

IPM Management Response

Evaluation of the Technical Assistance Supporting Municipalities in South Africa through the ICBF and the IMDF – INCA Portfolio Managers (IPM)

by DNA Economics, dated 17 April 2025

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1. Background

The State Secretariat for Economic Affairs (SECO) launched an initiative in 2021 to support South Africa's intermediary cities by improving municipal financial management and enabling access to infrastructure funding. This is achieved through two interventions: (i) the INCA Capacity Building Fund (ICBF), which offers technical assistance to improve municipal financial sustainability and creditworthiness, and (ii) the INCA Municipal Debt Fund (IMDF), which de-risks loans for infrastructure investments in creditworthy municipalities. The impact for both components is an increased provision of quality infrastructure.

INCA Portfolio Managers (IPM) commissioned a midterm evaluation of the ICBF as well as the IMDF. SECO has been consulted on the review process. DNA Economics was contracted to undertake the evaluation on 28 October 2024 and delivered their final report on 15 April 2025. The purpose and objectives of the evaluation were to assess the achievements of the ICBF and IMDF, with a particular focus on documenting both outputs and outcomes. The key areas of assessment included:

- Evaluating how well the ICBF and IMDF interventions align with the needs of the intermediary municipalities.
- Assessing the effectiveness of both the ICBF and the IMDF in achieving their intended outcomes.
- Analysing the efficient use of resources and the mobilisation of co-funding with respect to both interventions.
- Identifying long-term impacts and sustainability of both interventions.

2. Appreciation of the report

General

The evaluation meets the requirements of the contract and the agreed terms of reference. The budget and deadlines were respected. The evaluators executed the task within certain limitations. The latter is mainly the result of limited interviews and participation of potential private sector or development finance institution (DFI) funders of municipalities in South Africa.

The communication with the evaluator was good and open and, with the acceptance of a few misunderstandings, the evaluators executed the evaluation to the standard expected given the time frame and scope of the evaluation as agreed.

The final evaluation report is concise, easy to read and has the required reflective approach. The report reflects a good understanding of the complex programme and challenges faced to execute effective interventions to achieve the anticipated outcomes, given the state of the local government sector in South Africa.

The report clearly states key findings, conclusions drawn and makes specific recommendations. The data collection was based on a desktop review and evaluation followed by key interviews – (i) with municipalities that benefited from the interventions, (ii) National Treasury

as main stakeholder, and (iii) limited interviews with private sector investors in municipal infrastructure.

Content

The evaluators misunderstood the deliberate design choice to introduce Long-Term Financial Plans (LTFPs) only in selected municipalities. Despite detailed discussions, the evaluators maintained their recommendation for a broad-based redesign, which would require significantly more resources and increase the risk to LTFP effectiveness.

The report is overly critical, focusing on 6 out of 30 municipalities that did not continue after initial ICBF support, to argue – questionably – that municipalities can't afford proper long-term financial planning tools.

The idea that public sector support should replace private providers assumes such services are cost-free or cheaper when delivered publicly. This is unrealistic and lacks critical analysis needed to meet development goals sustainably.

The conclusion that only blended finance can attract institutional investors overlooks the core issue: municipalities' low (real or perceived) creditworthiness. It also assumes DFIs are willing to provide concessional funding, which the French Development Agency's (AFD) refusal through IMDF contradicts.

IPM engaged with evaluators to clarify the rationale behind selecting certain municipalities to demonstrate success and shift risk perceptions. However, the report largely ignored this, recommending redesigns that overlook positive outcomes in secondary cities – especially in LTFP use and institutionalisation despite SCM challenges.

3. Key findings

In the main the outputs and outcomes of the ICBF were achieved. The success of the IMDF in mobilizing additional finance for municipal infrastructure development was more problematic, given that the R500 million committed by AFD proved too expensive. No successful loan since inception could be concluded by the IMDF.

3.1. The main findings according to DAC criteria regarding the ICBF were:

Relevance:

- The ICBF remains highly relevant in addressing financial planning gaps in intermediate cities. Capacity building initiatives have strengthened municipal financial leadership, but concerns were noted about exclusivity and uneven access and potential exclusion of municipalities from ICBF assistance provided.

Coherence:

- The ICBF is well aligned with broader reform efforts but suffer from blurred lines with the IMDF. Selection of municipal participation lacked transparency with no clearly defined eligibility criteria. Top performing municipalities were targeted to ensure robust peer learning and active traction of municipal finance initiatives.

Efficiency:

- The ICBF's implementation has been hindered by inconsistent municipal engagement, with many municipalities failing to sustain financial planning efforts once external funding is withdrawn.

- Administrative inefficiencies, including unclear differentiation between the ICBF and IMDF, procurement delays, and lack of follow-up support, have affected the efficiency and impact of capacity building initiatives.
- The reliance on a private financial model provider has created concerns of access barriers for financially constrained municipalities.

Effectiveness and Impact:

- ICBF has improved financial planning capabilities among participating municipalities, with several integrating long-term financial models into budgeting and investment decisions. However, adoption remains uneven, particularly among smaller municipalities due to affordability constraints.
- Capacity-building efforts, including summer schools and masterclasses, have enhanced financial literacy and planning skills, but the lack of structured post-training support has limited their long-term impact.

Sustainability:

- Long term sustainability of the ICBF is at risk due to its reliance on donor funding.
- Opportunities for scale and sustainability due to strong potential to replicate the ICBF model exist. This requires embedding tools in government systems, update training content and exploring public or private funding models to secure future programme delivery.

3.2. The main findings according to DAC criteria regarding the IMDF were:

Relevance:

- Municipalities have shown limited awareness and engagement with long-term tenor financing mechanism, such as the IMDF, highlighting a missed opportunity to leverage more appropriate financing instruments.
- Financially mature municipalities are more willing to explore innovative financing models. Municipalities prioritise the cost of financing over loan tenors.
- Institutional investors see IMDF as potentially relevant but express concerns over pricing and risk-return profiles, emphasising the need for blended financing models or guarantees to improve participation. The IMDF has strong potential as a longer tenor financing instrument but requires redesign to improve its ability to attract anchor investors who can provide concessional or lower-cost financing.

Efficiency:

- The higher pricing structure, above competitive market rates, made the fund less attractive to municipalities, which prioritise a balance between pricing, loan tenor, and long-term benefits.
- Inability to reduce the overall cost of capital and the risk return expectations of institutional investors make IMDF not efficient.

Effectiveness:

- No IMDF uptake.
- Municipalities see the need for long-term infrastructure funding but find the IMDF less attractive because of its inability to compete with more favourable commercial bank terms, especially for municipalities with higher credit ratings.
- The private sector sees value in the IMDF for helping smaller municipalities but highlights the need for innovative financial structures, risk mitigation tools such as guarantees, and better alignment of pricing with investor expectations to ensure its sustainability.

4. Main recommendations by DNA Economics:

Regarding ICBF:

- Redesign the ICBF to strengthen thematic focus and post-training support.
- Establish a structural and transparent selection process for municipal support.
- Institutionalise a credible community of practise.
- Revise the municipal handbook and provide practical implementation support.

Regarding IMDF:

- Reconceptualise the IMDF design, to enable blended financing that lowers interest rates and extends loan tenors.
- Improve credit enhancement. Current 5% First Loss Facility is insufficient and should be significantly scaled and restructured to effectively reduce investment and attract institutional investors.
- Apply the additionality principle: Focus the IMDF on municipalities that cannot access long-term competitively priced financing from banks, avoiding overlap with existing market offerings.

5. Other important considerations

The SECO support for the ICBF ends on 28.02.2026.

SECO and IPM are currently holding discussions to consider the implications of this evaluation for the IMDF programme's development

RECOMMENDATIONS

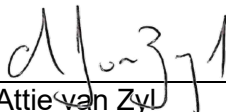
The recommendations are addressed to IPM, who therefore provided the responses. SECO acknowledges these responses and has taken note of the evaluation conclusions and recommendations, particularly for any decisions related to the future of the programme (see previous chapter 7).

RECOMMENDATIONS	MANAGEMENT RESPONSE			RESPONSIBILITY	TIMING
ICBF 1 Redesign the ICBF to strengthen thematic focus and post-training support.	Fully agree	Partially agree X	Not agree X		
	<u>IPM Response</u> The unique focus and nature of the “Summer School” to be maintained. Partially agree to follow up in-between Summer Schools. Do not agree with recommendation to split LTFP and LTFM as it is a misunderstanding. The ICBF does not at all financially support the use of the LTFM by municipalities.				
	<u>Measures</u> ICBF to consider more frequent and sequential training, including master classes and webinars, followed by Summer School and post-training support, depending on resources (the SECO support for the ICBF ends on 28.02.2026).			IPM	2025 and during 2026
ICBF 2 Establish a structured and transparent selection process for municipal capacity building initiatives.	Fully agree X	Partially agree	Not agree		
	<u>IPM Response</u> It is understood that more clarity is needed in terms of the selection criteria to avoid misunderstanding and ensure participation.				
	<u>Measures</u> Selection criteria to be formalised and communicated to clarify reason for focus.			IPM	Before next Summer School in 2026
ICBF 3	Fully agree X	Partially agree	Not agree		

RECOMMENDATIONS	MANAGEMENT RESPONSE			RESPONSIBILITY	TIMING
Institutionalise a structured and credible Community of Practice (CoP) for municipal financial management.	<u>IPM Response</u> Approaches will be identified to establish an effective CoP as the success of this will rely on the active participation and management thereof. So far, a WhatsApp Group has been created and is active as a means for participants to engage on key issues.				
	<u>Measures</u> WhatsApp Group to be kept active, while other approaches are also considered. More frequent webinars and master classes to be considered.			IPM	2025 and beyond
ICBF 4 Revise the Municipal Handbook to include practical best practice implementation case studies.	Fully agree	Partially agree	Not agree X		
	<u>IPM Response</u> A digital version of Handbook already exists. Bulk selling still consists of hardcopies of handbook as it is used in this way by education institutions. The Handbook currently serves its specific purpose and is complemented by guidance notes issued by NT, SALGA, CIGFARO.				
	<u>Measures</u> ICBF will support “practise note” on specific issues.			IPM	February 2026
IMDF 1 .Reconceptualise the design of the IMDF (incorporate concessional finance)	Fully agree	Partially agree X	Not agree		
	<u>IPM Response</u> Note is taken of the recommendation, but the use of resources for blending will diminish the effect / advantage of a First Loss Facility. As the primary concern was cost, discussions are ongoing with potential new financiers that would consider more lenient approaches to costing, taking into consideration the advantage of the FLF. IFC and African Bank have already signalled interest to participate.				
	<u>Measures</u> Participate in next tenders with African Bank – who requires the first loss facility. Conduct the planned municipal roadshows to market the current structure. As alternative, the option to use as blended finance will be considered in 2026, in discussion with SECO.			IPM	2025 – Mid 2026

RECOMMENDATIONS	MANAGEMENT RESPONSE			RESPONSIBILITY	TIMING
IMDF 2 Improve credit enhancement, operate as a credit guarantee vehicle	Fully agree	Partially agree X	Not agree		
	<u>IPM Response</u> IPM believes that there is no need to significantly scale the FLF - especially if a partly concessional funder will be willing to allow its funds for blending. Analyses and on-going discussion indicated that FLF as is will be a sufficient additional risk mitigator.				
	<u>Measures</u> Follow up on roadshows to market the FLF with interested financiers. Reconsider if this option does not work.			IPM, Financiers	Q4 2025
IMDF 3 Apply the principle of additionality - target municipalities unable to access long-term competitive price finance	Fully agree	Partially agree	Not agree X		
	<u>IPM Response</u> It is believed that institutions such as the Development Bank of Southern Africa (DBSA) is better placed than private sector players to fulfil this role. Alternatively, grants should be used to blend with finance raised from the commercial market. INCA has a specific focus on secondary cities that could potentially borrow finance for their capital budgets. It works complementary to the ICBF to develop this tier of municipalities to enhance longer term sustainability.				
	<u>Measures</u> The focus will be to mobilise potential qualifying municipalities and financiers to secure transactions through the ICBF.			IPM	2025 - 2026

Place, Date



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