



Feasibility of SALGA as a Local Government Financing Agency for Supporting Municipal Just Energy Transition Implementation Plans in South Africa – James Matsie

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INTRO | KNOWLEDGE GAP

Problem Statement

- Municipalities in South Africa are at the forefront of climate impacts.
- Municipalities must meet their energy transition obligations, which are critical for achieving South Africa's decarbonisation goals.
- The Just Energy Transition Implementation Plan (JETIP) requires municipalities to invest R273 billion in grid upgrades, but they face significant infrastructure financing challenges.

Research Question:

- Can SALGA establish a Local Government Financing Agency (LGFA) to provide municipalities with the financial resources needed to implement JETIP?
- What lessons can be drawn from global LGFA models to tailor a solution for South Africa's unique challenges?

Context

- South Africa's municipalities are critical to the energy transition but lack sufficient financing mechanisms.
- Existing research focuses on national and multilateral development banks, with limited attention on subnational development banks (SDBs) like LGFA.
- The JETIP is a top-down programme, that places infrastructure finance obligations on municipalities.

Gap Identified

- Limited research on how subnational development banks (SDBs) like LGFAs can support municipal energy transitions in middle-income countries.
- Existing literature focuses on national and multilateral development banks, with little attention to local government financing agencies.
- Municipal energy transition challenges are global - need for a localised model that addresses South Africa's fiscal imbalances, institutional capacity gaps, and governance challenges.

LITERATURE REVIEW

Theories

- **Fiscal Federalism:** LGFAs operate within the principles of fiscal federalism, allowing municipalities to access financing while maintaining local autonomy.
- **Capital Market Theories:** The Adaptive Market Hypothesis (AMH) is more suitable for renewable energy finance than the Efficient Market Hypothesis (EMH), as it accounts for the evolving nature of energy transitions.
- **Institutional Theory - Public Development Banks (PDBs):** LGFAs are a type of subnational development bank (SDB) that play a critical role in financing energy transitions, particularly in regions with weak local financing instruments.

LGFA Factors for Success (Anderson, Bailey & Pautz, 2010.114):

- **Municipal Buy-In:** Municipalities must support the concept of an LGFA and participate in pooled financing mechanisms.
- **Non-Profit Orientation:** LGFAs should prioritize public sector objectives over profit maximisation. (Transact with municipalities only and reduce commercial bank dominance)
- **Professional Management:** LGFAs require capable professionals to interact with financial and capital markets.
- **Knowledge Hub:** LGFAs should provide training and capacity-building support to municipalities.

How do LGFA's Work (Municipal Pooled Finance Mechanism – MPFM)

- **Definition:** MPFM involves municipalities with similar credit profiles collaborating to access capital markets collectively.
- **Benefits:** Reduces borrowing costs, improves access to finance, and mitigates risks for individual municipalities.
- **South African Context:** The revised Policy Framework for Municipal Borrowing (PFMB) provides a foundation for implementing MPFM in South Africa.

LGFA – PDB – SDB – The role of PDBs in energy transition

Green Bonds are the main climate finance source

The potential for catalysing secondary bond markets

Type of government matters (national, decentralisation)

Municipal institutional performance matters

METHODOLOGY | RESULTS

Research Design:

- **Qualitative Approach:** The study uses document analysis and a narrative literature review to explore the feasibility of an LGFA in South Africa.
- **Data Sources:** Annual reports from established LGFAs and SALGA. (2023) (Kommunekredit, MFABC, NZLGFA, AFL, JFM) and secondary data from other institutional reports.

Scientific Rigor:

- **Document Analysis:** Examined incorporation dates, ownership structures, credit ratings, loan books, and sustainability initiatives of LGFAs.
- **Narrative Literature Review:** Identified key success factors and challenges from global LGFA models - attempted to apply a semi-systematic and integrative literature review methodology to explore the gaps in municipal infrastructure finance and the potential role of an LGFA in addressing these gaps (Snyder, 2019).
- **Triangulation:** Cross-referenced data from multiple sources to ensure validity and reliability (FICS, 2025).

Limitations:

- Reliance on secondary data may not fully capture local dynamics in South African municipalities.

Research Results (1)



LGFA	KEY FEATURES	ZA RELEVANCE
<p>Kommunekredit (Denmark)</p>	<ul style="list-style-type: none"> - Established in 1899, owned by municipalities. - Issued \$518M in green loans (2023). - High credit ratings (Moody's Aaa, S&P AAA). 	<p>Demonstrates the success of pooled financing and joint liability structures. Highlights the importance of strong governance and sustainability focus.</p>
<p>NZLGFA (New Zealand)</p>	<ul style="list-style-type: none"> - Established in 2011, owned by municipalities (80%) and national government (20%). - Issued \$506M in climate loans (2023). - High credit ratings (S&P AAA, Fitch AA+). 	<p>Shows how green bonds and sustainability-linked financing can align with national energy transition goals.</p>



Research Results (2)



LGFA

KEY FEATURES

ZA RELEVANCE

JFM (Japan)

- Established in 2008, wholly owned by municipalities.
- Issued \$53.9B in green bonds (2023).
- Strong credit ratings (S&P A+, Moody's A1).

Highlights the role of LGFAs in supporting municipal fiscal soundness and sustainability initiatives.

AFL (France)

- Established in 2013, owned by French municipalities.
- Raised \$1.03B in bonds (2023).
- Credit ratings: Moody's Aa3, S&P AA-.

Emphasizes the need for competitive borrowing rates and the integration of renewable energy projects.

MFABC (Canada)

- Established in 1970, owned by municipalities in British Columbia.
- Debt book of \$4.14B (2023).
- High credit ratings (AAA/AA+).
- ESG principles integrated into lending.

Demonstrates the importance of integrating Environmental, Social, and Governance (ESG) principles into municipal financing.



SALGA

KEY FEATURES

LGFA IMPLICATIONS

Institutional Performance

- SALGA has achieved **11 consecutive clean audits**, demonstrating strong financial management.
- **90% average achievement** of performance targets over time.

Highlights SALGA's capacity to manage complex initiatives, which is critical for the success of an LGFA.

Governance Framework

- SALGA operates under a robust governance framework, ensuring transparency and accountability.
- Represents municipalities in key intergovernmental structures (e.g., Budget Forum, Presidential Coordinating Committee).

SALGA's governance experience positions it to lead the establishment of an LGFA with strong oversight mechanisms.

SALGA

KEY FEATURES

LGFA IMPLICATIONS

JETIP Support

- SALGA has supported municipalities in integrating JETIP projects into **Integrated Development Plans (IDPs)**.
- Conducted **community awareness programs** on the impacts of JETIP.

Demonstrates SALGA's alignment with national energy transition goals, which an LGFA can further support..

Revenue Model

- SALGA's revenue is primarily derived from **membership levies**, with a small portion from grants.
- This model ensures financial independence and sustainability.

SALGA's financial independence is a positive indicator for managing an LGFA's operations.

DISCUSSION | CONCLUSION | RECOMMENDATIONS

Discussion



LGFA's globally have proven effective in reducing borrowing costs and supporting sustainable infrastructure investments.

Challenges such as weak institutional capacity and governance issues must be addressed to ensure the LGFA's success.

South Africa's unique challenges require a tailored LGFA model, with strong governance and risk management frameworks.

SALGA's role as a representative body for municipalities positions it to lead the establishment of an LGFA.

A South African LGFA could address financing gaps, reduce borrowing costs, and support sustainable infrastructure investments

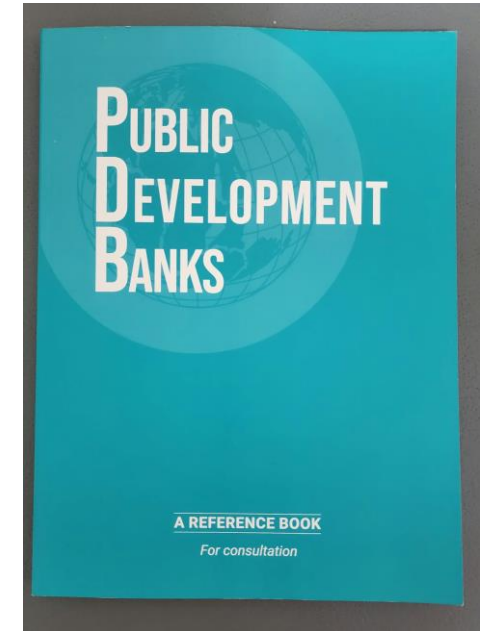
A strong and enabling regulatory environment is key

Municipal cooperation is yet to be tested

FICS 2025, Cape Town, February

Subnational Development Banks

- “They are owned by LG entity or jointly by several LG”
- “Strategically positioned as financial intermediaries”
- “Well placed to structure pipelines of local projects or investment portfolio aligned to local knowledge
- “SDB’s have an in-depth understanding of local contexts while the successful achievement of SDG’s is constrained to each specific local context.”
- “However, comprehensive research remains necessary to substantiate the significant contributions of SDBs to the global endeavour of achieving the SDG’s effectively at local level.”



Establish a South African LGFA:

- SALGA should lead the development of a national LGFA, benchmarking international best practices while addressing South Africa's unique challenges.

Develop Pooled Financing Mechanisms:

- Municipalities with similar credit profiles should collaborate to enhance access to capital markets and reduce borrowing costs.

Enhance Municipal Capacity Building:

- Invest in training and professional development for municipal finance officers to improve project preparation and financial management.

Integrate Climate Finance Frameworks:

- Adopt green and sustainability-linked bonds to align municipal investments with JETIP objectives and global sustainability goals.

Strengthen Governance and Transparency:

- Establish clear roles, responsibilities, and performance indicators for the LGFA to ensure accountability and effectiveness.

Engage in Stakeholder Consultations:

- Continuous engagement with municipalities, financial institutions, and civil society to build consensus and ensure the LGFA meets diverse needs.



Thank You



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Anderson, N., Bailey, S.J. and Pautz, H., 2010. Local government funding agencies: lessons from success and failure. Innovations in financing public services: country case studies, pp.114-134.

Finance in Common, 2025. Public Development Banks. A reference book – for consultation

Snyder, H., 2019. Literature review as a research methodology: An overview and guidelines. Journal of business research, 104, pp.333-339.