Policy Briefing Note: Innovative Financing Mechanisms for Infrastructure Projects in South Africa

This briefing note summarizes key innovative financing mechanisms defined by the National Treasury of South Africa to support infrastructure development. These mechanisms aim to mobilize private capital, de-risk projects, and enhance bankability across sectors such as energy, transport, water, housing, and health.

1. Blended Finance

Blended finance combines public funds with private and development finance to reduce risk and attract investment. It is used extensively by the Infrastructure Fund, managed in partnership with the Development Bank of Southern Africa (DBSA), to support strategic infrastructure projects.

2. First-Loss Capital

First-loss capital involves the public sector absorbing initial losses to protect private investors. This mechanism encourages investment in higher-risk or early-stage infrastructure projects by improving investor confidence.

3. Concessional Loans

Concessional loans are offered at below-market interest rates by development finance institutions or government. These loans improve affordability and financial sustainability of infrastructure projects, especially in underserved areas.

4. Credit Enhancements

Credit enhancements include guarantees, insurance, or subordinated debt to improve the creditworthiness of infrastructure projects. These instruments reduce perceived risk for commercial lenders and facilitate access to capital.

5. Tariff and Interest Subsidies

Government may subsidize part of the user fees or interest payments to make infrastructure projects viable and affordable. This mechanism is particularly useful in sectors where affordability is a key concern.

6. Viability Gap Funding (VGF)

Viability Gap Funding provides direct capital grants to cover the shortfall between project cost and expected revenue. It ensures that socially beneficial projects can proceed even if they are not fully commercially viable.

7. Public-Private Partnership (PPP) Innovations

Innovative PPP models include user-pay systems, availability payments, and hybrid models. Examples include the Tygerberg Hospital PPP and the City of Johannesburg's Alternative Waste Treatment project. These models enable municipalities and government entities to partner with private sector providers for infrastructure delivery.