** Each financing arrangement should be built around a clearly defined project with a specific scope, budget, and timeline. Every new or refinancing must be evaluated for its impact on the WCG's **debt ratios**. By focusing on discrete projects rather than setting macro-level limits and ranges related to debt and revenue, the WCG can better assess performance, manage risk, and maintain tighter control over how funds are deployed and repaid.
- **Ringfenced Revenue for Debt Servicing:** All revenue streams generated by the project should be carefully ringfenced — meaning they are set aside specifically to cover debt servicing costs first and only thereafter can they be used for other purposes. This isolates the project's finances from other government expenditures and ensures that creditors have a clear, secure source of repayment. Moreover, ringfencing strengthens financial discipline and builds investor confidence, as it protects project-generated income from being diverted to unrelated activities.
- **Revenue Equal to or Exceeding Total Project Cost:** Any revenue-raising mechanism tied to the project (e.g., user fees, tariffs, or other income sources) must be sufficient to cover both debt servicing and ongoing operational expenses. In other words, the projected revenue needs to at least match (if not exceed) the sum of the principal and interest payments, plus maintenance and operational costs. Ensuring

the project is self-sustaining prevents unforeseen shortfalls that could undermine the WCG's fiscal health or necessitate unplanned government subsidies.

6.2 Affordability Analysis

For each ABF project dealt with as per this Framework, an **affordability analysis** must be performed as part of the feasibility study and updated before contract signing. This means projecting the cash flow obligations for government over the life of the project (whether that's debt service on a loan, availability payments on a PPP, or outcome payments on a SIB) and confirming that the sponsoring department can accommodate those within its budget baselines or MTEF allocations. If new budget is needed, it should be approved through the official budget process before the contract is finalised. The Provincial Treasury will issue standard assumptions (like forecast inflation, discount rates for Net Present Value (NPV) calculations, etc.) to be used in these analyses for consistency. Projects with significant long-term commitments may be required to be presented to the Provincial Minister's Budget Policy Committee or equivalent for concurrence. WCG will not commit to projects that rely on **unrealistic future budget growth** or unspecified funding sources. Furthermore, any expectation of, for example, a future conditional grant to cover payments must be verified with the national government; otherwise, the project should be sized to what the Province can afford on its own.

6.3 Managing Regulatory Uncertainties

The WCG acknowledges that regulatory uncertainties exist in South Africa that have a direct impact on the provincial government's ability to employ ABF mechanisms. For instance, the BPPGA does not contemplate guarantees for complex blended finance structures. To mitigate this, WCG through Provincial Treasury will proactively engage National Treasury and other relevant bodies to clarify interpretations or to develop case-by-case approvals. Where legal gaps are identified, such as the ability to invest equity in a project company or to enter multi-departmental funding agreements, the WCG may seek either a legal opinion or formal exemption/approval from the Minister of Finance under PFMA provisions. In parallel, WCG can contribute to the evolving regulatory environment by sharing lessons from its pilot projects (like the IBIF) with national policymakers (possibly via forums like the Technical Committee on Finance (TCF) or the Budget Council).

The aim of WCG is to work with ABF ecosystem builders, and National Treasury to gradually improve the regulatory framework so that it better accommodates innovative financing while safeguarding fiscal sustainability. For example, if outcome-based contracts become more common, there may be a need for a National Treasury Instruction or guideline on how to account for and procure them. Until the regulatory framework is more conducive and enabling to ABF mechanisms, WCG's approach will be to **structure projects and initiatives within existing rules** as far as possible through, for example, structuring an outcomes contract as a service provider agreement with payment milestones, which can fit under standard procurement, rather than trying to create a wholly new legal instrument.

6.4 Risk Oversight

The TPLCC and its relevant Partners will focus on **risk oversight**. This group (potentially including risk management officials from the WCG will review major risk provisions in project agreements and ensure that necessary risk mitigations (insurance, guarantees, reserve accounts, etc.) are in place. They will also monitor risk during implementation: for instance, tracking if a PPP project's demand is trending below forecasts and flagging potential future government support needed, so that early management actions can be taken (such as marketing efforts to boost usage, or provisioning funds in advance).

By outlining these typical/default risk allocations and putting oversight committees in place, the WCG aims to avoid the pitfalls seen in some past projects (both in South Africa and globally) where poor risk allocation led to fiscal distress or project failure. Instead, risks will be clearly identified, negotiated, and managed throughout the project life using the IRM system and DoI's WCIIP risk management system, with a constant eye on **protecting the Province's long-term financial sustainability** and delivering services effectively. The ultimate goal is a portfolio of alternative and blended finance projects that are resilient – able to withstand shocks without derailing either the project or the provincial budget.

The textbox below clearly lays out prohibited activities relating to the process of incurring any debt on behalf of the WCG, as per the PFMA and BPPGA.

Guidance on Prohibited Activities

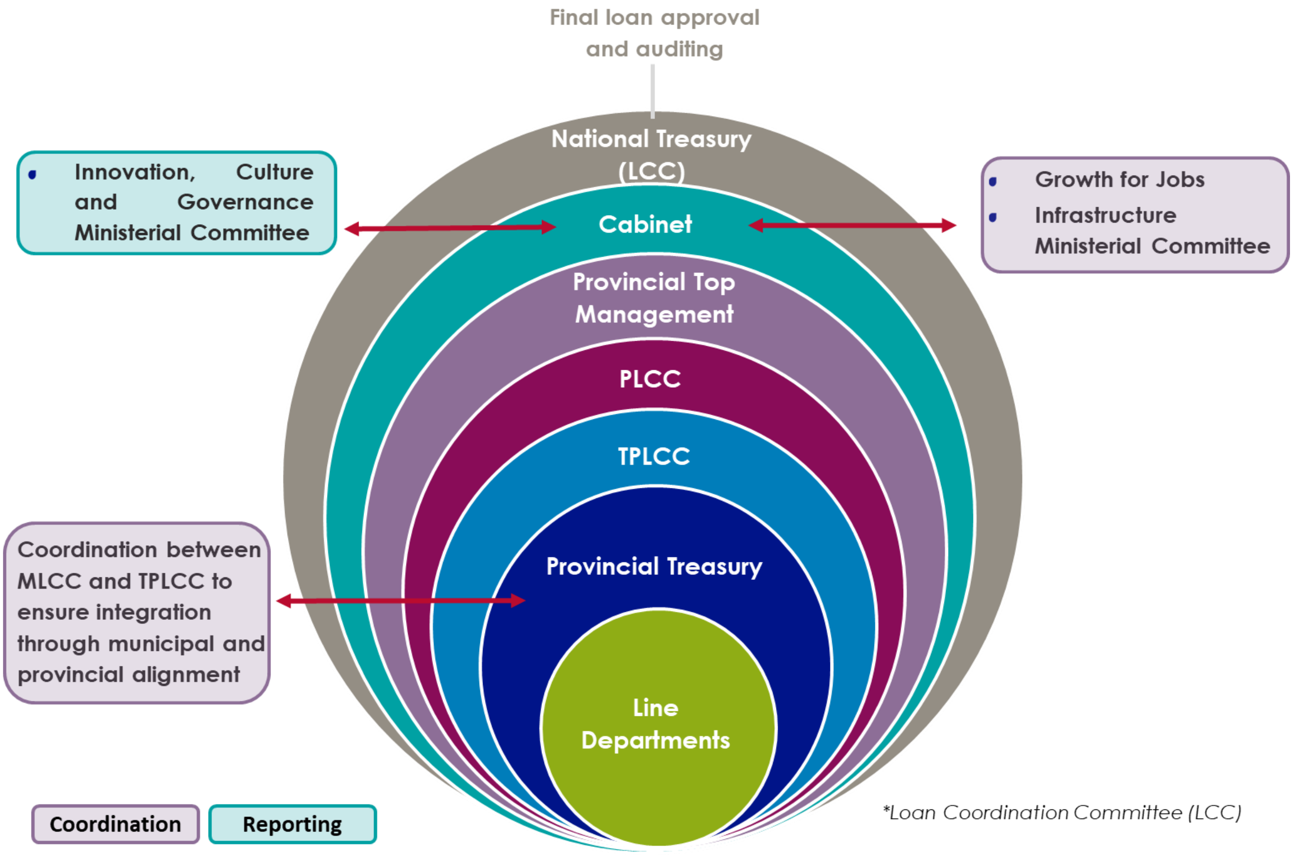
- No debt may be made otherwise than in the name of the Province.
- Only the Provincial Minister of Finance can borrow on behalf of the Western Cape Province
- No debt can be incurred without the approval of the National Loans Coordinating Committee (LCC)
- Money cannot be borrowed for the purpose of re-investing that same money to earn returns or interest.
- No person, including official and Executive members, may interfere or attempt to interfere in the management of fault attributed to the Provincial Minister of Finance or persons delegated by the Provincial Minister of Finance.
- No debt may be made in any other currency than the Rand, and that is not linked, or is affected by any change in the value of the Rand against any foreign currency.
- No debt shall be incurred for expenses not related to the functions and powers of the Province.

Source: The Borrowing Powers of Provincial Governments Act, 1996 (BPPGA) and the Public Finance Management Act, 1999 (PFMA),

7. Institutional Roles & Governance

The proposed institutional roles and governance structure described below (Figure 9) aims to marry strong central oversight with decentralised project origination and execution. The approach to establishing ABF institutional arrangements aim to avoid conflict of interest, in particular, the avoidance of departmental self-approval, prevention of interdepartmental bias, unfair competition, and supports conflict resolution. The TPLCC and the PLCC will monitor the ABF project stages – ensuring projects are aligned to policy, legally compliant, and fiscally sound – while line departments and their entities drive the on-the-ground project development with the sector expertise and ownership needed for success. This will all be overseen by PTM, and Provincial Cabinet who will recommend, and approve (once National LCC's approval has been given) WCG ABF projects respectively. The diagram below illustrates the interplay between the three spheres of government and existing governance structures. The ABF process will report into the Innovation, Culture and Governance Ministerial Committee (ICG), and where relevant coordinate processes with the Infrastructure Ministerial Committee (IMC)as well as related sub-comittees, the G4J Ministerial Committee, and the Municipal Loans Coordination Committee (MLCC).

Figure 9 Overview of ABF Roles, Responsibilities, and Governance Structure



More detail on the specific roles and responsibilities of the entities mentioned in the above diagram is provided below.

7.1 Line Departments – Project Identification and Implementation

WCG line departments are the **originators and implementers** of projects. Their role begins with **identifying potential projects** in their sectoral plans that could be suitable for alternative financing (using the screening criteria in Section 5). Once a project is selected, the responsible department leads the project preparation process, potentially with support from Provincial Treasury and possibly external transaction advisors. For PPP projects, the PFMA assigns accountability to the department's Accounting Officer to ensure proper feasibility analysis and procurement in line with Treasury Regulation 16 and a Project Officer is appointed at the initiation of the project, preferably before registration of the project with NT. Departments are also responsible for **contract management and performance oversight** once a deal is signed. Line departments will need to designate a **Project Officer or team** for each major project, who will liaise closely with Provincial Treasury's TPLCC where and when necessary. Importantly, while departments lead implementation, they must do so **within the governance and risk parameters** as outlined in this Framework – no department may initiate an alternative and blended financing **transaction** that has implications for the provincial fiscus or balance-sheet without both Provincial Treasury's clearance and the necessary approvals.

7.2 Provincial Treasury – Oversight and Enablement

The Western Cape Provincial Treasury will serve as the **custodian of this Framework** and the overall coordinator of alternative and blended finance initiatives. Provincial Treasury's core roles include:

A. developing and updating detailed guidelines and toolkits to operationalise this Framework;

B. reviewing departmental proposals for alternative and blended financing to ensure compliance and value for money; (this takes place during stages 1, 2, 3 and 4 of the ABF Project Preparation and Approval Process); 1 2 3 4

C. liaising with National Treasury, the LCC, and other regulators for necessary approvals; (this takes places during stages 6 and 8 of the ABF Project Preparation and Approval Process); and 6 8

D. monitoring the fiscal impact and performance of all ABF deals; this takes places during stages 12, 13, and 14 of the ABF Project Preparation and Approval Process). 12 13 14

In essence, the Provincial Treasury will act as an **ABF enabler** – it will not directly implement projects, but it will set the standards, perform due diligence where required, and either green-light or halt projects before they progress to PTM, Cabinet, and the National LCC based on the outcome of their various assessments as discussed in the previous sections of this Framework.

Provincial Loans Coordinating Committee (PLCC)

The WCG will establish a **Provincial Loans Coordinating Committee** (PLCC) which is at the level of the Budget Policy Committee (BPC). The PLCC will be comprised of the Premier, Minister of Finance, and the Minister of Local Government, with the responsible member of finance as chairperson. No executive authority may serve on the PLCC if their respective department has made a submission for consideration (i.e. they have a direct interest in its approval), or their participation on the PLCC may afford them unfair competition over other departmental submissions (i.e. they have also submitted or expressed intent to submit submission and possible approval of submission before PLCC could affect approval of their department's submission). Where an executive authority has a conflict of interest or serving on the committee would afford their department and unfair competitive advantage, they must immediately recuse themselves from the consideration process; and the PLCC will nominate an alternative Cabinet Member to serve in their place for the consideration of respective submission/(s).

The PLCC's role is to provide high-level strategic guidance and inter-departmental coordination. The PLCC's mandate is to **oversee the overall pipeline of ABF projects** and ensure alignment with provincial policy imperatives. It will review TPLCC recommendations on ABF concept proposals and pre-feasibility studies from departments (prior to detailed feasibility) to decide which projects move forward into the prioritised alternative and blended finance project pipeline (Section 5: Figure 7 describes the TPLCC screening mechanism feeding into this). It will also resolve any **coordination issues**[2]. The PLCC thereby adds a **layer of oversight and strategic direction**, helping to break down silos between departments and ensuring a whole-of-government approach.

7.3 National and DFI Partners

The Provincial Treasury will liaise with National Treasury's Government Technical Advisory Centre (GTAC) and Infrastructure Fund (IF) units to align provincial blended finance efforts with national programs where appropriate. For example, cooperation with the **BFI** and leveraging amended PPP regulations is envisaged. Additionally, partnerships with MDBs, DBSA and other DFIs will be governed through MOUs that define roles (technical advisor, co-funder, etc.) without diluting provincial accountability. Such external partners may be invited to attend TPLCC or PLCC meetings in an advisory capacity when relevant.

7.4 Municipal Interface

The Department of Local Government (DLG) will act as a link between the ABF Framework and municipalities. Where a project involves a municipality (e.g., a water treatment plant needing blended finance), DLG will coordinate with that municipality to ensure MFMA compliance and local council buy-in. The PLCC will include a representative from DLG to champion municipal interests. Furthermore, the TPLCC will engage the MLCC to ensure integration through alignment by identifying ABF projects in the **Western Cape's municipalities** that would be suitable for and benefit from provincial and municipal cooperation. The TPLCC engages with the MLCC given that both of these bodies are at an administrative level. The Provincial Treasury (through the MLCC) and the National Treasury provides recommendations to Municipal Councils to consider when making a decision to take up a loan in terms of the parameters of the Constitution and MFMA.

[2] for instance, if a project spans multiple departments or requires municipal/national collaboration, the Committee can facilitate the necessary agreements.

In due course, the institutional roles and governance framework shall be enshrined within a Provincial Executive Instruction or an equivalent mandate. This will serve to formally assign responsibilities and establish both the PLCC and the TPLCC, complete with their respective terms of reference.

Social Sector Evaluation Criteria (Specific to Social Bonds)

In alignment with the government's social bond obligations and to safeguard fiscal integrity, any social sector proposal under consideration - particularly those tied to performance-based funding mechanisms such as social bonds - must meet the following additional criteria:

- **Good Governance**
  Evidence of governance structures and internal controls that promote transparency, accountability, and compliance with public finance regulations.
- **Ability and Capacity to Implement**
  Demonstrated capacity in terms of human resources, technical skills, and operational readiness to effectively execute the proposed initiative.
- **Financial Performance and Integrity**
  Review of audited **Annual Financial Statements** from previous years to assess financial stewardship and track record.
- **Strategic and Budget Alignment**
  Evaluation of past **Annual Performance Plans (APPs), Strategic Plans (SPs), and Budgets** to determine consistency, feasibility, and historical performance in relation to planning and execution.

Failure to meet these criteria may result in disqualification of the proposal, particularly where it poses risk to the achievement of bond-related targets. As non-performance on such bonds could obligate government to repay raised funds, only departments and proposed projects that meet the above requirements will be considered eligible.

Officials' Due Diligence and Ethical Conduct

Each official involved in alternative or blended finance must exercise sound judgment and care under all circumstances. Their primary goal is to protect the Province's cash resources, uphold its interests with funders, and safeguard its reputation. All officials in the debt management process are required to act with fidelity, honesty, integrity, and in the best interest of the Western Cape Government (WCG). They must also endeavour, within the scope of their influence, to prevent any actions that could impair the Province's debt standing or create solvency issues. No official should use their position, privileges, or confidential information for personal gain or to secure an unfair advantage for another party.

8. Conclusion

Alternative and blended finance mechanisms present substantial opportunities for the WCG to increase public-private cooperation through private investment. It enhances government's infrastructure delivery and management capacity, and promotes sustainable socio-economic development, in partnership with the private sector. However, these mechanisms can be complex to understand and implement within the confines of existing regulations and legislation in South Africa. This ABF Framework aims to help Western Cape Government departments and provincial entities better understand ABF mechanisms and increase their confidence to implement ABF mechanisms within the Western Cape. Furthermore, it proposes institutional roles and a governance structure to manage this process and ensure each department and entity knows its role, responsibility, and the various risks it may be responsible for. This Framework is an evolving framework, in keeping with the dynamic landscape of alternative and blended finance.

As a way forward, and in due course, detailed guidance on the approach to specific ABF projects and associated instruments will be provided through specific ABF instrument handbooks and circulars to be issued by the Provincial Treasury. Furthermore, the WCG will prioritise a few pilot projects under this framework in the next three to five years to demonstrate its application. Examples of likely candidates could include, but shall not be limited to: a PPP or DFI loan for accelerating the surfacing of key gravel roads in the Province, an impact bond for youth employment or the construction of ECD facilities in social housing projects, or a blended finance social housing project with a DFI loan and provincial subsidy. This is not an exhaustive list. As this Framework has illustrated, all submissions and proposals for ABF will be subjected to a robust approval process. Successfully executing these pilots will build momentum, internal capacity, and external credibility. The lessons from these pilots will be fed back into refining the WCG's approach to ABF and this evolving Framework.

This framework provides a structured approach to **combine resources for development**, leveraging the strengths of both the public and private sectors. By implementing the above strategies, the WCG aims to deliver improved public infrastructure and services in an innovative, fiscally sustainable, and inclusive manner.

Annexures and Continuous Improvement

The annexes attached are considered part of the Framework and shall be used accordingly. However, given that templates and contact lists may need more frequent updating than the core policy text, Provincial Treasury is authorised to add additional annexures or update the existing annexures without requiring Cabinet re-approval of the whole Framework, as long as such updates are in line with the Framework's intent and are reported in the periodic reviews.

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Annexure A: Definitions of Alternative and Blended Finance

The different forms of infrastructure finance are discussed below with brief illustrations of each option. These options include but are not limited to the following:

i. Public Finance

Public finance as a funding source involves the government generating revenue through taxation (National Government - transferred to Provinces through the Equitable Share, conditional grants, own revenue), and other means to fund public expenditures on goods, services, and infrastructure.

ii. Private Finance (Debt)

Government (typically National and Local Government) borrows from the private sectors for specific projects, typically through project finance through;

- Commercial loans - loans from commercial banks or DFIs, usually main source of debt financing.
- Syndicated loans – two or more financial institutions partake in offering the loan.
- Bridging finance – short-term finance (during construction). As per the BPPGA, the Province will not use bridging finance as a continuous and unlimited revolving credit.
- Bonds and other long-term (20-30 year) interest-debt bearing instruments – which are purchased through capital markets or placed privately (direct sale of tailored product to e.g. institutional investors), requires a credit rating.
- Subordinate loans – similar to commercial loans but only secondary claim on project income and assets, reduce risk for other lenders.

These are typical sources of borrowing for Public authorities/institutions but do not prohibit the exploration of other forms of financing.

iii. Project finance

Project finance is a financing method commonly used for large-scale infrastructure and capital-intensive projects, including but not limited to public-private partnerships (PPPs). It involves limited or non-recourse lending to a special purpose vehicle (SPV) established solely for the purpose of developing, owning, and operating the project. Under this structure, lenders primarily rely on the project's future cash flows, rather than the balance sheets of the project sponsors, for loan repayment. Collateral typically includes the project's assets and revenue streams. In a non-recourse arrangement, sponsors are not obligated to cover repayment shortfalls; in limited-recourse models, their liability is capped or contingent on specific events (e.g. cost overruns or regulatory delays).

iv. Concessional Finance

Concessional finance refers to funding provided on softer terms than those available in commercial markets. It includes low-interest loans, guarantees, and equity from Development Finance Institutions such as the World Bank and African Development Bank. These terms often involve reduced rates, longer repayment periods, or risk-sharing features. Development agencies and philanthropic investors may also contribute through grants or impact-linked investments to support high-priority public projects and attract private co-investment.

v. Blended Finance

Blended finance is the combination of catalytic capital from public or philanthropic sources with private, development, and multilateral financing to increase investment in public goods and services, drive sustainable development, and share risk. By strategically leveraging limited public funds, it mobilises finance from outside the fiscus to bridge funding gaps for high-impact projects. Blended Finance can be used at different levels i.e. project (single company), fund (multiple projects), fund of funds, permanent facility or institution (e.g. IFC), market, and Project Preparation Support.

Annexure B: Guide for Understanding and Selecting Blended Finance Instruments

Off-Balance Sheet Instruments

These instruments operate outside the provincial treasury's balance sheet and are primarily used at the project or fund level.

Instrument	Description	Pros	Cons	When to Use	Sector-Specific Recommendations
Technical Assistance (TA)	Provides expertise and capacity building throughout the project lifecycle.	Supports project preparation and implementation. Mitigates risks by enhancing project quality and bankability. Facilitates knowledge transfer and local capacity building.	Resource-intensive and costly. Difficult to measure long-term impact.	Early-stage projects with high technical complexity. Sectors requiring specialised knowledge (e. g., ecological infrastructure). Projects in underserved areas needing capacity building.	**Economic**: Feasibility studies for large-scale transportation projects. **Social**: Healthcare system strengthening initiatives. **Ecological**: Watershed management and biodiversity conservation projects. **Digital**: Digital literacy programs and cybersecurity capacity building. **Energy**: Renewable energy project development and grid integration studies.
Investment and Donor Grants/ Viability Gap Funding (VGF)	Non-repayable funds to fill funding gaps, particularly for high-impact, high-risk projects.	Reduces risk for private investors. Unlocks projects that would otherwise be unviable. Can demonstrate project viability and attract additional investment.	Can create dependency on grant funding. Limited availability and requires strategic prioritization. Complex to structure and administer.	Projects with high socio-economic returns but limited commercial viability. Pilot projects or innovative solutions requiring proof of concept. Sectors with significant market failures (e. g., ecological infrastructure).	**Economic**: Support for small and medium-sized enterprises (SMEs) in logistics and trade sectors. **Social**: Funding for affordable housing projects and community health initiatives. **Ecological**: Restoration projects and climate adaptation initiatives. **Digital**: Rural broadband expansion and digital inclusion programs. **Energy**: Off-grid renewable energy solutions and energy efficiency upgrades for low-income households.
Partial Credit Guarantees (PCGs)	MDB or DFI covers a portion of the debt service payments, reducing risk for lenders.	Improves creditworthiness of projects. Facilitates access to commercial financing. Provides liquidity backstop and reduces refinancing risk.	Capital-intensive for MDBs or DFIs. Complex to structure and requires robust risk assessment. Under-recognised by regulators for capital relief.	Projects with strong fundamentals but facing high perceived risks. Sectors with established track records but requiring additional credit enhancement (e. g., renewable energy).	**Economic**: Large-scale transportation and logistics projects. **Social**: Public-private partnerships (PPPs) for healthcare and education facilities. **Ecological**: Water infrastructure projects and climate resilience initiatives. **Digital**: Broadband infrastructure projects and digital platform development.

Instrument	Description	Pros	Cons	When to Use	Sector-Specific Recommendations
				Projects needing to attract institutional investors.	**Energy**: Renewable energy projects, particularly those with long-term power purchase agreements (PPAs).
Partial Risk Guarantees (PRGs)	MDB covers specific political and non-commercial risks, such as expropriation, breach of contract, and political violence.	Mitigates risks beyond the control of investors. Improves project bankability and attractiveness to private investors. Does not cover commercial risks, encouraging private sector participation in risk management.	Does not cover commercial risks, which may limit its appeal. Complex to structure and requires expertise in risk assessment. Under-recognised by regulators for capital relief.	Projects in politically unstable regions or countries with weak legal frameworks. Projects with high regulatory risk or uncertainty. Sectors with significant political interference (e. g., energy).	**Economic**: Transportation projects involving cross-border trade and regulatory coordination. **Social**: PPPs in regions with political uncertainty. **Ecological**: Large-scale water management projects with international implications. **Digital**: Cross-border digital infrastructure projects. **Energy**: Renewable energy projects in countries with unstable regulatory environments.
Syndicated Loans (A/B Loan Structures and Parallel Loans)	Multiple lenders participate in financing, with MDBs or DFIs often acting as lead arrangers.	Facilitates larger financing packages. Private lenders benefit from MDBs' privileges and expertise. Reduces operational risks and transaction costs.	Complex to structure and negotiate. Uncertainty around the extension of MDB privileges to private lenders. Requires coordination among multiple parties.	Large-scale projects requiring significant capital investment. Sectors with established track records and lower risk profiles. Projects with strong potential for private sector co-financing.	**Economic**: Major transportation and logistics projects. **Social**: Large-scale healthcare and education infrastructure projects. **Ecological**: Large-scale water infrastructure and renewable energy projects. **Digital**: Major broadband infrastructure projects. **Energy**: Large-scale renewable energy projects and energy efficiency upgrades.
Equity Participation	MDB or DFIs invests directly in a project or company in exchange for ownership shares.	Aligns MDBs' of DFIs' objectives with project outcomes. Reduces investor risk and attracts additional investment. Provides MDBs or DFIs with greater influence over project direction.	Higher risk compared to debt instruments. Potential conflicts of interest between MDBs, DFIs, WCG and private shareholders. Requires approval from member countries of MDBs if MDBs involved.	High-impact, high-risk projects with strong potential for long-term returns. Sectors requiring strategic alignment and long-term commitment (e. g., ecological infrastructure). Projects needing patient capital and risk-sharing.	**Economic:** SMEs in emerging sectors with high growth potential. **Social:** Social enterprises and community-based organisations. **Ecological:** Innovative environmental startups and conservation projects. **Digital:** Technology startups and digital platform development. **Energy:** Renewable energy startups and energy innovation projects.

Instrument	Description	Pros	Cons	When to Use	Sector-Specific Recommendations
Subordinated Debt	Debt with lower priority than senior debt but higher than equity.	Protects senior lenders and improves project risk profile. Attracts additional investment by sharing risk. Can be structured to meet specific project needs.	Higher capital charge for MDBs or DFIs. Complex to structure and negotiate. Requires careful risk assessment and pricing.	Projects with moderate risk profiles and potential for strong returns. Sectors with established track records but requiring additional risk-sharing. Projects needing to balance risk and return for different investor classes.	**Economic**: Transportation and logistics projects with moderate risk profiles. **Social**: Healthcare and education projects with strong revenue potential. **Ecological**: Water infrastructure projects with reliable revenue streams. **Digital**: Broadband infrastructure projects with established demand. **Energy**: Renewable energy projects with long-term PPAs.
Funds	Investment vehicles that aggregate capital from multiple investors to finance a portfolio of projects.	Facilitates risk pooling and diversification. Enables MDBs or DFIs to leverage private sector expertise and networks. Provides a platform for collaboration and knowledge sharing.	Resource-intensive to establish and operate. Potential conflicts of interest between MDBs or DFIs and private investors. Limited control over individual projects.	Large-scale, diversified portfolios of projects across multiple sectors. Sectors requiring significant capital investment and risk-sharing. Projects benefiting from collaboration and knowledge sharing.	**Economic**: Funds focused on transportation, logistics, and trade infrastructure. **Social**: Funds supporting healthcare, education, and affordable housing projects. **Ecological**: Funds for water management, biodiversity conservation, and climate resilience. **Digital**: Funds for broadband infrastructure, digital platform development, and cybersecurity. **Energy**: Funds for renewable energy, energy efficiency, and grid modernization.

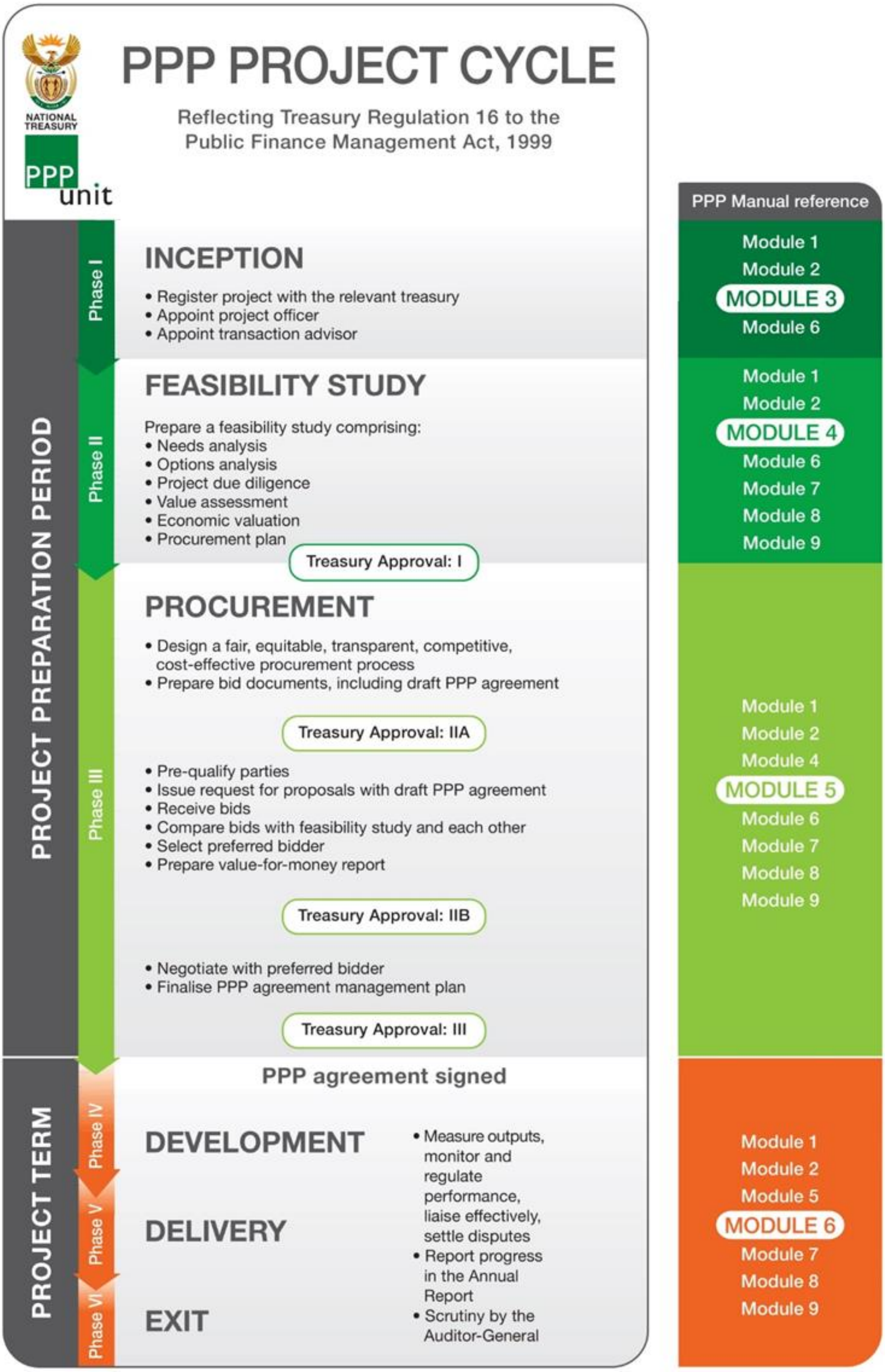
On-Balance Sheet Instruments

These instruments involve the provincial treasury directly engaging in the capital structure of projects or MDBs or DFIs.

Instrument	Description	Pros	Cons	When to Use	Sector-Specific Recommendations
Senior Debt/ Bond Issuance	MDBs or DFIs raise funds by issuing bonds, which are considered low-risk investments.	Provides stable and low-cost financing. Offers diversification opportunities for investors. Aligns with sustainable investment trends (e.g., green bonds).	Limited returns and upside potential. May require approval from member countries. Potential impact on MDBs' of DFIs' creditworthiness	Projects with low to moderate risk profiles and reliable revenue streams. Sectors with established track records and strong market demand. Projects benefiting from MDBs' or DFIs' credit enhancement and market access.	**Economic**: Transportation and logistics projects with stable revenue streams. **Social**: Healthcare and education projects with government backing. **Ecological**: Water infrastructure projects with reliable revenue streams. **Digital**: Broadband infrastructure projects with established demand. **Energy**: Renewable energy projects with long-term PPAs.
Equity	MDBs od DFIs allow private investors to purchase ownership shares in projects or MDBs/DFIs themselves.	Increases capital base and lending capacity. Aligns investor interests with project outcomes. Facilitates knowledge transfer and innovation.	Potential conflicts of interest between MDBs or DFIs and private shareholders. Requires approval from member countries. Higher risk compared to debt instruments.	High-impact, high-risk projects with strong potential for long-term returns. Sectors requiring strategic alignment and long-term commitment. Projects benefiting from MDBs' or DFIs' expertise and networks.	**Economic**: SMEs in emerging sectors with high growth potential. **Social**: Social enterprises and community-based organisations. **Ecological**: Innovative environmental startups and conservation projects. **Digital**: Technology startups and digital platform development. **Energy**: Renewable energy startups and energy innovation projects.
Hybrid Capital (HC)	Subordinated fixed-coupon bonds with perpetual or very long maturity, combining features of debt and equity.	Strengthens MDBs' or DFIs' credit ratings and capital adequacy. Increases lending capacity without diluting ownership. Low governance barriers compared to equity issuance.	Complex to structure and requires careful risk assessment. Dependent on credit rating agency (CRA) methodologies. Potential challenges in redeeming the bond at the first call date.	Projects requiring significant capital investment and risk-sharing. Sectors with strong potential for long-term returns. Projects benefiting from MDBs' or DFIs' enhanced creditworthiness.	**Economic**: Large-scale transportation and logistics projects. **Social**: Major healthcare and education infrastructure projects. **Ecological**: Large-scale water infrastructure and renewable energy projects. **Digital**: Major broadband infrastructure projects. **Energy**: Large-scale renewable energy projects and energy efficiency upgrades.

Instrument	Description	Pros	Cons	When to Use	Sector-Specific Recommendations
Portfolio Securitisa-tion	MDBs or DFIs pool illiquid assets (e. g., loans) and sell them as securities to investors.	Offloads risk from MDBs' or DFIs' balance sheets. Improves liquidity and capital adequacy. Provides diversified investment opportunities for investors.	Complex and costly to structure. Requires reliable data on underlying assets. Potential challenges in obtaining favourable credit ratings.	Large-scale portfolios of projects across multiple sectors. Sectors with established track records and reliable data. Projects benefiting from risk diversification and liquidity enhancement.	**Economic**: Transportation and logistics projects with stable revenue streams. **Social**: Healthcare and education projects with government backing. **Ecological**: Water infrastructure projects with reliable revenue streams. **Digital**: Broadband infrastructure projects with established demand. **Energy**: Renewable energy projects with long-term PPAs.
Portfolio Mandates	MDBs or DFIs agree to cover a portion of the losses on a portfolio of loans, acting as a form of credit enhancement.	Mobilises additional capital by reducing investment risk. Mitigates risks and provides protection against defaults. Facilitates risk sharing and collaboration.	Complex to structure and negotiate. Difficult to replicate outside of specific initiatives. Under-recognised by CRAs for capital relief.	Projects requiring significant capital investment and risk-sharing. Sectors with moderate to high-risk profiles. Projects benefiting from risk pooling and diversification.	**Economic**: Transportation and logistics projects with moderate risk profiles. **Social**: Healthcare and education projects with strong revenue potential. **Ecological**: Water infrastructure projects with reliable revenue streams. **Digital**: Broadband infrastructure projects with established demand. **Energy**: Renewable energy projects with long-term PPAs.
Credit Risk Insurance	MDBs of DFIs purchase insurance to manage and mitigate risks associated with lending.	Mitigates risks of non-payment or default. Improves creditworthiness and capital adequacy. Facilitates diversification of loan portfolios.	Costly and complex to implement. Potential over-reliance on insurance. May weaken internal risk management processes.	Projects with high credit risk or uncertainty. Sectors with significant political and regulatory risks. Projects benefiting from risk pooling and diversification.	**Economic**: Transportation projects with high regulatory risk. **Social**: Healthcare projects with high credit risk. **Ecological**: Water infrastructure projects with high political risk. **Digital**: Broadband infrastructure projects with high credit risk. **Energy**: Renewable energy projects with high political and credit risk.

Annexure C: Public Private Partnership Project Cycle



Annexure D: Management of Donations

Management of Donations

1. National Treasury Regulations (2001) (Section 21)

The management of donations to the state is governed by **Section 21 Gifts, donations and sponsorships,** which sets out the rules for both granting and accepting donations. The regulations distinguish between **donations made by the state** and **donations received by the state**, with specific procedures and thresholds for approval.

According to Regulation 21.1

> *21.1.1 The relevant treasury may approve gifts, donations and sponsorships of state money and other movable property in the interest of the state, provided that when such cash amounts exceed R100 000, funds must first be voted by Parliament or the provincial legislature.*

According to **Regulation 21.2**, donations **received by the state** must be approved either by the relevant accounting officer or the treasury, depending on the value. The regulation reads:

> *21.2.1 The accounting officer may approve the acceptance of any gift, donation or sponsorship to the state, whether such gifts, donations or sponsorships are in cash or kind.*
>
> *21.2.2 All cash gifts, donations or sponsorships must be paid into the relevant revenue fund.*
>
> *21.2.3 Where it is not apparent for what purpose a gift, donation or sponsorship should be applied, the Minister or the MEC for finance may decide how it must be utilised. Where a gift is in cash, the Minister or the MEC for finance may, notwithstanding any provision to the contrary in any law, direct that for purposes of the Act, the gift is deemed to be revenue accruing to the revenue fund.*
>
> *21.2.4 All gifts, donations or sponsorships received during the course of the financial year must be disclosed as a note to the annual financial statements of the institution.*
>
> *21.2.5 Donor funding received in terms of the Reconstruction and Development Fund Act (No. 7 of 1994, as amended by Act No. 79 of 1998) must be dealt with as determined by the treasury from time to time.*

Regulation 21.3 addresses the handling of **immovable property** (such as land or buildings), **stipulating** that any gift or donation of such property also requires Treasury approval, regardless of its value:

21.3.1 The relevant *treasury's approval must be obtained before institutions offer or accept any gifts or donations of immovable property.*

21.3.2 Institutions must submit to the relevant treasury the reasons for and the conditions under which the gift or donation of immovable property is offered or accepted.

This ensures that high-value or strategic state assets are not transferred without appropriate oversight and accountability.

Regulation 21.4 requires that the identity of all donors and sponsors be disclosed:

21.4.1 When a donor or sponsor requests to remain anonymous, the accounting officer must submit to the relevant treasury a certificate from both the Public Protector and the Auditor-General, which states that the identity of the donor or sponsor has been revealed to them, that they have noted it and have no objection.

21.4.2 The above provision in no way limits the Auditor-General or the Public Protector from supplying this information to their staff, and where they deem it in the public interest, to report on this.

This provision prohibits the acceptance of anonymous donations, ensuring that all contributions are publicly accountable and that their source can be verified.

2. Donor Funding Template

Donor Funding Template

Donor	Type of Donor	Purpose/ Description	Cash/ In-Kind	Value (R'000)	Date Received	Utilising Department/Entity

Provincial Treasury
Private Bag X9165
7 Wale Street
Cape Town
tel: +27 21 483 5618
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