**AFRICAN DEVELOPMENT BANK**

Reference No: P-ZA-K00-009

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**RBF**
**Results-Based Financing**
African Development Bank Group

# REPUBLIC OF SOUTH AFRICA

# MPUMALANGA MUNICIPAL UTILITY REFORM PROGRAMME

## PROGRAMME APPRAISAL REPORT

**July2026**

| | |
|---|---|
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**AFRICAN DEVELOPMENT BANK**



**REPUBLIC OF SOUTH AFRICA**

# MPUMALANGA MUNICIPAL UTILITY REFORM PROGRAMME

**PROGRAMME APPRAISAL REPORT**



**PEVP/FIVP/AHVP/RDGS/PERN/FIST/PESD DEPARTMENTS**

July 2026

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## CURRENCY EQUIVALENTS

*February 2026*

| | | |
|---|---|---|
| 1 UA | = | US Dollar (USD) 1.38187 |
| 1 UA | = | South African Rand (ZAR) 22.00462 |
| 1 USD | = | ZAR 15.92380 |

## FISCAL YEAR

1st April - 31st March

## WEIGHTS AND MEASURES

| | | |
|---|---|---|
| 1metric tonne | = | 2204 pounds (lbs) |
| 1 kilogramme (kg) | = | 2.200 lbs |
| 1 metre (m) | = | 3.28 feet (ft) |
| 1 millimetre (mm) | = | 0.03937 inch |
| 1 kilometre (km) | = | 0.62 mile |
| 1 hectare (ha) | = | 2.471 acres |

# ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| ARAP | Abbreviated Resettlement Action Plan |
| ADF | African Development Fund |
| AfDB/ADB | African Development Bank |
| AGSA | Auditor-General of South Africa |
| BPS | Borrower's Procurement System |
| CFRA | Country Fiduciary Risk Assessment |
| CPIA | Country Policy and Institutional Assessment |
| CSP | Country Strategic Paper |
| COFOG | Classification of the Functions of Government |
| DCoG | Department of Cooperative Governance |
| DBSA | Development Bank of Southern Africa |
| DEE | Department of Electricity and Energy |
| DLIs | Disbursement Linked Indicators |
| DMA | District Metered Area |
| DMRE | Department of Mineral Resources and Energy |
| DMS | Distribution Management System |
| DoRA | Division of Revenue Act |
| DP | Development Partners |
| DWS | Department of Water and Sanitation |
| EAs | Executing Agencies |
| EU | European Union |
| EUR | Euro |
| EIRR | Economic Internal Rate of Return |
| ELM | Emalahleni Local Municipality |
| ENPV | Economic Net Present Value |
| ERRP | Economic Reconstruction and Recovery Plan |
| E&S | Environmental and Social |
| ESA | Environmental and Social Assessment |

| | |
|---|---|
| ESSA | Environmental and Social System Assessment |
| EURIBOR | Euro Interbank Offered Rate |
| FA-ESMP | Financial Agreement Environmental and Social Management Plan |
| FCDO | United Kingdom Foreign and Commonwealth Development Office |
| FY | Financial Year |
| GBV | Gender Based Violence |
| GDP | Gross Domestic Product |
| GHG | Greenhouse Gas |
| GIS | Geographic Information System |
| GoRSA | Government of the Republic of South Africa |
| IDFC | International Development Finance Club |
| IFMIS | Integrated Financial Management Information System |
| IMF GFS | International Monetary Fund Government Finance Statistics |
| IOP | Indicative Operational Programme |
| IPSAS | International Public Sector Accounting Standards |
| ISS | Integrated Safeguard System |
| IUCMA | Inkomati-Usuthu Catchment Management Agency |
| IVA | Independent Verification Agent |
| IWA | International Water Association |
| JET | Just Energy Transition |
| JET-IP | Just Energy Transition - Investment Plan |
| JET-P | Just Energy Transition Partnership |
| JIBAR | Johannesburg Interbank Average Rate |
| JPY | Japanese Yen |

| | |
|---|---|
| LED | Light Emitting Diode |
| LV | Low Voltage |
| MAF | Municipal Accreditation Framework |
| MDTP | Medium Term Development Plan |
| MEL | Monitoring, Evaluation and Learning |
| MISA | Municipal Infrastructure Support Agency |
| MOA | Memorandum of Agreement |
| MTSF | Mid-Term Strategic Framework |
| MTSP | Metro Trading Services Program |
| MURP | Municipal Utility Reform Program |
| NDC | Nationally Determined Contribution |
| NDP | National Development Plan |
| NECOM | National Energy Crisis Committee's |
| NRF | National Revenue Fund |
| NRW | Non-Revenue Water |
| NT | National Treasury |
| PAP | Programme Action Plan |
| PAR | Project Appraisal Report |
| PBC | Performance-Based Contract |
| PCR | Project Completion Report |
| PEP | Politically Exposed Persons |
| PIP | Prominent Influential Persons |
| PFM | Public Finance Management |
| PFMA | Public Finance Management Act |
| PMO | Programme Management Office |
| PMP | Programme Management Partner |
| PLWD | Persons Living with Disabilities |
| PPP | Public-Private Partnership |
| PRVR | Programme Results Verification Report |
| PRV | Pressure Reducing Valve |

| | |
|---|---|
| RBF | Result Based Financing |
| RMC | Regional Member Country |
| SALGA | South African Local Government Association |
| SDG | Sustainable Development Goal |
| SME | Small and Medium Enterprise |
| SOE | State-Owned Enterprise |
| SOFR | Secured Overnight Financing Rate |
| TBC | To Be Confirmed |
| ToC | Theory of Change |
| TONA | Tokyo Overnight Average Rate |
| TSA | Treasury Single Account |
| UA | Units of Account |
| UK | United Kingdom |
| UN | United Nations |
| USD | United States Dollar |
| ZAR | South African Rand |

## PROGRAMME INFORMATION

| | |
|---|---|
| **SECTOR(S)** | Energy and Water |
| **THEME(S)** | Municipal Utility Reform, Electricity and Water Service Delivery |

### LOAN INFORMATION

Client's information

| | |
|---|---|
| **BORROWER:** | **Republic of South Africa** |
| **EXECUTING AGENCY:** | **Development Bank of Southern Africa (DBSA)** |

| | |
|---|---|
| Contact | Ministry of Finance – National Treasury |
| Other responsible agency | Department of Cooperative Governance (DCoG) |

Financing Plan

| Source | Amount (USD) | Amount in (UA) | Instrument |
|---|---|---|---|
| Borrower and Participating Municipalities | 762,870,000.00 | 552,056,271 | N/A |
| ADB | 400,000,000.00[1] | 289,462,829 | Loan[1] |
| **TOTAL COST** | **1,162,870,000.00** | **841,519,100** | |

ADB key financing information

| | |
|---|---|
| *Loan Type* | *Fully Flexible Loan* |
| *Eligibility* | *1. Regional member countries (RMCs) classified as Blend or ADB countries and public sector entities with a sovereign guarantee from Blend or ADB countries.*<br>*2. Under the 2014 amendment to the Credit Policy, ADF countries accessing on a case-by-case basis ADB resources will also use the Fully Flexible Loan.* |

[1] Bank Group financing will be backed by the UK FCDO guarantee pursuant to the FCDO Guarantee Programme for South Africa Just Energy Transition Partnership (JETP) approved by the Board in 2023 under Board Document ADB/BD/WP/2023/259, dated 20 November 2023. The guarantee will ensure that the Bank's sovereign exposure to South Africa from the Programme does not exceed USD200 million.

| | |
|---|---|
| *Loan Currency* | *USD/EUR/ZAR* |
| *Tenor* | *Up to 12 years inclusive of Grace Period* |
| *Grace period* | *Up to 3 years* |
| *Average Loan Maturity** | *Function of the maturity, grace period and amortization profile*<br>*Up to 17 years* |
| *Repayments* | *Consecutive semi-annual and equal payments after grace period or customized* |
| *Payment Date* | *Standard Payment Dates are 15 March and 15 September each year, or a combination of the 1st and 15th of any month (excluding 1st January) in accordance with the payment frequency selected by the Borrower.* |
| *Interest Rate* | ***Base Rate +Funding Cost Margin + Lending Margin + Spread Adjustment Rate + Maturity Premium***<br>*This Interest Rate will be floored to zero.* |
| *Base Rate* | *Floating Base Rate (Daily SOFR[2] Compounded in Arrears for USD, Daily TONA[3] Compounded in Arrears for JPY, or 6-month EURIBOR[4] for EUR reset each 1st February and 1st August, and 3-month JIBAR[5] for ZAR reset each 1st February, 1st May, 1st August and 1st November).*<br>*A free option to fix the Base Rate is available.* |
| *Funding Cost Margin* | *The Bank funding cost margin as determined each 1st January and 1st July and applied to the Base Rate each 1st February and 1st August for USD, EUR and JPY, and each 1st February, 1st May, 1st August and 1st November for ZAR.* |
| *Lending Margin* | *80 basis points (0.8%) since 1st September 2016.* |
| *Spread Adjustment Rate* | *An adjustment to the Lending Margin expressed as a percentage per annum, as determined from time to time, by the Board of Directors of the Bank and applicable from the beginning of the first Interest Period following approval by the Board of Directors.* |
| *Maturity Premium* | - *0% if Average Loan Maturity ≤ 12.75 years.*<br>- *0.10% if > 12.75 years Average Loan Maturity and ≤ 15 years.*<br>- *0.20% if > 15 years Average Loan Maturity.* |
| *Front-end fees* | *0.25% of the loan amount due at loan effectiveness and payable at the earliest of (i) up to 60 days from Loan Effective Date or (ii) at the time of first disbursement. If the loan is partially or fully cancelled after the Loan Effective Date, the Front-end fee is still due on the full loan amount and no refund is made. The borrower has the option to pay the Front-end Fee: (i) either from its own resources, or (ii) by deducting from the loan proceeds at the first disbursement.* |
| *Commitment fees* | *0.25% of the undisbursed amount of the loan. Commitment fees start accruing 60 days from signature of the loan agreement and are payable on payment dates including during the grace period. The Commitment fee ceases to accrue upon full disbursement or full cancellation of the undisbursed amount of the loan.* |

[2] Secured Overnight Finance Rate.
[3] Tokyo Overnight Average Rate.
[4] Euro Interbank Offered Rate.
[5] Johannesburg Interbank Agreed Rate.

| | |
|---|---|
| *Option to convert the Base Rate*** | *In addition to the free option to fix the floating Base Rate, the borrower may reconvert the fixed rate to floating or refix it on part or the full disbursed amount of the loan.*<br>*Transaction fees are payable.* |
| *Option to cap or collar the Base Rate*** | *The borrower may cap or set both cap and floor on the Base Rate to be applied on part or full disbursed amount of the loan.*<br>*Transaction fees are payable.* |
| *Option to convert loan currency **(Except for AGTF)** *** | *The borrower may convert the loan currency for both undisbursed or disbursed amounts in full or in part to another approved lending currency of the Bank*<br>*Transaction fees are payable.* |
| *Hedge unwinding or adjustment costs* | *Any costs incurred by the Bank in adjusting or terminating the conversions are passed to the borrower.* |

**A calculator is available to allow the borrower to simulate different amortisation profiles and determine Average Loan Maturity. Please contact [FIST2@afdb.org](mailto:FIST2@afdb.org) .*
*** All conversions are subject to market availability. Conversion options and transaction fees are subject to the Bank Conversion Guidelines available online here .*

Expected Disbursements (in US$ or Loan/Grant currency)

| **Expected Disbursements (in USD Million Loan currency)** | | | | | |
|---|---|---|---|---|---|
| Fiscal Year | FY 26-27 | FY 27-28 | FY 28-29 | FY 29-30 | FY 30-31 |
| Annual | 3 403 200,00 | 128 891 065,74 | 107 894 443,02 | 88 820 920,04 | 70 990 371,19 |
| Cumulative | 3 403 200,00 | 132 294 265,74 | 240 188 708,76 | 329 009 628,81 | 400 000 000,00 |

Timeframe - Main stepping stones (expected)

| | |
|---|---|
| Concept Note approval | October 9, 2025 |
| Programme approval | July 15, 2026 |
| Effectiveness | September 30, 2026 |
| Completion | December 31, 2032 |
| Last repayment | December 31, 2056 |

**BASIC PROGRAMME INFORMATION**

| | | |
|---|---|---|
| **Programme Development Objective(s)** | To enhance the efficiency and financial sustainability of municipal water and electricity services. | |
| **Compliance** | | |
| | **Y** | **N** |
| **Policy**<br>Does the Programme depart from the CSP in content or in other significant respects? | | X |
| Does the Programme meet the eligibility criteria | X | |
| Is approval for any policy waiver sought from the Board? | | X |
| | | |
| **Overall Risk Rating:** moderate | | |
| **Legal Conditions** | See Legal Section of this Report | |

## PROGRAMME EXECUTIVE SUMMARY

| Programme overview | Description |
|---|---|
| Programme name: | Mpumalanga Municipal Utility Reform Programme |
| Overall timeframe | 2026-2032 |
| Programme Cost: | USD 400 million |
| Borrower/Recipient | Republic of South Africa |
| Implementing Agency | Development Bank of Southern Africa (DBSA) hosting a ring-fenced Programme Management Office (PMO), under a mandate from the National Treasury and the Department of Cooperative Governance (DCoG) |
| Financing Data | **Total Programme Amount: USD 1.162 billion**<br><br>**Amount of Bank Group Financing (Loan): USD 400 million** (Bank Group financing will be backed by the UK FCDO guarantee pursuant to the FCDO Guarantee Programme for South Africa Just Energy Transition Partnership (JETP) approved by the Board in 2023 under Board Document ADB/BD/WP/2023/259, dated 20 November 2023. The guarantee will ensure that the Bank's sovereign exposure to South Africa from the Programme does not exceed USD200 million.<br><br>**Government Contribution: USD 762 million** |
| **Programme Description** | |
| Programme Development Objective | The Programme Development Objective is to enhance the efficiency and financial sustainability of municipal water and electricity services. |
| Results Areas (Components) | **Energy Utility Efficiency Improved** – reduction of losses, improved revenue collection, smart metering, refurbishment of transformers/substations, Light Emitting Diode (LED) retrofits.<br><br>**Water Utility Efficiency Improved** – non-revenue water reduction, new customer metering, pipeline rehabilitation, pressure management, and expanded household water connections |
| Disbursement-Linked Indicators (DLIs) | DLI 1: Institutional framework for Programme implementation approved (PMO and IVA arrangements in place).<br>DLI 2: Energy service delivery modernisation and sustainability (6 sub-DLIs measured through verified reductions in technical and non-technical electricity losses, increased revenue collection rates, deployment of smart meters, and completion of priority network rehabilitation works).<br>DLI 3: Water service delivery modernisation and sustainability (5 Sub-DLIs measured through verified reductions in non-revenue water, increased metered connections, completion of pipeline rehabilitation and pressure management interventions, and improved continuity of water supply).<br>DLI 4: Environmental and Social compliance (implementation of approved ESMPs and compliance with ESSA requirements). |
| Alignment with Bank priorities | The Programme is consistent with the Bank's Cardinal Points in responding to mobilising financial resources (Cardinal Point 1) and building climate resilient infrastructure (Cardinal Point 4). It supports AfDB's long-term strategy through its focus on Light Up and Power Africa and Improve the Quality of Life for Africans. It contributes to SDGs 6, 7, and indirectly to SDGs 1, 5, 8, 9, 10, 11, 13, 16, and 17. It is consistent with South Africa's CSP (2023–2028) priorities on governance and quality infrastructure development. The Programme is aligned with the New Deal on Energy for Arica (2016–2025) and the Bank's Energy |

| | |
|---|---|
| | Sector Policy (2012) and with the Bank's Water Policy and the Strategy for Water (2021-2025), specifically strategic priority area 2 (SP2) on water supply and sanitation services. |
| Needs Assessment and Justification | Municipalities in the Mpumalanga province face high non-revenue water, technical and non-technical electricity losses, low revenue recovery, and weak governance. The Programme offers a scalable, performance-based model for institutional reform, leveraging private sector innovation and participation and addressing climate, financial, and governance risks in Just Energy Transition (JET) - affected communities. |
| Harmonization | The Programme is supported by a UK Government guarantee (through FCDO) and technical assistance. It is coordinated with broader Just Energy Transition Partnership (JETP) financing (USD 9 billion pledged). Partners include AfDB, GoRSA (NT, DCoG , Department of Water and Sanitation (DWS), Department of Electricity and Energy (DEE)), South African Local Government Association (SALGA), and development partners (Germany, France, Japan, Switzerland, World Bank) and are fully aligned with GoRSA Cities Support Program. |
| Bank's Added Value | AfDB brings expertise in structuring RBF operations, scaling performance-based contracting, and aligning financing with JETP objectives. Its engagement adds governance reforms, municipal resilience, and financial sustainability while crowding in additional partner financing. |
| Overall Risk rating | Moderate – based on the Country Fiduciary Risk Assessment (CFRA 2023, updated 2025) |

# RESULTS FRAMEWORK

| A | PROJECT INFORMATION | |
|---|---|---|
| PROGRAMME NAME AND SAP CODE: Mpumalanga Municipal Utility Reform Programme - **P-ZA-K00-009** | | COUNTRY: Republic of South Africa |
| PROGRAMME DEVELOPMENT OBJECTIVE: The Programme Development Objective is to enhance the efficiency and financial sustainability of municipal water and electricity services. | | |
| ALIGNMENT INDICATORS[6]: Share of population with access to electricity (% population); Percentage of the population having access to water from an improved source | | |

**B RESULT MATRIX**

| Results Indicators | DLI (Yes/ No) | Unit of Measure | Baseline 2025 | Target dates | | | | | Reporting Frequency | Means of Verification | Resp. for Data Collection |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Year 1 2026/27 | Year 2 2027/28 | Year 3 2028/29 | Year 4 2029/30 | Year 5 2030/31 | | | |
| **OUTCOME STATEMENT 1: Improved electricity utility efficiency and revenue performance through reduced losses, better data, and higher collections** | | | | | | | | | | | |
| 1. Reduction in Technical & Commercial Losses in the energy sector | Yes | Number in kWh | 0 | - | - | 10,026,334 | 14,493,167 | 18,960,000 | Annual | PMO report | PMO |
| 2. Customer & Connection surveyed and data available for input to asset, customer and social register systems | Yes | % | 0 | 0 | 50% | 100% | 100% | 100% | Quarterly | Utility Report | PMO |
| 3. Percentage increase in revenue collection rate (%) | No | % | 0 | | 0 | 5 | 10 | 15 | Annual | Utility report | PMO |
| **OUTCOME STATEMENT 2: Improved water utility efficiency and revenue performance through reduced losses, better data, and higher collections** | | | | | | | | | | | |
| 4. Reduction in non-revenue water | Yes | KL/annum | 0 | 0 | 0 | 0 | 5 104 196 | 6 805 594 | Annual | Utility report | PMO |
| 5. Customer & Connection surveyed and data available for input to asset, customer and social register systems | Yes | % | 0 | 0 | 50% | 100% | 100% | 100% | Quarterly | Utility Report | PMO |
| 6. Percentage increase in revenue collection rate (%) | No | % | 0 | 0 | 0 | 5 | 10 | 15 | Annual | Utility report | PMO |
| **OUTCOME STATEMENT 3: Green House Gas Emissions Reduced** | | | | | | | | | | | |

## A PROJECT INFORMATION

PROGRAMME NAME AND SAP CODE: Mpumalanga Municipal Utility Reform Programme - **P-ZA-K00-009**

COUNTRY: Republic of South Africa

PROGRAMME DEVELOPMENT OBJECTIVE: The Programme Development Objective is to enhance the efficiency and financial sustainability of municipal water and electricity services.

ALIGNMENT INDICATORS[6]: Share of population with access to electricity (% population); Percentage of the population having access to water from an improved source

## B RESULT MATRIX

| Results Indicators | DLI (Yes/ No) | Unit of Measure | Baseline 2025 | Target dates Year 1 2026/27 | Year 2 2027/28 | Year 3 2028/29 | Year 4 2029/30 | Year 5 2030/31 | Reporting Frequency | Means of Verification | Resp. for Data Collection |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 7. GHG emissions reduction from energy interventions | No | Tonnes of Co2 per Annum | 0 | 0 | 0 | 0 | 0 | 116,000 | Annual | Contractor Report / Utility Report | PMO |
| 8. GHG emissions reduction from water interventions | No | Tonnes of Co2 per Annum | 0 | 0 | 0 | 0 | 0 | 22,000 | Annual | Contractor Report / Utility Report | PMO |
| **OUTCOME STATEMENT 4: Jobs Created including for women** | | | | | | | | | | | |
| 9. Number of new jobs created to deliver MURP activities (percentage held by women) | No | Number (Percentage) | 0 | 0 | 25 (25%) | 50 (25%) | 200 (25%) | 200 (25%) | Annual | Contractor Report / Utility Report | Private sector contractor |
| **Result Area 1: Improved Energy Services** | | | | | | | | | | | |
| **OUTPUTS[7] STATEMENT: Energy infrastructure rehabilitation, system audit and alternative energy provision** | | | | | | | | | | | |
| 10. Tripartite funding agreement concluded between PMO (DBSA), participating municipalities and a private party | Yes | Number | 0 | 0 | 2 | 2 | 2 | 2 | Annual | Contract | PMO |
| 11. Completion of baseline and full audit of electricity with all service connections, meters and customers | No | Number | 0 | - | - | 2 | 2 | 2 | Annual | Baseline Report | PMO |
| 12. Number of metering & connection rehabilitation - LV connection single & 3 Phase completed | Yes | Number (Connections) | 0 | - | - | 6,473 | 14,671 | 21,576 | Annual | PMO report | PMO |

| A | | PROJECT INFORMATION | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PROGRAMME NAME AND SAP CODE: Mpumalanga Municipal Utility Reform Programme - **P-ZA-K00-009** | | | | | | | | | | COUNTRY: Republic of South Africa | | |
| PROGRAMME DEVELOPMENT OBJECTIVE: The Programme Development Objective is to enhance the efficiency and financial sustainability of municipal water and electricity services. | | | | | | | | | | | | |
| ALIGNMENT INDICATORS[6]: Share of population with access to electricity (% population); Percentage of the population having access to water from an improved source | | | | | | | | | | | | |
| **B** | | **RESULT MATRIX** | | | | | | | | | | |
| **Results Indicators** | **DLI (Yes/ No)** | **Unit of Measure** | **Baseline 2025** | **Target dates** | | | | | **Reporting Frequency** | **Means of Verification** | **Resp. for Data Collection** | |
| | | | | **Year 1 2026/27** | **Year 2 2027/28** | **Year 3 2028/29** | **Year 4 2029/30** | **Year 5 2030/31** | | | | |
| 13. Lekwa & ELM: Streetlight LED retrofitting completed | Yes | Number (LED) | 0 | - | 21,153 | 42,305 | 42,305 | 42,305 | Annual | Utility report | PMO | |
| 14. Capacity of public building fitted with alternative energy | Yes | Number in kW | 0 | - | 4,650 | 9,816 | 10,333 | 10,333 | Annual | PMO report | PMO | |
| 15. Completion of business plan for the phased risk transfer into phase 3 | No | Number | 0 | | - | - | 2 | 2 | Quarterly/Annual | PMO | PMO | |
| **Result Area 2: Improved Water Services** | | | | | | | | | | | | |
| **OUTPUTS[8] STATEMENT - Water infrastructure rehabilitation, system audit and efficiency improvement interventions** | | | | | | | | | | | | |
| 16. Tripartite funding agreement concluded between PMO (DBSA), participating municipalities and a private party | Yes | Number | 0 | 0 | 4 | 4 | 4 | 4 | Annual | Contract | PMO | |
| 17. Completion of baseline and full audit for water with all service connections, meters and customers | No | Number | 0 | - | - | 2 | 2 | 2 | Annual | Baseline Report | PMO | |
| 18. Length of reticulation pipeline replacement: replace critical leaking mains | Yes | Number in Km | 0 | - | 58 | 103 | 146 | 187 | Annual | PMO report | PMO | |
| 19. Number of new and replacement of water meters, including associated enabling Infrastructure | Yes | Number (Meters) | 0 | - | 17,304 | 36,567 | 57,790 | 80,972 | Annual | PMO report | PMO | |

| A | | PROJECT INFORMATION | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PROGRAMME NAME AND SAP CODE: Mpumalanga Municipal Utility Reform Programme - **P-ZA-K00-009** | | | | | | | | | | COUNTRY: Republic of South Africa | | |
| PROGRAMME DEVELOPMENT OBJECTIVE: The Programme Development Objective is to enhance the efficiency and financial sustainability of municipal water and electricity services. | | | | | | | | | | | | |
| ALIGNMENT INDICATORS[6]: Share of population with access to electricity (% population); Percentage of the population having access to water from an improved source | | | | | | | | | | | | |
| **B** | | **RESULT MATRIX** | | | | | | | | | | |
| **Results Indicators** | **DLI (Yes/ No)** | **Unit of Measure** | **Baseline 2025** | **Target dates** | | | | | **Reporting Frequency** | **Means of Verification** | **Resp. for Data Collection** | |
| | | | | **Year 1 2026/27** | **Year 2 2027/28** | **Year 3 2028/29** | **Year 4 2029/30** | **Year 5 2030/31** | | | | |
| 20. Number of municipalities with new Pressure management systems and PRVs installed | No | Number | 0 | | | 4 | 4 | 4 | Annual | Contractor Progress Report | PMO | |
| 21. Number of municipalities with functional DMAs established | No | Number | 0 | | 4 | 4 | 4 | 4 | Annual | Contractor Report / Utility Report | PMO | |
| 22. Number of water treatment plants refurbished (92Ml and 27ML) | No | Number | 0 | | | 2 | 2 | 2 | Annual | Contractor Progress Report | PMO | |
| 23. Number of new bulk meters installed (IUCMA) | No | Number | 0 | | 108 | 108 | 108 | 108 | Annual | IUCM Report | PMO | |
| **ENABLING, ENVIRONMENTAL AND SOCIAL INDICATORS** | | | | | | | | | | | | |
| 24. Independent Verification Agent (IVA) contracted | Yes | Yes/No | No | Yes | yes | yes | yes | yes | Once, Annual in year 1 | Memo to Bank | NT | |
| 25. PMO Memorandum of Agreement (MOA) signed between National Treasury, DCoG and DBSA | Yes | Yes/No | No | Yes | yes | yes | yes | yes | Once, Annual in year 1 | Memo to Bank | NT | |
| 26. Implementation of Programme Action Plan (PAP) | No | Yes/No | No | Yes | yes | yes | yes | yes | Once, Annual in year 1 | PMO Report | PMO | |
| 27. Operationalisation of the ESSA action plan | Yes | % of action implemented | 0 | 20% | 45% | 70% | 90% | >95% | Quarterly and Annual | E&S quarterly implementation report & annual audit report | PMO | |
| 28. Number of community-level consumer engagement | No | Number | 0 | 0 | 6 | 6 | 6 | 6 | Annual | Contractor Report / Utility Report | Private Sector Contractor | |

| A | | PROJECT INFORMATION | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PROGRAMME NAME AND SAP CODE: Mpumalanga Municipal Utility Reform Programme - **P-ZA-K00-009** | | | | | | | | | | | COUNTRY: Republic of South Africa | |
| PROGRAMME DEVELOPMENT OBJECTIVE: The Programme Development Objective is to enhance the efficiency and financial sustainability of municipal water and electricity services. | | | | | | | | | | | | |
| ALIGNMENT INDICATORS[6]: Share of population with access to electricity (% population); Percentage of the population having access to water from an improved source | | | | | | | | | | | | |
| B | | RESULT MATRIX | | | | | | | | | | |

| Results Indicators | DLI (Yes/ No) | Unit of Measure | Baseline 2025 | Target dates | | | | | Reporting Frequency | Means of Verification | Resp. for Data Collection |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Year 1 2026/27 | Year 2 2027/28 | Year 3 2028/29 | Year 4 2029/30 | Year 5 2030/31 | | | |
| and education programmes on water and energy | | | | | | | | | | | |
| 29. Targeted Strategies developed for water and energy services improvements in consultation with the local municipality, adopted for indigent and vulnerable households (female-headed, elderly, disabled, informal dwellings) | No | Yes/No | No | No | Yes | Yes | Yes | Yes | Once, Annual in year | Contractor Report / Utility Report | Private Sector Contractor |
| 30. Annual GHG Accounting studies undertaken | No | Yes/No | No | Yes | Yes | Yes | Yes | Yes | Annual, consolidated in yr 5 | Contractor Report/ Utility Report | PMO |

# 1. THE PROPOSAL

1. Management submits this proposal to award an African Development Bank (AfDB) loan of USD 400 million (equivalent to UA 289.46 million) to the Republic of South Africa to contribute to the financing of the Mpumalanga Municipal Utility Reform Program. The Programme is a results-based financing operation in support of Government's Just Energy Transition Programme and aims to improve service delivery in water and energy sectors in Mpumalanga province municipalities that are affected by the phasing out of coal. Bank Group financing will be backed by the UK FCDO guarantee pursuant to the FCDO Guarantee Programme for South Africa, Just Energy Transition Partnership (JETP) approved by the Board in 2023 under Board Document ADB/BD/WP/2023/259, dated 20 November 2023. The guarantee will ensure that the Bank's sovereign exposure to South Africa from the Programme does not exceed USD200 million.

# 2. STRATEGIC CONTEXT

## 2.1 Country Context

2. **Development Agenda:** South Africa's long-term development agenda is anchored in promoting inclusive economic growth, reducing inequality, and creating sustainable employment. Central to this is the National Development Plan (NDP) Vision 2030, which envisions a prosperous society with equitable access to resources, modern infrastructure, and a competitive economy. The agenda emphasises industrialisation, skills development, social protection, and investment in critical sectors like energy, agriculture, and manufacturing. Its implementation is guided by the Medium-Term Development Plan (MTDF) 2024–2029 and the Economic Reconstruction and Recovery Plan (ERRP, 2020), which together align government planning and budgeting with the National Development Plan. Despite increased social protection spending ZAR 269 billion in FY24/25, covering 19.2 million people, poverty remains high, with 37.9% below the lower poverty line in 2023. Initiatives like the Presidential Youth Employment Initiative and Small and Medium Enterprises (SME) support face challenges from high unemployment (31.4% in Q4 2025) and a shrinking industrial sector. To support green growth, the Just Energy Transition Investment Plan (2023–2027) outlines USD 98 billion in investments toward a low-carbon economy, including renewable energy and the decommissioning of coal plants. Measures such as the Energy Action Plan and rising carbon taxes aim to reduce emissions, as South Africa ranks 14th globally in $CO_2$ emissions. Gender and social inclusion policies, such as the Department of Mineral Resources and Energy's (DMRE's) Women Empowerment Strategy and the Just Transition Framework, emphasise support for women, youth, and vulnerable communities in coal-dependent regions.

3. **Recent Reforms and Macroeconomic Risks:** Reform momentum has been driven by Operation Vulindlela, which targets structural barriers in electricity, water, logistics, telecoms, and public finance. Key initiatives include the Energy Action Plan (2022), the Just Energy Transition Investment Plan (JET-IP), procurement and financial management reforms, and new legislation to improve rail and water infrastructure. Despite these efforts, macroeconomic vulnerabilities persist – public debt rose to 71.1% of GDP in FY22/23 and is projected to reach 73.6% by FY25/26. Growth remains sluggish, and the Rand is volatile, posing risks to investor confidence and debt sustainability.

4. Notwithstanding the ongoing national reform agenda through Operation Vulindlela, persistent weaknesses in electricity distribution and water services remain binding constraints to South Africa's economic performance and social outcomes. Many municipalities face high technical and non-technical losses, ageing infrastructure, weak revenue collection, and growing arrears to Eskom and water boards, undermining service delivery, local economic activity, and fiscal sustainability, particularly in coal-dependent provinces such as Mpumalanga. Similarly, structural challenges in the water sector, including high non-revenue water, deteriorating assets, and limited municipal operational capacity, continue to strain reliable service provision and increase vulnerability to climate variability. Together, these electricity and water sector challenges highlight the need for targeted reforms to strengthen governance, improve operational performance, and restore financial sustainability in municipal utilities, which are critical to enabling South Africa's Just Energy Transition and broader economic recovery.

5. **Political and Governance Context:** South Africa's multiparty democracy remains stable, but the long-standing dominance of the African National Congress (ANC) has declined. In the 2024 elections, the party lost its outright majority in Parliament and key metropolitan municipalities, resulting in the formation of a coalition government. Institutions remain relatively strong, ranking 4th on the Ibrahim Index in 2024, with strengths in participation, rights, and inclusion. Challenges are present in safety, security and the rule of law. South Africa scored 41 out of 100, placing it at 82nd out of 180 countries on the 2024 Corruption Perceptions Index. While the score is unchanged from the previous year, it is below the global average (43) and reflects stagnation and a continued decline from 2019. Reform efforts to enhance public sector transparency and accountability continue. South Africa has historically had a good record of fiscal discipline, but shortcomings have emerged, particularly in public procurement, SOE management, local government governance, and service delivery. SOEs, including Eskom and Transnet, have suffered from a variety of challenges, but these are being addressed through reforms. Gender parity has also advanced in parliament and the cabinet. Nonetheless, gender inequality persists in many domains.

6. **Programme Supports Government Plans:** The programme is to be implemented by the Government as a pilot to expand private-sector participation in municipal utilities through mechanisms such as Performance-Based Contracts (PBCs), and will directly support the NDP and ERRP priorities by addressing key service-delivery bottlenecks in water and electricity. By introducing private-sector efficiency and linking payments to measurable results, the PBCs align with Operation Vulindlela's reform agenda, complement the JET-IP by improving the provision and reliability of clean energy, and advance poverty reduction by expanding access to basic services in underperforming municipalities. At the sub-national level, strengthening municipal service delivery will directly contribute to inclusive and green growth, particularly in poorer communities most affected by unreliable infrastructure and those most impacted by the transition away from coal.

## 2.2 Sectoral and Institutional Context

7. **National Treasury (NT) is responsible** for managing South Africa's public finances and ensuring fiscal sustainability across all three spheres of government. Its mandate is to formulate fiscal policy, prepare the national budget and oversee the intergovernmental transfers in line with the Division of Revenue Act (DoRA). NT allocates both conditional and unconditional grants to municipalities, prescribes compliance and reporting requirements, and monitors financial performance to ensure accountability. It plays a central role in financial oversight, ranging from regulating borrowing, conditional grant utilisation, and municipal financial recovery plans. The role of NT also extends to coordinating intergovernmental fiscal relations, ensuring alignment between national priorities, such as the Just Energy Transition, and municipal budgeting, financing, and service delivery frameworks.

8. **Key Challenges in the Sector and Constraints**: South Africa's municipalities face systemic decline, with many unable to deliver reliable basic water, sanitation and electricity supply services. In Mpumalanga, several municipalities carry unsustainable debts to Eskom and regional water boards, and, in some cases, revenue collection rates fall as low as 30%. Auditor-General reports and DCoG's most recent assessment of local government highlight serious governance weaknesses, with multiple municipalities under Section 139 administration, which allows a provincial government to intervene in a municipality that is failing to fulfil its executive obligations due to persistent non-performance.

9. **Service delivery failures are underpinned by financial**, operational, and institutional challenges. Investment in municipal infrastructure is almost entirely financed from public fiscal sources, which are insufficient to meet demand. Traditional grant funding and donor technical assistance have had limited impact, failing to incentivise improvements in service quality, reduce technical and commercial losses, or instil a culture of robust asset maintenance. Many municipalities suffer from poor revenue management, weak data systems, demotivated staff, and inadequate technical and financial capacity. These structural weaknesses inhibit municipalities' ability to deliver water and energy services at the expected level, leading to worsening development outcomes, financial strain, and environmental degradation.

10. **Government Efforts, Including Institutional Changes:** The Government of South Africa has implemented initiatives to strengthen municipal performance, governance, and service delivery. Key interventions include the District Development Model (DDM) for integrated planning, financial reforms under the Municipal Finance Management Act (MFMA), and capacity support via the Back-to-Basics Programme and the Municipal Infrastructure Support Agency (MISA). Section 139 interventions address failing municipalities, while Operation Vulindlela and Performance-Based Contracts encourage private-sector participation and efficiency in energy and water services. Just Energy Transition support aids coal-dependent municipalities, and Integrated Development Planning reforms enhance planning and accountability, collectively promoting sustainable, efficient, and economically viable municipalities. However, progress has been uneven, and the limitations of purely public and grant-financed approaches are clear. A new model that mobilises private-sector capability and investment is required to restore municipal utility performance, particularly in operational efficiency, data management, and commercial discipline. In this regard, the Government reaffirmed its commitment through the 2025 Medium-Term Budget Policy Statement and the 2026 Budget, which highlight the Municipal Utility Reform Programme (MURP) and prioritise infrastructure recovery and strengthened public-private delivery models.

### *2.3 Government Programme and Link to AfDB RBF*

11. **The Government of South Africa, through** the Department of Cooperative Governance (DCoG) and the National Treasury, has launched the Municipal Utility Reform Programme (MURP) as part of its Just Energy Transition (JET) commitments. MURP pilots an innovative, phased approach to restore and strengthen failing water and electricity service delivery in four Mpumalanga municipalities, a region heavily dependent on coal and with underperforming utilities. The programme mobilises resources to design, structure, and procure Performance-Based Contracts (PBCs) with private operators, supported by a dedicated Programme Management Office (PMO) and an Independent Verification Agent (IVA). The model progresses from PBCs acting as agents of municipalities, to full operators, and ultimately to Public-Private Partnership (PPP)-style arrangements. This approach aims to reduce system losses, improve revenue collection, rehabilitate critical infrastructure, and restore reliable service delivery, while supporting job creation and climate transition goals.

12. **The AfDB's Results-Based Financing (RBF) operation** is designed to directly underpin MURP. Disbursements are linked to the achievement of pre-agreed Disbursement-Linked Indicators (DLIs), such as contracting PBCs, collecting comprehensive data on customers and connections, renovating connections, and repairing pipelines. By linking financing to verified performance, the RBF framework enhances accountability, ensures effective use of funds, and reinforces the government's reform objectives.

13. **Role of the Bank and Development Partners:** The AfDB is playing a leading role in advancing South Africa's Just Energy Transition (JET) and municipal service reform agenda. Backed by a UK Government guarantee through the Foreign, Commonwealth & Development Office (FCDO), the sovereign loan expands the AfDB's lending capacity and enables new financing for local infrastructure investment. The Municipal Utility Reform Programme (MURP) is a flagship initiative that pilots an innovative model bringing private-sector participation to distressed municipalities in Mpumalanga to improve water and energy services, reduce losses, and create jobs. The Programme is fully aligned with AfDB's Country Strategy Paper (2023–2028) priorities on climate-smart infrastructure, resilience, and inclusive growth. Pursuant to the Framework Arrangement executed on 17th December 2025, by and between the United Kingdom, acting through its FCDO, and the Bank, the Programme will be supported by a UK Government unconditional, irrevocable, and on-demand guarantee, issued to the Bank by the FCDO, covering both principal and interest credit risk. The guarantee will ensure that the Bank's sovereign exposure to South Africa under the Programme does not exceed USD 200 million. The FCDO complements this with technical assistance, while other partners, including the World Bank, the EU, bilateral donors, and UN agencies, support related municipal governance, renewable energy, and service delivery programmes through initiatives like Municipal Infrastructure Support Agent (MISA), Municipal Accreditation Framework (MAF), and the Metro Trading Services Program (MTSP). Together, these efforts reflect a coordinated donor partnership aligned with government priorities, including National Energy Crisis Committee (NECOM 2.0) and DCoG-led reforms. The AfDB's Results-Based Financing (RBF) operation serves as a cornerstone for accountability, performance, and scalable utility reform across South Africa, complementing the governance-focused approach of the World Bank, the technical assistance of UN

partners, and the targeted grants of EU donors, and ensuring that financing, institutional reform, and technical support are mutually reinforcing.

### *2.4 Relationship to the Operation with the CSP, Bank Strategic Priorities*

14. **The proposed RBF Programme is fully consistent** with the Bank's Country Strategy Paper (CSP) 2023–2028, which seeks to address structural and policy-related challenges to promote industrialisation, inclusive growth, and sustainable poverty reduction. It addresses key constraints, including weak governance in SOEs and municipalities and inefficiencies in public-sector operations. Anchored in the CSP's two priority areas (i) Enhancing Governance and Private Sector Development; and (ii) Quality Infrastructure Development and Inclusive Growth, the MURP contributes to both by improving local governance in energy and water and supporting resilient infrastructure development through targeted interventions in municipal utilities. This aligns with the Bank's sectoral policies and strategies on energy and water, climate change, economic governance, gender, and fragility. Importantly, the CSP's Indicative Operational Programme (IOP) identifies Results-Based Financing (RBF) as a core instrument, alongside policy-based operations, technical assistance, and investment lending, signalling institutional commitment to use the RBF instrument. The MURP Programme complements the Bank's interventions in budget support for infrastructure governance, the JET Skilling for Employment Technical Assistance, the South Africa JET Jobs First Project and the sub-national financing provided to the City of Johannesburg for service delivery, particularly in water and energy.

15. **Moreover, the Programme is consistent with the Bank President's Four Point Cardinal Strateg**y responding to efficient use and mobilisation of capital, institutional reform and consolidation, converting demographic pressures into economic opportunities and employment, and building climate-resilient, sustainable infrastructure. It supports the Bank's energy sector reform, climate change and green growth agendas. It also aligns with the Bank's Water Policy and the Strategy for Water, specifically strategic priority area 2 (SP2) on water supply and sanitation services.

16. **The MURP is an addition to the Indicative Operational Programme (IOP) in the CSP**, made possible by additional headroom gained from the UK FCDO guarantee. It aligns with the Bank's objective of expanding access to financial resources to its RMCs. The MURP will adopt an innovative performance-based contracting approach, in which the private sector is remunerated according to service quality and performance outcomes. During the first two years, the Programme will focus on building institutional capacity and creating an enabling environment, after which greater operational and financial risks will be transferred to the private sector. This approach aligns with the Bank's objective of leveraging private sector expertise, management skills, and technical capabilities. The Programme also offers strong potential for scale-up and replication in South Africa and other contexts.

17. **The RBF Programme also reflects the CSP's emphasis on coordinated** partnerships. It complements the efforts of other development partners, such as the World Bank (Metro Trading Services Program), the EU and bilateral donors (supporting energy efficiency and water-sector improvements), and UN agencies (providing technical assistance on governance and climate

resilience). It is further aligned with broader partnerships supporting South Africa's Just Energy Transition, where AfDB collaborates with entities such as KfW, the Government of Canada, and the Green Climate Fund. By leveraging the Bank's RBF operation alongside donor technical assistance and concessional finance, and engaging with private financial institutions to catalyse co-financing, the Programme reinforces a harmonised, multi-stakeholder approach consistent with the in-country partnership framework.

### 2.5 Rationale for Bank Engagement and Choice of Instrument

18. **The Bank's RBF instrument is being used for the first time in South Africa**. The MURP Programme is to be implemented by the Government as a pilot to introduce greater private-sector participation in municipal utilities through mechanisms such as Performance-Based Contracts (PBCs). Using a Results-Based Financing (RBF) instrument to support the Programme ensures that funding is tied to measurable outcomes, including improved water and electricity service delivery, increased revenue collection, and reduced losses. RBF incentivises performance, aligns municipal and private sector efforts under Performance-Based Contracts (PBCs), and strengthens accountability and transparency by releasing funds only upon verified results. It also encourages private sector participation by reducing investment risk and provides data and lessons for scaling reforms. Overall, RBF ensures MURP delivers tangible impact, financial sustainability, and a replicable model for municipal utility reform. The RBF approach aligns with the World Bank–supported Metro Trading Services Program (MTSP), which uses the Program-for-Results instrument. The instrument has already gained acceptance, and the Government recognises that it supports key reform objectives, including enhanced transparency, strengthened governance, and improved municipal service delivery.

19. The RBF instrument manages political economy risks by linking disbursements to verified results, enabling phased private sector participation while retaining public ownership and limiting fiscal and political exposure. Since 2017, the Bank has deployed 13 RBF operations in 6 countries[9]. The Bank's Independent Development Evaluation (IDEV) conducted a midterm review of the RBF Policy, which, together with an internal review undertaken by the Bank, has generated lessons that informed the design of this operation. Among the key challenges that have so far emerged and informed the design of this operation are: (i) inaccurate or insufficient baseline data, which will be addressed by integrating a baseline assessment into the project; (ii) inadequate definition of the results indicators, which led to misinterpretation. This has been mitigated through consultations with sector experts; (iii) a lack of a mechanism in the design of the RBF policy to monitor the flow of funds to the beneficiary Executing Agency in the amounts prescribed in the Financing Agreement, which will be mitigated through quarterly progress reports and rigorous annual financial audit reports of the Executing Agency (DBSA); and (iv) ensuring simplicity in the design of the Programme and enhancing common understanding through more rigorous consultations with all parties involved in delivering the RBF programme. The use of the Bank's RBF instrument for this operation builds on these lessons and supports the Government's delivery programmes by strengthening country systems for planning, monitoring, accountability, and results management.

[9] Côte d'Ivoire – Diversification, Industrial Acceleration, Competitiveness and Employment (DAICE); Egypt - Integrated Rural Sanitation in Upper (IRSUE LUXOR); Morocco - Social Protection Improvement Support Programme (PAAPS) and five other projects; Rwanda - Scaling Up Electricity Access Programme Phase II (SEAP II) and Additional Financing; Mozambique Energy for All (MEFA); Senegal – Accelerated Industrialization, Competitiveness and Employment Support Programme (PAAICE)

# 3. PROGRAMME DESCRIPTION

## 3.1 Programme Scope

20. The South African Just Energy Transition (JET) Framework guides the country's shift from a coal-dependent economy to a low-carbon, climate-resilient, and socially inclusive energy system. Its objectives are to decarbonise the economy through renewable energy and clean technologies; ensure a just transition for coal-dependent workers and communities—especially in coal regions such as Mpumalanga—through reskilling and job creation, promote green economic growth in sectors such as green hydrogen and electric vehicles, enhance energy security, strengthen governance across national, provincial, and municipal levels, and mobilise finance from public, private, and international sources. The Just Energy Transition Investment Plan (JET-IP) 2023–2027 sets out a capital requirement of about ZAR 1.48 trillion (~US $98 billion) to decarbonise key sectors. This includes roughly ZAR 711.4 billion for electricity, ZAR 319 billion for green hydrogen, ZAR 128.1 billion for new energy vehicles, as well as allocations for skills development and municipal capacity strengthening to support the transition.

21. South Africa's Just Energy Transition Partnership (JET-P) is an international collaboration launched at COP26 to support the country's shift from coal-based energy to a low-carbon, climate-resilient economy. Partner countries—including the US, UK, EU, Germany, and France—committed an initial $8.5 billion[10]. The support is delivered through a combination of concessional loans, grants, and technical assistance from development finance institutions, bilateral donors, and UN agencies, which collectively advance energy reform, green industrialisation, and social support for affected communities. The JET-P supports the National Development Plan 2030 and the Just Transition Framework, emphasising governance reform, financial sustainability, infrastructure rehabilitation, and private sector participation in clean energy and utility services. It supports the mobilisation of finance, the enhancement of governance, and the promotion of public-private partnerships, aligned with broader economic and infrastructure reform goals laid out in the Medium-Term Budget Policy Statement.

22. **Implementation of South Africa's Just Energy Transition Partnership (JET-P)** is overseen by the JET Inter-Ministerial Committee (IMC) in collaboration with the Presidential Climate Commission and an inter-ministerial committee chaired by the Presidency. This governance framework brings together national departments, state entities, and development partners to steer reforms, investments, and monitoring. At the municipal level, JET-P directly influences performance in both the electricity and water sectors. In the electricity sector, municipalities are encouraged to improve distribution networks, reduce technical losses, integrate renewable energy, and enhance revenue collection. This leads to a more reliable supply and reduced dependence on coal-based power. In the water sector, energy-efficiency improvements, such as upgrading pumps and treatment plants, reduce operational costs and mitigate the impact of electricity shortages on water supply systems. Within the JET-P collaborative approach, the Government has requested the AfDB to support

[10] The United States formally withdrew from South Africa's Just Energy Transition Partnership (JETP) on February 28, 2025, cancelling over USD 1 billion in pledged support.

municipal-level reforms in Mpumalanga Province. Mpumalanga is the centre of coal production, accounting for 83% of the nation's coal (25% of provincial GDP), and power generation, making it most vulnerable to economic and job losses and suffers the worst pollution. Municipalities depend heavily on coal-related revenue and deliver essential services to affected communities. Supporting them ensures financial stability, protects livelihoods, strengthens local governance, enables economic diversification, and ensures the transition is fair, inclusive, and locally responsive.

### *3.2 Bank-Financed RBF Program*

#### A. Programme Description

23. The Programme will finance initiatives that improve municipal energy and water systems, reduce technical and revenue losses, improve quality of service, restore asset performance, strengthen local government financial sustainability, and leverage private sector innovation through a performance-based contracting approach to drive impactful, long-term change. The program, developed in collaboration with the UK Foreign, Commonwealth and Development Office (FCDO), combines technical assistance and AfDB financing to strengthen service delivery, accountability, and local economic resilience.

24. Municipalities in the Mpumalanga province are financially distressed: service delivery is poor, and they face high non-revenue water, technical and non-technical electricity losses, low revenue recovery, and weak governance. **The MURP will cover four municipalities that expressed interest** in participating in the Programme after an invitation was sent out to 17 municipalities in Mpumalanga Province. The four municipalities are *eMalahleni, Lekwa, Mbombela and Govan Mbeki.* Lekwa, eMalahleni, and Govan Mbeki are under special measures, including financial recovery plans and Eskom debt relief programme, due to chronic financial mismanagement, high debt and not fully funded budgets. In Mbombela Local Municipality, there is a private concession in place with Silulumanzi. However, the municipality is still mainly responsible for providing water services directly to areas outside the private concession area, where service delivery is more constrained due to a high prevalence of unregularised connections, weak cost recovery, and elevated levels of social deprivation. In addition to the four municipalities, the scope of the programme includes support to the Inkomati-Usuthu Catchment Management Agency (IUCMA).

25. The MURP will be delivered through an innovative engagement of the private sector's management and technical skills, using a performance-based contracting approach. The initial phase of the solution will comprise investment in systems, processes, and asset rehabilitation to improve operational performance in water and energy losses and in the delivery of improved services, customer engagement, asset reliability, and quality of supply. During the initial phase, a private-sector contractor will be procured to deliver the solution and to baseline the service in cooperation with the municipality, so that the contractor can move to address the full service, including customer and revenue management. Asset ownership, social policy, tariff setting and the procurement of bulk electricity and water supplies will remain under the control of the municipality beyond the second phase and will not pass to the contractor.

26. The Programme is underpinned by a fiscal-turnaround logic that links operational improvements to stronger service delivery and to Just Energy Transition resilience. Improved fiscal sustainability will enable more reliable electricity and water services and support private investment and economic activity in coal-affected regions.

## B. Programme Activities

27. The proposed Programme has two broad focus areas in energy (including energy management systems to address technical and non-technical losses and infrastructure) and in water (including non-revenue water and water infrastructure), and is structured in two result areas. **The Programme will be implemented over five years from 2026-2031,** and the main Programme Result Areas are described below and detailed in Annex 3 of the Technical Annex.

28. **Result Area 1: Energy Service Delivery Modernisation and Sustainability:** The interventions in eMalahleni and Lekwa municipalities will focus on improving the efficiency, reliability, and financial sustainability of electricity services. Activities will include conducting customer and connections audits, regularising connections, and expanding smart-metering programmes to curb non-technical losses. The programme will also support the refurbishment and upgrading of substations, transformers, and distribution networks to address technical losses and enhance the quality of supply. In addition, energy-efficient LED streetlighting will replace outdated systems, while solar rooftop installations on public buildings will reduce operating costs and greenhouse gas emissions. During the initial phase, contractors will collaborate with the municipalities to establish service baselines and set performance targets to guide implementation and measure future improvements.

29. **Results Area 2: Water Service Delivery Modernisation and Sustainability:** The water sector interventions across the municipalities of Mbombela, Govan Mbeki, Lekwa, and eMalahleni, together with the Inkomati-Usuthu Catchment Management Agency (IUCMA), aim to strengthen service reliability, reduce non-revenue water losses, and enhance water resource management. Activities will include comprehensive metering audits, replacement and installation of consumer and bulk meters, and the establishment of District Metered Areas (DMAs) to enable effective monitoring and control. The programme will also support the maintenance of pressure-reducing valves (PRVs) and telemetry systems, retrofitting of public institutions and indigent households, and the replacement of critical leaking mains and aged infrastructure to improve network efficiency and service continuity. In addition, the municipalities will undertake feasibility studies for new water treatment plants and storage reservoirs, while the IUCMA will focus on installing and monitoring abstraction meters to improve allocation management and water-use efficiency in the Crocodile River catchment. Collectively, these interventions are expected to reduce physical and commercial water losses, strengthen operational performance, and contribute to lower greenhouse gas emissions and improved climate resilience in the targeted municipalities.

*Table 1: Summary of the scope of each Results Area*

| EXPECTED RESULTS | GEOGRAPHIC SCOPE |
|---|---|
| **Result Area 1: Energy Service Delivery Modernisation and Sustainability** | |
| • Reduction in technical and non-technical losses<br>• Improved revenue collection rate<br>• Customer & Connection Surveyed and Data available for input to asset, customer and social register systems<br>• Alternative energy use<br>• GHG emission reduction<br>• Metering and connections rehabilitation<br>• | eMalahleni Local Municipality and Lekwa Local Municipality |
| **Result Area 2: Water Service Delivery Modernisation and Sustainability** | |
| • Reduction in Non-Revenue Water<br>• Physical water loss reduction (ML/year)<br>• Improved revenue collection rate (%)<br>• Customer & Connection Surveyed and Data available for input to asset, customer and social register systems<br>• GHG emission reduction<br>• Improved administration of water abstraction and allocation | eMalahleni Local Municipality<br>Lekwa Local Municipality<br>Govan Mbeki Local Municipality<br>City of Mbombela Local Municipality<br>*Inkomati-Usuthu Catchment* |

### *3.3 Programme Financing*

30. The MURP has an estimated total programme cost of USD 1.162 billion, jointly financed by the AfDB and the GoRSA, including participating municipalities (Table 1). The AfDB will provide USD 400 million (approximately 34.4%) through an RBF loan, while the Government and municipalities will contribute the remaining USD 762.87 million (about 65.6%) as counterpart funding, financed by the municipalities regular budget largely through operating and capital expenditures supported by revenues from electricity and water services and intergovernmental transfers (Table 2). This financing structure fully complies with the AfDB Policy on Expenditure Eligible for Bank Group Financing, which requires Regional Member Countries to finance at least 50% of total programme costs, and is further complemented by FCDO technical assistance provided during programme preparation and expected to continue through start-up and implementation under the JET-P. In addition, the FCDO will, through the FCDO Guarantee Programme for South Africa's Just Energy Transition Partnership, provide the Bank with a series of unconditional, irrevocable and on-demand guarantees for JET-eligible sovereign and sovereign-guaranteed loans to South Africa. The cumulative aggregate amount of all the individual guarantees will not exceed USD 1,000,000,000. Individual Guarantees will cover up to 50% of the loan amount issued by the Bank under the Framework Arrangement. The MURP operation will be the first to be onboarded to the FCDO JETP Guarantee. The guarantee will ensure that the Bank's sovereign exposure to South Africa under the Programme does not exceed USD 200 million.

31. The financing structure supports long-term utility sustainability by linking operational and commercial investments to improved revenue performance, enabling municipalities to fund routine operations and maintenance from own-source revenues. No separate contingency is included, as fiscal risks are managed through the RBF design, providing flexibility and discipline through performance-based disbursements. The disbursement schedule is outlined in Table 3.

### *3.4 Programme Development Objective(s)*

32. The Programme Development Objective is to enhance the efficiency and financial sustainability of municipal water and electricity services. This will be achieved through the reduction of losses, improvement of revenue collection, improvement in effective service coverage, and upgrading of critical infrastructure. The achievement of the Programme objective will support environmental and climate goals, strengthen governance, contribute to economic growth and job creation in communities negatively affected by South Africa's Just Energy Transition. The Programme

[11] The Participating Municipalities Operating costs is an estimate of municipalities expenses from other government grants and revenue from service charges. This is an entirely municipality resources which is expended to support their mandate for service provision.

[12] This is a capital grant allocated by the Government for IUCMA

[13] The total cost is reflected without any contingency as this an expenditure based on Programme budget allocated to municipalities.

Key Development Outcomes indicators are reflected in the Programme Result Management Framework.

**Programme Theory of Change**

33. The Municipal Utility Reform Programme (MURP) addresses the challenge of deteriorating water and energy service delivery in Mpumalanga's municipalities, which has contributed to poor socio-economic outcomes, fiscal stress, and environmental degradation. The programme seeks to reverse these trends by leveraging private sector participation within a public-sector-led framework to improve service quality, operational efficiency, and financial sustainability. Targeted municipalities will receive targeted technical assistance, structured financing, and performance-based private-sector participation to rehabilitate and upgrade water and energy infrastructure, strengthen utility management systems, and reinstate routine maintenance. Operational inefficiencies, technical and commercial losses, and weak revenue performance will be reduced in the short term through improved data quality, restored asset functionality, and service regularisation. Over the medium to long term, these improvements are expected to result in financially viable, efficiently managed, and climate-resilient water and energy utilities capable of delivering reliable services, reducing greenhouse gas emissions, mobilising private capital, and creating inclusive employment opportunities, thereby supporting sustainable economic growth and improved quality of life in Mpumalanga. This causal pathway is contingent on key assumptions, including sustained private sector interest and engagement, municipal decision-making in compliance with Section 78 of the Municipal Systems Act, and the structuring and implementation of Public-Private Partnerships in accordance with Section 120 of the Municipal Finance Management Act, alongside continued political, institutional, and financial commitment. The Theory of Change is elaborated in Appendix 1.

### *3.5 Programme Key Results and Disbursement Linked Indicators*

34. DLIs will form the basis of loan disbursement under this operation. The DLIs have been designed to sharpen the focus on results, strengthen the reliability of municipal utility systems, and drive greater efficiency in water and electricity service delivery in the targeted municipalities. They combine outcome, output, and process indicators, ensuring both accountability for results and recognition of critical intermediate steps. The DLIs are for the overall MURP Programme, supported by Bank financing and the Municipal budget.

35. **Selection of DLIs.** The choice of DLIs was guided by three principles: (i) priority was given to outcome indicators that directly incentivise achievement of Programme goals; (ii) indicators had to be measurable, monitorable, and independently verifiable; and (iii) intermediate or output indicators were selected where they signal clear progress towards outcomes. These are consolidated in two principal result areas: (i) Energy infrastructure modernisation and sustainability, and (ii) water infrastructure modernisation and sustainability. Two additional supportive enabling DLIs have been identified, and these are the (i) establishment of the institutional framework, and (ii) implementation of the ESSA action plan.

36. **Advance Financing.** To ensure early momentum, advance financing of up to 25% of the loan amount will be available for each results area, as required by GoRSA. The GoRSA will request the initial advance after loan approval and signing, with subsequent requests as implementation proceeds.

The justification for the proposed advance payment is to address upfront capital and liquidity constraints to be faced by the PMO uniquely established for the Programme, and to enable timely mobilisation and early implementation activities that are critical for achieving results. The advance will be capped at 25% and fully recovered against future independently verified results, thereby preserving the core performance incentives of the RBF approach while mitigating implementation delays, motivating private-sector participation, and aligning with established good practice.

37. **DLI 1 - Institutional Framework Established.** This DLI measures the establishment of the core institutional architecture for the program, including the contracting of the IVA, and the finalisation of the PMO Memorandum of Agreement between GoRSA (NT), DCoG and DBSA. These steps will ensure adequate capacity for fund management, procurement, monitoring and evaluation, and disbursement, underpinning the entire MURP and creating a foundation for sustainability beyond the loan timeframe.

38. **DLI 2 - Energy Service Delivery Modernisation and Sustainability.** This DLI captures the municipalities engaging PBC contractors and early outputs of the electricity PBCs from initial baselining during phase 1 through to phase 2 delivery. Indicators include: Tri-partite funding agreement concluded between PMO (DBSA), participating municipalities (x2) and the private party contractor for Energy; Customer & Connection Surveyed and Data available for input to asset, customer and social register systems; Metering & connection rehabilitation - LV Connection Single & 3 Phase; Streetlight LED Retrofitting; Alternative Energy-Public buildings; A baselining exercise in each municipality will also be verified as a critical step in establishing performance targets. These measures reflect progress in expanding access, modernising networks, reducing losses, improving revenue collection, and lowering emissions.

39. **DLI 3 - Water Service Delivery Modernisation and Sustainability.** This DLI measures the municipalities engaging PBC and outputs, from initial baselining during phase 1 through to phase 2 delivery. Indicators include: Tri-partite funding agreement concluded between PMO (DBSA), participating municipalities (x4) and the private party contractor for Water interventions, Customer & Connection Surveyed and Data available for input to asset, customer and social register systems, reticulation pipeline replacement: Replace critical leaking mains, New and Replacement of water meters (Connections), including associated enabling Infrastructure. Together, these indicators demonstrate progress in expanding access, reducing non-revenue water, improving collection, and strengthening the sustainability of water service provision.

40. **DLI 4: Implementation of ESSA Action Plan** – This DLI focuses on implementing the E&S measures and actions to ensure the project's compliance with the Bank's ISS Policy (2023) and the South African Regulatory Requirements.

### *3.6 Key Capacity Building and System Strengthening Activities*

41. Capacity building and institutional strengthening are integral components of the program. The FCDO appointed Transaction Advisors, who supported the business case development for the programme, and they will continue to provide technical assistance in the transition phase in

collaboration with the PMO to ensure continuity. The institutional strengthening and capacity-building interventions are expected to improve governance across the entire programme. By equipping municipalities with tools to track service outcomes, manage performance-based contracts, and assess technical and financial risks, the Programme will enhance accountability and transparency in service delivery. Independent verification and strengthened monitoring systems will promote trust and ensure that financing is tied to measurable results, creating a strong "performance for results" orientation. Furthermore, deliberate efforts will be made to ensure gender balance among staff receiving training, thereby embedding inclusiveness and broader perspectives into governance processes. Together, these measures will contribute to more resilient, transparent, and responsive institutions capable of sustaining improved service delivery. A list of key capacity-building activities is reflected in Annex 11 of the Technical Annex.

## 4. PROGRAMME IMPLEMENTATION

### *4.1 Institutional and Implementation Arrangements*

42. **Institutional framework for implementation:** In line with the RBF policy, the Programme implementation will be aligned with the governance structure and roles and responsibilities, aligned with existing structures, institutional arrangements, and proven processes within the GoRSA. The Borrower will be the Government through the Ministry of Finance (National Treasury). The loan proceeds for the implementation of the Programme in the participating municipalities will be transferred to the Programme Executing Agency as a direct transfer. The funds required for the implementation of the Programme at IUCMA will be financed by GoRSA and the funds will be transferred from the National Treasury through the Department of Water and Sanitation (DWS). The Programme Executing Agency will be the Development Bank of South Africa (DBSA) through a dedicated PMO mandated by the National Treasury and the national department responsible for oversight of systems and structures of local government DCoG, as the Programme sponsor. On 11 February 2026, the DBSA Board approved DBSA's acceptance of the role as Executing Agency for the Program. The loan proceeds will be appropriated to DBSA for utilisation in the Programme beneficiary municipalities. The Programme institutional arrangement model is detailed in Annex 15 of the Technical Annex.

43. The PMO will manage the Programme implementation, covering governance, procurement and contract management, performance monitoring, Environmental and Social Safeguards, and financial management and disbursement activities across the Programme lifecycle, linked to the loan disbursement period. The PMO will operate according to the Memorandum of Agreement concluded with the DCoG as the Programme sponsor and National Treasury, to be approved as part of the national budget cycle. The PMO will oversee delivery of water and energy sub-projects across targeted municipalities, providing systems and expertise to ensure the programme delivers high-quality infrastructure and improved services.

44. NT will conclude a Memorandum of Agreement with DCoG and the PMO outlining the roles and responsibilities of each entity and the reporting and oversight mechanisms. The PMO will sign agreements with the municipalities regarding participation conditions. The PMO will be governed by a Programme Oversight Steering Committee whose members will be DCoG (chair), NT, DEE, DWS, Municipalities, JET PMU, SALGA and MISA. An independent Verification Agent will be procured

to undertake Programme result verification based on the Disbursement-Linked Indicators selected for the Programme.

45. To ensure clarity and manage governance complexity, the Programme applies a simple and transparent accountability structure: policy and strategic decisions are taken by Government through DCoG as the programme owner and DBSA as the Executing Agency; Programme funds are provided by the AfDB to National Treasury and appropriated to DBSA for implementation; and results are independently verified by an external Verification Agent prior to disbursement. The Development Bank of Southern Africa (DBSA), as Programme Executing Agency, brings a strong track record of managing large, multi-stakeholder infrastructure and municipal reform programs, including serving as the implementing partner for national grant programs, blended-finance facilities, and donor-supported initiatives. This combination of clear decision-making authority, independent verification, and an experienced executing agency provides assurance on fiduciary integrity, performance oversight, and delivery credibility.

### *4.2 Results Monitoring and Evaluation*

46. **AfDB Results Monitoring Framework (RMF):** Monitoring will be undertaken at both the municipal and programme levels, with progress measured using **Disbursement-Linked Indicators (DLIs)** and PBC performance targets, covering metrics such as reductions in non-revenue water and electricity losses, service access, emissions avoided, and job creation. The AfDB applies a dual-indicator approach that includes the **RMF and Disbursement Linked Indicators.** A set of long-term, output- and outcome-based indicators measured at regular intervals across the lifecycle of the MURP and the **Disbursement-Linked Indicators (DLIs)** that trigger loan disbursements once verified. These indicators are directly tied to measurable milestones and outcomes, reinforcing accountability and incentivising timely delivery.

47. **Responsibilities and Reporting:** The PMO will facilitate data collection from municipalities and IUCMA and complete the MURP templates. It will provide a detailed progress and result report to NT and DCoG quarterly including progress and result from IUCMA. The progress on the DLI results achieved will be monitored by the PMO and independently verified by the IVA. The IVA will produce its report biannually. The NT has demonstrated capacity and skills to provide oversight over grant transfer schemes to Municipalities. The PMO, through NT, will provide a quarterly Programme progress report to the Programme Steering Committee and the Bank. Reporting will use an MS Excel-based tool designed to capture both RMF and DLI data as set out in the MURP Monitoring and Evaluation Framework. A detailed Monitoring Plan is included in Annex 17 of the Technical Annex.

48. **Bank's monitoring approach and capacity**: The Bank will undertake two supervision missions per year to provide support during Programme implementation. This will include support to strengthen M&E capacity. The baseline work to be carried out in Phase 1 of the Programme will lay a firm foundation for the Phase 2 PBC contract, and the same evidence will be utilised to review the Programme Result Framework and DLIs targets as part of the Mid-Term Review of the Programme. Progression to Phase 3 by 2031 will be upon conclusion of business case for PPP and approval by Municipality. The Bank will review the IVA reports on the results achieved\ and satisfy itself before disbursement. At the end of the Programme implementation, the Bank and the Borrower will prepare a Project Completion Report documenting the results achieved, lessons learned and recommendations for sustainability and future operations.

### 4.3 Disbursement Arrangements and Verification Protocols

**Disbursement Arrangements**

49. Disbursements of the Loan resources under this Programme will be governed by **clearly defined results-based conditions**. Following discussions and consultations with stakeholders, four headline **Disbursement-Linked Indicators (DLIs) with Sub-DLIs** were agreed upon, each linked to specific disbursement tranches. These indicators capture not only the key outcomes and outputs of the programme but also critical milestones in the utility reform processes, whereby municipalities will enter into long-term PBC contracts with the private sector with significant risk transfer.

50. Loan proceeds will be disbursed by the AfDB into the Government of South Africa's National Revenue Fund (NRF) in accordance with Section 213 of the Constitution. Withdrawals from the NRF will be appropriated through Parliament and transferred to the DBSA ring-fenced account, which will allocate resources to PBC contractors in line with the Public Finance Management Act (PFMA). Funding for the Inkomati-Usuthu Catchment Management Agency (IUCMA) will be appropriated via the Department of Water and Sanitation and will be funded by GoRSA. At the municipal level, budgets for water and energy services are approved by the Municipal Council in accordance with the Municipal Finance Management Act and the Municipal Systems Act. Municipalities will deploy these resources to finance the operation and maintenance of utility services within their jurisdiction.

51. Disbursements will be made against achievement of pre-agreed Disbursement-Linked Indicators (DLIs), verified by the IVA. An advance of up to 25% of selected DLIs will be provided to ensure early implementation, with pro-rata payments based on verified progress.

52. Each DLI has defined baselines, targets, timelines, and associated disbursement values. The total loan allocation across DLIs and advance payment arrangements is provided in **Appendix 2**.

53. **Verification Protocol of the Program**: the detailed definition of the DLIs and the process of the verification protocol has been agreed, and details are found in **Appendix 3**. The corresponding disbursement amounts and indicative schedule are also included. To operationalise this process, an IVA will be procured competitively from the market with technical expertise in utility reform and municipal finance for the duration of the program. The procurement of the IVA is a critical milestone of the RBF, and it is part of the DLI1 Enabling Institutional Framework.

54. The IVA will undertake an annual review of DLIs' achievements and will apply agreed verification protocols, including document review, site visits, and data validation with stakeholders. Verification results will be reported in a Programme Results Verification Report (PRVR), which will be submitted simultaneously to DBSA (PMO), NT, and AfDB. NT will transmit the PRVR to AfDB within five weeks of each verification period. The Government will submit a disbursement request to the Bank for the release of corresponding funds to the DLIs' achievement as confirmed by the IVA report, in line with the financing agreement.

### 4.4 Programme Financing and Expenditure Framework

55. Loan proceeds will be included in the Adjustments Budget and reflected in the Adjustments Appropriation Act. The municipality's regular budget for water and energy services will be approved by the Municipal Council in line with the provisions of the MFMA and the Municipal Systems Act, using its own revenue sources and intergovernmental transfers.

56. South Africa's budget system adheres to international standards (IMF GFS, IPSAS) and is supported by the Integrated Financial Management System (IFMS), which provides comprehensive coverage across all spheres of government and broad public access to fiscal data. Performance-based budgeting, mandated by the PFMA, links departmental allocations to measurable outputs, reinforced by quarterly and annual reporting requirements.

## 5. ASSESSMENT SUMMARY

### *5.1 Technical*

**Strategic Relevance**

57. The proposed municipal interventions directly address long-standing deficiencies in the delivery of electricity and water services. These activities, embedded in municipal Integrated Development Plans, align with national priorities to transform service delivery, making it more accountable, financially sustainable, and responsive to communities. As part of South Africa's Just Energy Transition, the government seeks to pilot structured solutions to address failures in municipal infrastructure and service delivery. Evidence shows that, under the right conditions, private sector participation through PBCs can significantly improve utility performance. In developing the JET Municipal Utility Reform Programme (MURP), the option of enabling greater private sector participation was assessed against the counterfactual of expanding conditional grants through existing municipal channels. The PBC approach was found to offer stronger incentives for efficiency, accountability, and results.

**Technical Soundness**

58. **Energy:** Municipal electricity distribution faces chronic challenges: high technical and non-technical losses, inadequate maintenance, ageing networks, poor billing and revenue collection, and escalating arrears to Eskom. These issues undermine supply reliability, weaken municipal finances, and erode public trust. The program's energy interventions will modernise services by (i) reducing technical losses through network and transformer upgrades, (ii) strengthening revenue management, (iii) systematically collecting and recording asset, connection, and customer data, and (iv) improving asset maintenance.

59. Governance reforms, beginning with baselining and the ring-fencing of electricity accounts, will create conditions for long-term efficiency, transparency, accountability, and financial sustainability. These interventions are aligned with the Electricity Regulation Act and the national initiative to restructure the electricity distribution system, while also supporting Just Energy Transition objectives by creating a more reliable, climate-resilient municipal energy supply.

60. **Water:** In the water sector, the revised Water Services Bill, now awaiting approval, proposes that municipalities remain the Water Services Authority but deliver services through a licensed Water Services Provider, which could include the existing municipal entity. A key reform is the ring-fencing of utility accounts to strengthen governance and attract investment. The MURP is designed to advance these reforms. Programme interventions will target improved data and processes to reduce commercial losses, asset rehabilitation to reduce physical losses, and the use of PBCs to mobilise private investment and drive rapid service improvement.

61. The MURP is anchored in strengthening service delivery and financial sustainability of municipal utilities in Mpumalanga. The Results Framework builds on the Government's reform priorities and defines measurable outcomes and outputs to incentivise improved governance, operational efficiency, and infrastructure performance.

### *5.2 Programme Economic Evaluation*

62. A high-level financial and economic assessment was undertaken to evaluate the viability of proposed interventions in the water and energy sector of selected municipalities. The water component covered Mbombela, Govan Mbeki, Lekwa and eMalahleni; and the energy component covered Lekwa and eMalahleni. An economic and financial appraisal was conducted for the preferred option. This demonstrated that the approach intended to be pursued by JET MURP presents a compelling economic case for investment in water and energy service improvements in Mpumalanga. The Economic Internal Rate of Return (EIRR) across the assessed municipalities exceeds the standard 12% social discount rate for public investments in South Africa, signalling strong value for money. EIRRs range from 20% (Lekwa Water) to 49% for Govan Mbeki and up to 52% (Mbombela Water). On the energy side, the eMalahleni project achieves an EIRR of 35%. EIRR for consolidated energy component is 29%, while for water it is 35%. The consolidated EIRR for energy and water is shown in the table below. There is a substantial Economic Net Present Value (ENPV) of R17.5 billion. These values indicate the high economic viability of the proposed interventions over a 20-year appraisal period. A detailed financial and economic assessment is presented in Annex 16 of the Technical Annex.

| | |
|---|---|
| EIRR (base case) | 31.90(%) |
| ENPV, (discount rate) | ZAR 17.5 billion; 11% |

63. Additional benefits will accrue from both water and energy interventions. For water, reduced conveyance losses will increase water availability and enhance water security. There will be an increased ecological reserve and a reduction in environmental impact. Reduction in NRW (NRW% and NRW volume). Revenue Enhancement (Revenue per year), Sustainable municipality and water services. Optimising existing treatment plants and decommissioning some of the smaller and dysfunctional plants results in improved assurance of supply and the level of service (an increase in the number of hours of supply per day). On the energy side, there will be access to additional green energy procurement, improved energy supply security, and reduced power purchase costs. This will attract investment into the distribution sub-sector. There will be a reduction in pollution due to the availability of cleaner energy sources (as opposed to wood fires, paraffin, petrol generators, etc.). There will be positive potential upside in scaling the interventions in the same geographic areas. This may also be replicated across the country, resulting in a significant positive economic impact.

### *5.3 Fiduciary*

**(i) Procurement**

64. Procurement will be done in accordance with the Bank's Procurement Framework for Bank Group-funded Operations, dated 2015, and following the stipulations in the Financing Agreement. In line with the Bank's RBF policy, all procurement will adhere to the Borrower's Procurement System (BPS), which allows the use of the DBSA procurement system. This approach relies on the country's own laws, regulations, and internal control institutions for oversight and to ensure value for money.

To ensure alignment with the aforementioned Bank's policies, should the use of the BPS result in a contract being awarded to a firm or individual ineligible under the Bank's policies, the Bank will not finance such a contract. The Programme will also exclude activities involving high-value contracts that exceed the Bank's specified monetary thresholds. These thresholds are $50 million for Works, $30 million for Goods, and $15 million for Consulting Services.

65. Procurement weaknesses and risks will be systematically addressed through a covenanted Programme Action Plan (PAP), a core element of the RBF instrument. Corrective actions will be subject to ongoing monitoring and supervision, rather than serving as DLIs. Key measures include: **PMO-led capacity support:** The PMO will provide targeted capacity-building to municipalities for monitoring and supervising complex PBCs; **Standardised documentation:** A suite of standard procurement documents will be developed to ensure transparency, consistency, and comparability across municipalities; **Technical assistance:** The PMO, supported by TA, will assist municipalities throughout the procurement cycle; **Robust M&E:** The PMO will establish strong mechanisms for monitoring and reporting on procurement and contract performance; **Borrower ownership:** Procurement will be led by the Borrower, with the PMO developing the overall procurement programme for approval by the relevant authority. This approach strengthens country systems and builds private sector confidence. **Independent verification:** An IVA will provide impartial validation of all DLIs, ensuring a credible and transparent basis for disbursements.

### (ii) Financial Management

66. The Country Fiduciary Risk Assessment (CFRA 2023, updated in 2025) rated South Africa's overall fiduciary risk as Moderate, supporting the full use of the country's Public Financial Management (PFM) systems for implementing Bank-financed operations and programs. At the Programme level, the assessment reviewed the DBSA, the designated Implementing Agency, to determine its institutional capacity to execute the program, prepare timely financial reports, manage funds effectively, and support the verification of results for disbursement purposes. The assessment concluded that the program's overall fiduciary risk is also rated Moderate.

67. In line with the Bank Group's Policy on RBF, the Programme will fully rely on the country's PFM systems and adhere to the existing financial management procedures of both the Government and DBSA. The Government has demonstrated adequate capacity to prepare budgets compliant with GFS 2014 and COFOG standards and continues to allocate sufficient resources to ongoing projects. Most Bank-financed operations in South Africa utilise the reimbursement method for disbursement, which has proven effective and consistent with Bank requirements. The same government prefinancing approach will apply to the proposed program, with disbursements by the Bank made after the fact, subject to the achievement of agreed-upon DLIs and the required independent valuation.

68. The Government complies with the PFM Act and utilises an Integrated Financial Management Information System (IFMIS) for accounting and reporting. It maintains a well-established Treasury Single Account (TSA) and up-to-date financial reporting and external audit practices. Government planning, budgeting, and programming systems will be used for this operation. Programme resources will be budgeted by the National Treasury and transferred to DBSA through the established conditional grant framework, ensuring that funds are used exclusively for their intended purposes.

69. DBSA's systems for budgeting, accounting, internal control, treasury management, financial reporting, and external audit have been assessed and found adequate for managing conditional grant funds under the

program. DBSA is audited by the Auditor-General of South Africa (AGSA), and recent audit reports did not identify any significant or pervasive weaknesses.

70. The PMO within DBSA will be staffed with well-qualified staff to manage the resources and monitor performance. DBSA's finance department will manage the program's financial function. The PMO will operate within DBSA's financial management structures and follow established approval processes, which have been assessed as adequate.

71. **Funds Flow Arrangements**: Disbursement will be based on the achievement of agreed DLIs. The PMO will prepare the Programme Results Verification Report (PRVR) summarising progress toward DLI achievement and submit it to an IVA for verification. Once verified, the National Treasury will forward the IVA-verified PRVR to the Bank with the related funding claim based on DLIs allocation and achievement. Once it is satisfied with the submission, the Bank will disburse loan proceeds either through a foreign-currency account or a ZAR-denominated account held by the National Treasury at the South African Reserve Bank, as advised by the National Treasury at the time. The Bank may allow partial disbursements if such disbursements are required, where DLIs are only partially achieved, thereby providing flexibility in cases of slower-than-anticipated progress.

72. **Financial Reporting**: The PMO will use DBSA's accounting and reporting systems to prepare quarterly Interim Unaudited Financial Reports (IFRs) detailing Programme expenditures and fund balances, sorted by DLI. These IFRs will be submitted to the Bank within 45 days after the end of each quarter.

73. **External Audit**: The audited financial statements done in accordance with the existing country systems by the Auditor General of South Africa or an independent external audit firm acceptable to the Bank, will be made available to the Bank. These audited financial statements, which shall cover the PMO, the participating municipalities and IUCMA, will be submitted to the Bank within six months after the end of each financial year.

### (iii) Governance

74. DBSA, as the Executing Agency, has strong credibility and extensive experience in supporting municipalities, underpinned by a sound governance framework anchored in a clear Board Charter, effective oversight committees, and compliance with the DBSA Act, PFMA, and Companies Act. Its values-driven culture—reinforced by a formal Code of Ethics, regular benchmarking, and annual Shareholder Compacts with National Treasury- ensures strategic alignment, integrity, and accountability. Within this framework, the Programmes Division leads Programme development, fund management, and the establishment of ring-fenced Programme Management Offices (PMOs) that leverage DBSA's corporate systems while maintaining transparency in resource management. The PMO will report strategically to an oversight committee and administratively to DBSA management. Building on its experience hosting the National Water Partnership Office, which promotes private sector participation and enhances project bankability, the MURP stands to benefit from DBSA's institutional capacity, governance discipline, and technical expertise.

75. Key procurement risks, particularly fraud and corruption, will be mitigated through results-based disbursements verified by an Independent Verification Agent, alongside strict application of DBSA's Supply Chain Management Policy, Anti-Bribery and Corruption Policy, Fraud Prevention frameworks, and the Management of Politically Exposed Persons (PEPs) and Prominent Influential Persons (PIPs) Policy. Oversight will be further reinforced by the Auditor-General, the National Treasury, and other anti-corruption agencies, while performance-based contracting will strengthen accountability by assigning clear operational responsibility to private contractors. In addition, the

engagement of CSOs and local communities in monitoring service delivery outcomes will provide an external check, enhance transparency and ensure that resources are used for their intended purpose.

## *5.4* Climate*, Environmental and Social Effects*

### Environment and Social

76. Environmental and Social Risk Categorisation: The Programme is confirmed and validated as Category 2 (moderate risk program) on 06 August 2025, based on the National Environmental Management Act (NEMA 1998), Bank's Integrated Safeguards System (ISS, 2023), and the Bank's RBF Policy requirements. This RBF Programme involves only category 2 water and energy sub-project activities, such as maintenance and refurbishment of existing public assets, resulting in moderate risks which will mostly be site-specific and are easily reversible and readily minimised by applying appropriate management and mitigation measures; Category 1 activities will not qualify to be part of this RBF program.

77. All the required ESA documents have been prepared. The Environmental and Social System Assessment (ESSA) with the Action Plan was prepared by the Bank in collaboration with the government and discussed during a validation workshop on 16 January 2026. The ESSA report, including the Action Plan, was disclosed on the Bank's website on 23 January 2026. Additionally, the Environmental and Social Management Plan annexed to the Financing Agreement (FA-ESMP) has been completed by the Recipient and cleared by the Bank on 28 January 2026, disclosed on the Borrower's website on 16 February 2026 and on the Bank website on 17 February 2026 in line with the requirements of the Bank ISS.

78. The Bank verified that public consultation was adequately undertaken. Evidence of stakeholder engagement and public consultation is reflected in the E&S documents. Stakeholder consultations were conducted by the Borrower during the preparation of the environmental and social safeguard instruments and at the validation workshop between August 2025 and January 2026. In total, 85 stakeholders were consulted: 48% female and 52% male participants. All key risks and impacts (positive and negative) of the Programme sub-project activities have been formulated. The main positive impacts of the Programme include reducing water and energy losses and creating employment opportunities. The key adverse E&S risks of the Programme activities include: water contamination risks during leaks or refurbishment; interrupted water access during works can disrupt critical services leading to health risks; hazards during meter changes and leak detection include exposure to pollutants; increased non-hazardous and hazardous waste generation from refurbishment works; e-waste from replacement of old metering systems may cause environmental degradation; weak community ownership of infrastructure interventions (e.g. billing changes, regularisation works) may breed disengagement or vandalism; and occupational health and safety risks from physical works.

79. Identified national E&S system strengths include: Strong national environmental and social legislation with well-established EIA and licensing processes, robust E&S governance framework at national and provincial levels, clear institutional structures with defined roles across national, provincial, and municipal levels, existing municipal environmental and social units to support implementation, defined responsibilities for environmental and social risk management across government tiers, legal provisions in place for stakeholder engagement and public consultation, and existing community-level grievance and complaints mechanisms. In addition, the national system gaps have been identified in the ESSA, including: Partial alignment of national systems with AfDB Integrated Safeguards System (ISS), particularly in occupational health and safety, cultural heritage protection, protection of vulnerable groups, labour and working conditions; Insufficient staffing and resources for effective E&S risk management; Gaps in practical implementation of environmental and

social measures at local level; Weaknesses in grievance redress implementation and case tracking; Inconsistent coordination and information flow across agencies and jurisdictions; Incomplete monitoring and evaluation of social outcomes and cumulative impacts; and Inconsistent E&S data collection, analysis, and reporting across municipalities. The proposed management measures have been identified and costed to address at least each E&S gap, risk, and impact.

80. Mitigation measures for each major risk include, among others, promoting local employment, providing health and safety awareness training to project workers and local communities; implementing traffic management measures; and adopting integrated waste management practices. The ESSA Action plan has identified the following management measures: Prepare site specific E&S safeguards instruments and strengthen alignment of national systems with AfDB Integrated Safeguards System (ISS), by preparing relevant sub-management plans on the sub-projects with specific focus on occupational health and safety, cultural heritage, labour management, and protection of vulnerable groups; Develop and operationalise standardised environmental and social management procedures for municipal implementation; Build municipal-level capacity through targeted recruitment, training, and long-term technical support for E&S risk management; Allocate dedicated financial resources for environmental and social staffing, monitoring, training, and reporting; Establish clear, harmonised grievance redress mechanisms across all municipalities; Strengthen inter-agency coordination through formal protocols, regular coordination forums, and shared E&S reporting systems; Improve municipality monitoring and evaluation frameworks to include social outcomes, cumulative impacts, and performance indicators; Integrate E&S requirements into procurement, contracting, and performance management systems. The Programme has included USD 2 million for ES implementation, as reflected in Table 1 (Programme Financing).

81. The overall institutional arrangement for safeguards, including the grievance redress mechanism, and the implementing entity's capacity aspects and strengthening measures are appropriate: A comprehensive assessment of the capacity of the Programme implementation stakeholders has been included in the ESSA Action Plan. The Borrower has inadequate capacity in the national system due to limited staff numbers, including the environmental and social unit at the municipality level, but has satisfactory capacity under the appointed Programme Management Office (PMO) set up at the Programme level, which has adequate E&S officers and capacity, and will develop additional E&S capability to act on behalf of municipalities as required. The Bank will offer capacity building training either during implementation support missions or virtual technical meetings with PMO, as required, based on needs.

82. **Involuntary Resettlement:** No involuntary resettlement is foreseen for this RBF Program.

83. In addition to fully implementing all the required E&S measures for preventing and managing the risks and impacts of the Programme along its lifecycle, the PMO will prepare periodic quarterly E&S implementation reports, while an annual E&S performance/ compliance audit, conducted by an independent E&S safeguards expert, will be submitted on an annual basis and no later than the end of the first quarter of the following year. These reports will be shared with the Bank and made accessible to the stakeholders. Also, the Borrower is committed to establishing the project-level Grievance Redress Mechanism (GRM) at the onset of implementation, making it known to all stakeholders and maintaining it functional throughout the project lifecycle. Further, and in the event of an EOHS incident on a project site, the Borrower is committed to notifying the Bank immediately, no later than 72 hours after the occurrence, sharing the national Authority investigation report and when deemed necessary by the Bank, to prepare an independent root-cause analysis (RCA) report to be cleared by

the Bank for implementation. These obligations are reflected in the E&S conditions of the financing agreement.

On that basis, the Programme is compliant and ready for submission to Board consideration, as evidenced by the ESCON in Annex 6.

### *5.5 Climate Change and Green Growth*

84. The operation is classified as climate risk category 2 (moderately vulnerable to physical climate risks) due to a predominant focus on the rehabilitation of brownfield infrastructure, efficiency upgrades, and limited new infrastructure construction. The operation aims to contribute to the objectives of enhancing natural resource use efficiency (water resources), minimising waste and pollution (including GHG emissions) and enhancing resilience – principles of the Banks Climate Change and Green Growth Framework. The Mpumalanga Climate Change adaptation strategy identifies increasing temperatures, altered rainfall patterns, and potential for extreme weather events (particularly drought) as key climate impacts. The provincial Climate Change Mitigation and Implementation Plan prioritise investments in energy efficiency in public buildings and municipal infrastructure, among others. The proposed investments under the RBF will contribute to meeting South Africa's emission-reduction/low-carbon development and adaptation/resilience targets, as outlined in the country's updated 2$^{nd}$ Nationally Determined Contributions (NDC, 2025) and Climate Change Adaptation Strategy (2021). The latter identifies 'Increased physical infrastructure resilience and adaptive capacity' as a prioritized action cluster; actions specified include investment in climate resilience public infrastructure and adoption of water-wise water management practice in urban areas. More broadly, the operation will provide the economic and social infrastructure necessary to facilitate diversification of the economy as articulated in the Mpumalanga Green Economy Development Plan.

85. The scope of total GHG emissions avoided will be reported annually, and the total will be consolidated at project completion. The initial ex-ante CO2 reduction estimates are 22,000 tonnes reduction per annum for water sector activities and 116,000 tonnes reduction per annum for energy sector interventions [14]. DBSA, the PMO, is an IDFC institution and subscribes to Paris Alignment Principles, with adequate capabilities (e.g., ESG Framework) to manage climate change safeguards. The operation was assessed for Paris Alignment in accordance with the joint MDB intermediated financing methodology and is fully aligned with the mitigation and adaptation objectives of the Paris Agreement.

### *5.6 Gender Mainstreaming*

86. The Programme is classified as category 2 in AfDB's Gender Marker System (GMS), reflecting its potential to promote gender equality and women's empowerment. Over 40% of households in Mpumalanga are female-headed, many indigent or lacking secure access to water and electricity. Women face higher levels of unemployment than men (39.6% vs 35.4%, rising to 57.2% among young women). Although women remain underrepresented in the energy workforce nationally (29.7% in utilities, 14% in renewables), they make up a growing proportion of students in TVET colleges, including among those studying engineering. The province has high levels of gender-based violence (GBV), including that which is perpetrated in homes, at work and in public spaces.

87. The Programme will improve access to essential services, generate jobs, and strengthen resilience in vulnerable communities, while also mitigating risks linked to gender inequality and GBV. By embedding social and gender considerations into contract design, monitoring, and implementation,

[14] Sources - Economic Analysis

the Programme will deliver inclusive and sustainable social outcomes aligned with South Africa's Just Energy Transition objectives. The programme will adopt a gender-responsive approach, embedded in contract design and monitored by the PMO. This will include a targeting strategy for effective and equitable infrastructure upgrades and meter installations, ensuring vulnerable households, such as female-headed households, are prioritised. The collection of customer data will provide municipalities with the information needed to update social registries, an important step in ensuring that vulnerable households have access to the basic services they are entitled to. Women, serving as central facilitators in community education and feedback processes, will play a crucial role in strengthening trust in service delivery while creating jobs for local women. The rehabilitation of street lighting will be rolled out in a way that prioritises positive impacts on women's mobility and safety in public spaces. Contractors will be required to set and meet targets for women's participation in employment and training opportunities, and to adopt codes of conduct, worker training, and other measures to mitigate GBV risks when male workers access homes and community spaces.

### *5.7 Opportunities for Strengthening Resilience*

88. The MURP programme offers a concrete and structured response to the persistent challenges of access to basic services in Mpumalanga Province, by directly addressing failures in water and electricity networks that disproportionately affect the most vulnerable populations. Through PBCs, the Programme will implement targeted interventions – including loss reduction, asset rehabilitation, smart metering, and network expansion – to improve the reliability and quality of public services. These actions, coordinated by the DBSA-hosted PMO, are complemented by governance reforms, including utility account ring-fencing, the adoption of modern management systems, and oversight by an IVA. The dual objective is to alleviate the burden on low-income households while establishing a solid institutional foundation for sustainable municipal service delivery.

89. Aligned with South Africa's Just Energy Transition (JET) framework, MURP also aims to anticipate and mitigate the socio-economic impacts of moving away from coal, particularly in historically coal-dependent municipalities. The programme integrates robust social inclusion mechanisms: updating indigent registers, applying the "**no net burden**" principle to protect vulnerable households, and embedding contractual targets for local employment - with a focus on women, youth, and persons with disabilities. Measures to address gender-based violence (GBV) and promote community engagement are also built into the Programme design. MURP further links local resilience, climate performance, and technological innovation through embedded solutions such as solar-powered street lighting, GIS-based monitoring, and smart metering systems. As a national pilot, MURP lays the groundwork for a scalable model that can be replicated across other municipalities – fully aligned with the JET-P and South Africa's National Water and Sanitation Master Plan.

### *5.8 Integrated Risk Assessment Summary*

90. As an innovative result-based Programme that involves the private sector and employs a performance-based approach at the local government level in South Africa, the programme faces several risks associated with its design. According to the various assessments, the programme's overall risk is rated moderate and appropriate mitigation measures are proposed. The main risks and mitigation measures are outlined in Appendix 4 of the Programme Appraisal Report (PAR).

### *5.9 Programme Action Plan*

91. The Programme Action Plan (PAP) detailed in Annex 10 of the Technical Annex outlines key actions to ensure MURP's success. The Action Plan will be annexed to the Loan Agreement and embedded in the Bank's supervision framework. It strengthens municipal service delivery through

systematic data collection on assets, connections, and customers to enhance billing and revenue management and reduce losses. Regularisation and metering will support future revenue gains, while asset upgrades will improve reliability. The PAP also builds sector capacity by introducing new skills and processes via private contractors in the initial phase, later integrating them into municipal operations, supported by structured monitoring and independent verification. Environmental and social safeguards are made contractual, with service improvements targeting poor households and vulnerable groups, including measures to address gender-based violence and promote inclusive employment. By integrating technical, fiduciary, environmental, and social actions, the PAP offers a comprehensive framework to reduce risks and enhance sustainability, accountability, and equity in Programme delivery.

## 6. LEGAL AUTHORITY AND COMPLIANCE

92. The legal instrument for financing the Programme will be a Loan Agreement between the Republic of South Africa (the "Borrower") and the African Development Bank (the "Bank").

93. **Conditions precedent to effectiveness of the Loan Agreement:** The entry into force of the Loan Agreement shall be subject to the fulfilment by the Borrower, of the provisions of Section 12.01 of the General Conditions Applicable to the Bank Loan Agreements and Guarantee Agreements (sovereign entities) dated February 2009 and the execution of a Guarantee Agreement between the United Kingdom acting through its FCDO, and the Bank, ensuring that the Bank's sovereign exposure to South Africa from the Programme does not exceed USD200 million.

94. **Conditions precedent to first disbursement of the Loan:** The obligation of the Bank to make the first disbursement of the Loan shall be conditional upon the entry into force of the Loan Agreement, and fulfilment by the Borrower, in form and substance satisfactory to the Bank, of the following condition: (i) establishment of the institutional framework for implementation of the Program, including (a) recruitment of the Independent Verification Agency (IVA), and (b) signing of the Programme Management Office (PMO) Memorandum of Agreement between the Borrower (represented by its NT and DCoG) and the Development Bank of South Africa (DBSA).

95. **Advance Financing:** Subject to the fulfilment of the Conditions Precedent to First Disbursement, the Borrower may, prior to the achievement of any of DLI 2 to DLI 4 based on the allocated DLI Matrix, request for advance financing against any DLI result, provided that the aggregate outstanding Advance Financing Amount shall not, at any time, exceed twenty-five percent (25%) of the Loan Amount (USD 100 million). Upon achievement of the DLI(s) result(s) for which the Advance Financing was provided, the Bank shall recover the outstanding Advance Amount from the Allocated Amount of such DLI(s) by deducting the Advance Financing Amount from the Allocated Amount under the relevant DLI(s). The Borrower may make additional subsequent advance financing requests as implementation proceeds once the previous Advance Financing Amount disbursed by the Bank has been fully or partially recovered against independently verified DLI result(s).

96. C**onditions precedent disbursements Based on DLIs**: The obligation of the Bank to make disbursements of the Loan based on DLIs shall be subject to the submission by the Borrower, of evidence, in form and substance satisfactory to the Bank, including the relevant Programme Result Verification Report from the IVA, indicating that the DLI(s) for which the disbursement is requested has/have been fully achieved in accordance with the relevant DLI Verification Protocol.

97. **Undertakings:** The Borrower shall and shall cause DBSA, its contractors, subcontractors and agents *(as applicable)* to: (i) Maintain the existence and functioning of the established institutional

framework for implementation of the Program, in a form and with a composition and mandate acceptable to the Bank, throughout the duration of the Programme implementation period; (ii) Finance the operating costs of the PMO throughout the duration of the Programme implementation period, with the mandate, staffing and resources acceptable to the Bank; (iii) Ensure no financing of any affected Program activity from the proceeds of the Loan is undertaken unless and until the concerned participating municipality has signed a participation agreement with the Executing Agency; (iv) Implement the Programme in compliance with the Bank Group Safeguards Policies, Environmental and Social Systems Assessment (ESSA) action plan, site-specific Environmental and Social Management Plan ('ESMP'), and the applicable national laws, in a manner and in substance satisfactory to the Bank; (v) Refrain from taking any action which would prevent or interfere with the implementation of the site-specific ESMP, including any amendment, suspension, waiver, and/or voidance of any provision thereof, whether in whole or in part, without the prior written concurrence of the Bank; (vi) Prepare and submit to the Bank, as part of Programme reporting, quarterly progress reports on the implementation of the ESMP including any deficiencies identified and the corrective measures thereto; (vii) Establish a Grievance Redress Mechanism (GRM) at the onset of the project implementation, make it known to the stakeholders, and maintain it functional over the lifecycle of the Program; (viii) For disbursement through a Special Account, submit to the Bank a withdrawal request with a bank account held by National Treasury at the South African Reserve Bank (SARB), for deposit of the proceeds of the Loan; (ix) Provide as promptly as needed, funds, facilities, services, and other resources required as counterpart contribution for implementation of the Program, and/or necessary or appropriate to ensure that the goals of the Programme and the purpose of the Loan are accomplished.

98. **Compliance with Bank Policies**: The programme complies with all applicable Bank policies.

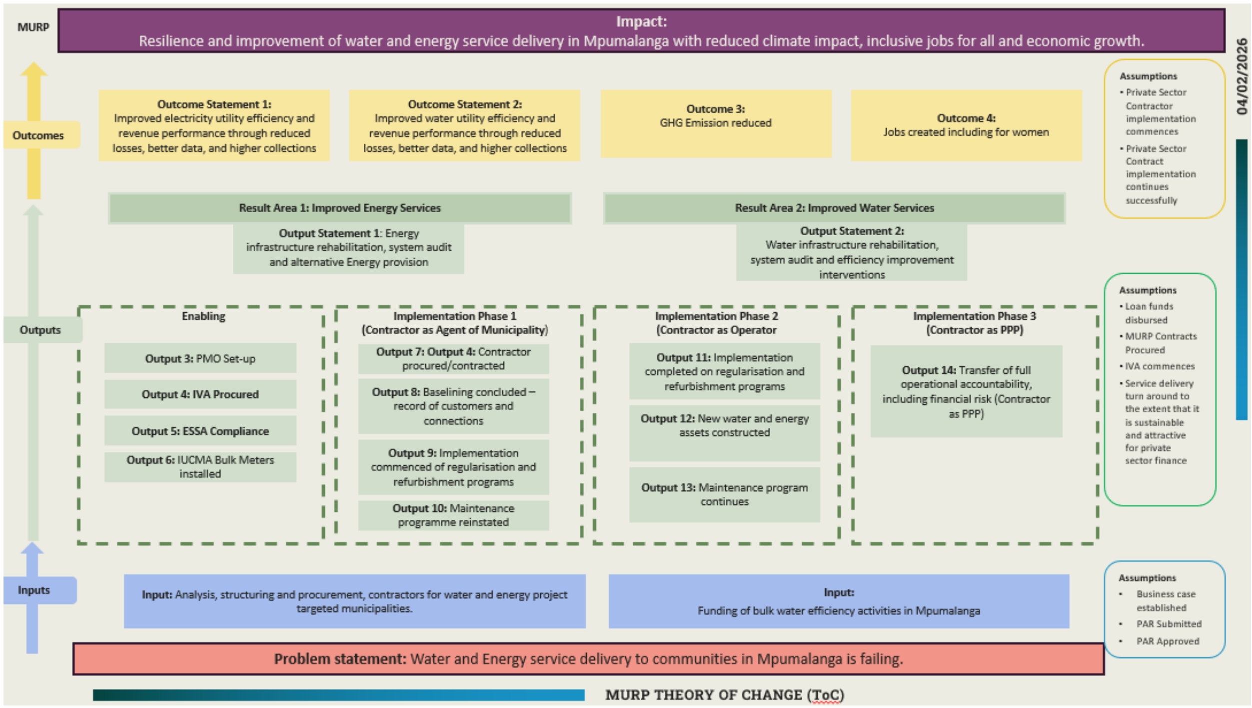
Communities and individuals who believe they are adversely affected by an African Development Bank Group (AfDB)- supported project may submit complaints to the existing project-level grievance redress mechanisms or to the Bank's Independent Recourse Mechanism (IRM). The IRM ensures that project-affected communities and individuals may submit complaints to the Bank's Independent Recourse Mechanism, which determines whether harm occurred, or could occur, as a result of AfDB non-compliance with its policies and procedures. To submit a complaint or request further information, please contact: IRM@afdb.org or visit the IRM website www.irm.afdb.org. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention, and Bank Management has been given an opportunity to respond, before reaching out to the IRM.

## 7. RECOMMENDATION

99. The Bank Group financing will be backed by the UK FCDO guarantee pursuant to the FCDO Guarantee Programme for South Africa Just Energy Transition Partnership (JETP) approved by the Board in 2023 under Board Document ADB/BD/WP/2023/259, dated 20 November 2023. The guarantee will ensure that the Bank's sovereign exposure to South Africa under the Programme does not exceed USD 200 million.

100. Management recommends that the Board of Directors of the Bank approve the award of the proposed Loan of Four Hundred Million United States Dollars (USD 400,000,000) from the resources of the Bank to the Republic of South Africa to finance the implementation of the Program, under the terms and conditions stipulated in this report.

# APPENDIX 1: THEORY OF CHANGE




The ToC responds to the problem statement: Water and energy service delivery in Mpumalanga municipalities is failing, resulting in poor development outcomes, financial strain, and worsening environmental impacts. The Programme addresses these challenges by leveraging private sector delivery within a public-sector-led framework to achieve measurable improvements in service performance and financial sustainability.

**Inputs and Enabling Conditions:** The Programme's inputs include:

- Technical analysis and structuring of municipal sub-projects.
- Establishment of a dedicated Programme Management Office (PMO) and Independent Verification Agent (IVA).
- Procurement and onboarding of Performance-Based Contract (PBC) operators.
- Investment in targeted infrastructure upgrades for energy and water utilities.

Key enabling conditions and assumptions:

- Loan disbursement and effective grant flow.
- Municipal cooperation and commitment to turnaround.
- Private sector appetite and credible market operators.
- Regulatory and governance alignment.

**Outputs and Implementation Phases:** Outputs are delivered in a sequenced manner through three implementation phases:

- **Phase 1 (2026-2029: Enabling & Implementation of Phase 1 – contractor as agent of Municipality)**Establishment of PMO and IVA (Outputs 1–2)

- IUCMA Bulk Meters procured and implemented (Output 3)
- Procurement of operations contractors (Output 4)
- Baselining activities and customer registration (Output 5)
- Delivery of operational recovery actions through contractor service delivery agreement, including the commencement of regularisation and refurbishment programmes (Output 6), and reinstatement of maintenance programmes (Outputs 7)

**Phase 2 (2030-2031: Implementation of Phase 2 – contractor as service operator)**

- Implementation completed on regularisation and refurbishment programmes (Output 8)
- Construction of new infrastructure – new water and energy assets constructed (Output 9)
- Maintenance Programme continued (Output 10)

**Phase 3 (After 2031: Implementation of Phase 3 – Contractor as PPP)**

- Full transfer of operational and financial accountability to PBC under a Public-Private Partnership (PPP) model (Outputs 11)

**Intermediate outcomes:**

- Intermediate Outcome 1: Reductions in losses (water and electricity)
- Intermediate Outcome 2: Increases in water and electricity revenues
- Intermediate Outcome 3: Improved reliability of water and energy service delivery

**Final outcomes/impacts:**

- Outcome 1: Improved access to electricity services in targeted municipalities incl. households
- Outcome 2: Improved access to water services in targeted municipalities incl. households
- Outcome 3: Economic growth
- Outcome 4: GHG emissions reduced
- Outcome 5: Jobs created, including for women

**Monitoring**

Monitoring will be structured at two levels:

- **Municipal Sub-Project Level**: with tailored output and outcome indicators aligned to service baselines and local reform goals.
- **Programme Level**: using aggregated indicators to track overall results across municipalities and demonstrate the broader value of the MURP approach.

Key developmental indicators (linked to Disbursement-Linked Indicators (DLIs) and PBC targets) will include the following. JET indicators from the broader JET Monitoring, Evaluation, and Learning (MEL) framework will also be included:

- Non-revenue water reduction (litres/day).
- Reduced electricity losses.
- GHG emissions avoided ($tCO_2e$).
- Direct jobs created (including for women).

# APPENDIX 2: DISBURSEMENT-LINKED INDICATOR MATRIX AND DISBURSEMENT PROFILE

| DLIs | Total financing allocated to DLI | Advance Proposed | Disbursement - 6 monthly cycle | | | | | | Maximum Target to be Achieved |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | |
| | | | | **2026/27** | **2027/28** | **2028/29** | **2029/30** | **2030/2031** | |
| | | | | **20%** | **20,00%** | **20%** | **20,00%** | **20%** | |
| **DLI 1: Institutional framework for Programme implementation approved.** | 17 016 000 | 25% | Apr-26 | 3 403 200 | 3 403 200 | 3 403 200 | 3 403 200 | 3 403 200 | All sub-indicators to be achieved |
| (i). Appointment of Independent Verification Agent (IVA) by PMO (DBSA), and (ii) PMO Memorandum of Agreement (MOA) signed between National TreasuryDcoG and DBSA. | | | | | | | | | |
| **DLI 2: Energy service delivery modernisation and sustainability** | | 25% | | | | | | | |
| 2.1 Tri-partite funding agreement concluded between PMO (DBSA), participating municipalities (x2) and the private party contractor for Energy | 27 600 000 | | Sept-27 | | 27 600 000 | | | | |
| No. of Municipalities contracts signed (2) | | | | | 2 | | | | 2 Municipalities signed contracts |
| 2.2 Customer & Connection Surveyed and Data available for input to asset, customer and social register systems | 19 500 000 | | | | 9 750 000 | 9 750 000 | | | |
| % survey and data update completed | | | | | 50% | 100% | 100% | 100% | 100% completed |
| 2.3 Metering & connection rehabilitation - LV Connection Single & 3 Phase | 133 900 000 | | | | | 40 170 000 | 50 882 000 | 42 848 000 | |
| installed Number of Units: LV Connection of both single and 3 Phase | | | | | | 6 473 units | 14 671 units | 21 576 units | 21 576 units |
| 2.4 Lekwa & ELM: Streetlight LED Retrofitting | 13 700 000 | | | | 6 850 000 | 6 850 000 | | | |
| Installed number of street lights | | | | | 21 153 units | 42 305 units | 42 305 units | 42 305 units | 42 305 units |
| 2.5 Alternative Energy-Public buildings | 28 400 000 | | | | 12 780 000 | 14 200 000 | 1 420 000 | | |

| DLIs | Total financing allocated to DLI | Advance Proposed | Disburse ment - 6 monthly cycle | | | | | | Maximum Target to be Achieved |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | |
| Capacity of kW installed | | | | | 4 650 kW | 9 816 kW | 10 333 kW | 10 333 kW | 10 333 kW |
| 2.6 Reduction in Energy Losses | 16 000 000 | | | | | 8 461 042 | 3 769 479 | 3 769 479 | |
| kWh per annum reduction | | | | | | 10 026 335 kWh | 14 493 167 kWh | 18 960 000 kWh | 18 960 000 kWh |
| **DLI 3: Water service delivery modernisation and sustainability** | | 25% | | | | | | | |
| 3.1 Tri-partite funding agreement concluded between PMO (DBSA), participating municipalities (x4) and the private party contractor for Water interventions | 40 000 000 | | Sept-27 | | 40 000 000 | | | | |
| No. of Municipalities signing contracts signed (4) | | | | | 4 | | | | 4 |
| 3.2 Customer & Connection Surveyed and Data input to asset, customer and social register systems | 20 460 000 | | | | 10 230 000 | 10 230 000 | | | 409892 |
| % survey and data update completed | | | | | 50% | 100% | 100% | 100% | |
| 3.3 Reticulation pipeline replacement: Replace critical leaking mains | 20 800 000 | | | | 6 451 337 | 5 005 348 | 4 782 888 | 4 560 427 | |
| Km of main completed. | | | | | 58 Km | 103 Km | 146 Km | 187 Km | 187 Km |
| 3.4 New and Replacement of water meters including associated enabling Infrastructure | 41 300 000 | | | | 8 825 955 | 9 825 148 | 10 824 852 | 11 824 045 | |
| Number of meters installed. | | | | | 17 304 units | 36 567 units | 57 790 units | 80 972 units | 80 972 units |
| 3.5 Non-Revenue Water Reduction | 18 324 000 | | | | | | 13 749 000 | 4 575 000 | |
| KL/annum reduced | | | | | | | 5 104 196 kl/annum | 6 805 594 kl/annum | 6 805 594 kl/annum |
| **DLI 4. Implementation of ESSA Compliance** | | | | | | | | | 2 |
| E&S systems, responsibilities, tools, and oversight mechanisms including E&S staff are in place | 3 000 000 | 25% | Apr-26 | | 3 000 000 | | | | |
| Total | 400 000 000 | | | **3 403 200** | **128 890 492** | **107 894 738** | **88 831 419** | **70 980 151** | **400 000 000** |

# APPENDIX 3: DLI VERIFICATION PROTOCOL

| Indicators | Definition /Description of achievement | Scalability of Disbursements (Yes/No) | Protocol to evaluate achievement of the DLI and data/result verification | | |
|---|---|---|---|---|---|
| | | | Data source/agency | Verification Entity | Procedure |
| **DLI 1: Institutional framework for Programme implementation approved.** | | | | | |
| | | | | | |
| 1.1 Appointment of Independent Verification Agent (IVA) by PMO (DBSA) | The IVA is contracted for verification of results against DLI and RMF targets | No | Fully executed IVA contract held by the PMO. | NT | 1. PMO contracts the IVA and will be responsible for executing the contract and archiving.<br>2. A copy of the contract will be shared with NT/CoGTA, and the AfDB.<br>3. Memo from NT to be provided to AfDB |
| 1.2 PMO Memorandum of Agreement (MOA) signed between National Treasury, DCoG and DBSA | The PMO Memorandum of Agreement is signed and signals capacity of management of funds and disbursement to the private contractor, procurement, contracting, environment and social safeguard and M&E | No | Executed PMO agreement held by the DCoG and NT. | NT | Memo from NT with submission of Executed PMO Agreement to the AfDB |
| **DLI 2: Energy service delivery modernization and sustainability** | | | | | |
| 2.1 Tri-partite funding agreement concluded between PMO (DBSA), participating municipalities (x2) and the private party contractor for Energy | Contract signing completion of Private Party contractor for Energy interventions for 2 Municipalities | Yes | Executed Tri-partite Funding Agreement held by PMO | IVA | IVA verifies the Proof of executed Tri-partite funding agreement |
| 2.2 Customer & Connection Surveyed and Data available for input to asset, customer and social register systems | GNIS Intervention<br>Data cleanup (Infrastructure & customer)<br>Network Development / Master Plan<br>Maintenance Management<br>Smart Metering alignment | Yes | 1. Municipal records: Customer Information Database.<br>2. Billing Register<br>3. 50% - 50%<br>GNIS yr2 and yr3<br>Data cleanup (Infrastructure & customer)<br>Network Development / Master Plan<br>Maintenance Management<br>Smart Metering | IVA | 1. Private contractor claims against target and PMO checks.<br>2. Private contractors provide full lists in support of the claim to the PMO.<br>3. PMO conducts spot checks within the invoiced period. If disputed, then apply retention measures in respect of the disbursement.<br>4. IVA verifies to confirm achievement of target |

| Indicators | Definition /Description of achievement | Scalability of Disbursements (Yes/No) | Protocol to evaluate achievement of the DLI and data/result verification | | |
|---|---|---|---|---|---|
| | | | Data source/agency | Verification Entity | Procedure |
| 2.3 Metering & connection rehabilitation - LV Connection Single & 3 Phase | LV Connection of both single and 3 Phase also representative of the Energy Infrastructure interventions, Metering & connection rehabilitation, Network Development, Selected Infrastructure Refurbishment and developments | Yes | 1. Metric represented as Number of Units: LV Connection of both single and 3 Phase – physical measurement<br>2. Owners engineer certificates | IVA | 1. Private contractor claims against target and PMO checks.<br>2. Private contractors provide full lists in support of the claim to the PMO.<br>3. PMO conducts spot checks within the invoiced period. If disputed, then apply retention measures in respect of the disbursement.<br>4. IVA verifies to confirm achievement of target |
| 2.4 Lekwa & ELM: Retrofitting of streetlights to LED | Number of streetlights in Emalahleni and Lekwa retrofitted with LEDs | Yes | 1. Number of streetlights retrofitted – physical count<br>2. Owners engineer certificate | IVA | 1. Private contractor claims against target and PMO checks.<br>2. Private contractors provide full lists in support of the claim to the PMO.<br>3. PMO conducts spot checks within the invoiced period. If disputed, then apply retention measures in respect of the disbursement.<br>4. IVA verifies to confirm achievement of target |
| 2.5 Alternative Energy-Public buildings | Capacity of KW installed in public buildings | Yes | 1. Number of Building with Solar Installation and physical count<br>2. Capacity of Solar installation to be supported by Certificate of Compliance certificates and Proof of installation | IVA | 1. Private contractors claim against target and PMO checks.<br>2. Private contractors provide full lists in support of the claim to the PMO.<br>3. PMO conducts spot checks within the invoiced period. If disputed, then apply retention measures in respect of the disbursement.<br>4. IVA verifies to confirm achievement of target |
| 2.6 Reduction in energy losses | Measures the technical and non-technical electricity loss measured as KW/h per annum reduction | Yes | Municipal records – customer information database from municipal finance department | IVA | 1. Private contractors claim against target and PMO checks.<br>2. Private contractors provide full lists in support of the claim to the PMO.<br>3. PMO conducts spot checks within the invoiced period. If disputed, then apply retention measures in respect of the disbursement.<br>4. IVA verifies to confirm achievement of target |
| **DLI 3: Water service delivery modernisation and sustainability** | | | | | |
| 3.1 Tri-partite funding agreement concluded between PMO (DBSA), participating | Contract signing completion of Private Party contractor for | Yes | Executed Tri-partite Funding Agreement held by PMO | IVA | IVA verifies the Proof of executed Tri-partite funding agreement |

| Indicators | Definition /Description of achievement | Scalability of Disbursements (Yes/No) | Protocol to evaluate achievement of the DLI and data/result verification | | |
|---|---|---|---|---|---|
| | | | Data source/agency | Verification Entity | Procedure |
| municipalities (x4) and the private party contractor for Water | Water interventions for 4 Municipalities | | | | |
| 3.2 Customer & Connection Surveyed and Data available for input to asset, customer and social register systems | Percentage of customer and connections surveyed and available data input to asset, customer and social register systems | Yes | 1. Municipal records: Customer Information Database.<br>2. Billing Register<br>3. expected 50% in year 2 and 100% in year 3 | IVA | 1. Private contractor claims against target and PMO checks.<br>2. Private contractors provide full lists in support of the claim to the PMO.<br>3. PMO conducts spot checks within the invoiced period. If disputed, then apply retention measures in respect of the disbursement.<br>4. IVA verifies to confirm achievement of target |
| 3.3 Reticulation pipeline replacement: Replace critical leaking mains | Length of water pipeline replaced in Emalahleni, Lekwa, Govan Mbeki and Mbombela | Yes | 1. Photographic evidence and coordinates from the Private Contractor.<br>2. Contractor report and owner engineer report | IVA | 1. Private contractor claims against target and PMO checks.<br>2. Private contractors provide full lists in support of the claim to the PMO.<br>3. PMO conducts spot checks within the invoiced period. If disputed, then apply retention measures in respect of the disbursement.<br>4. IVA verifies to confirm achievement of target |
| 3.4 New and Replacement of water meters including associated enabling Infrastructure | Number of new and replacement meters installed including the water associated infrastructure | Yes | Progress report and evidence by the private contractor Owner's engineer/PMO inspection reports | IVA | 1. Private contractor claims against target and PMO checks.<br>2. Private contractors provide full lists in support of the claim to the PMO.<br>3. PMO conducts spot checks within the invoiced period. If disputed, then apply retention measures in respect of the disbursement.<br>4. IVA verifies to confirm achievement of target |
| 3.5 Non-Revenue Water Reduction | Non-Revenue Water (NRW) is water that is produced and put into a distribution system but doesn't generate income for the utility, primarily due to physical losses (leaks, bursts) and commercial/apparent losses (theft, meter errors, billing issues, unauthorized use) measured as KL per annum | Yes | Municipal records: Customer Information Database from Municipal Finance Department.<br>Annual DWS/IWA standard Water Balance Computation | IVA | 1. Private contractors claim against target and PMO checks.<br>2. Private contractors provide full lists in support of the claim to the PMO.<br>3. PMO conducts spot checks within the invoiced period. If disputed, then apply retention measures in respect of the disbursement.<br>4. IVA verifies to confirm achievement of target |

| Indicators | Definition /Description of achievement | Scalability of Disbursements (Yes/No) | Protocol to evaluate achievement of the DLI and data/result verification | | |
|---|---|---|---|---|---|
| | | | Data source/agency | Verification Entity | Procedure |
| **DLI 4. Implementation of ESSA Compliance** | | | | | |
| 4.1 ESSA - Completion of the processes for the setting up of implementing the ESSA action plan | Systems, responsibilities, tools, and oversight mechanisms including E&S staff are fully in place. | Yes | PMO ESSA implementation report | IVA | IVA verifies that systems, responsibilities, tools, and oversight mechanisms including E&S staff are fully in place. |

# APPENDIX 4: INTEGRATED PROGRAMME RISK AND MITIGATION MEASURES

| ***Risk Category*** | ***Description*** | ***Mitigation Strategy*** |
|---|---|---|
| National Commitment Risk | Appetite from GoRSA for innovative PBC models may weaken, or political leadership may not support enforcement of standards. | Continued dialogue via DCoG and NT; alignment with NECOM 2.0. |
| Municipal Ownership Risk | Municipalities may delay or reject private sector participation due to political concerns or vested interests or union resistance. | Early engagement, and tailored incentive design. Programme included business case study to support municipalities |
| Municipal Commitment Risk | The local government elections scheduled for November 2026 will result in a change of Council composition. This transition could impact | Participation agreement with the PMO binding the municipality to ongoing participation. And incentivised results-based financing model. |
| Regulatory Interference Risk | Eskom or water boards may assert control over municipal revenue systems, undermining PBC implementation. | Formal agreements on roles and responsibilities. |
| Eskom Arrears Risk | Unresolved Eskom debt relief arrangements may result in reduced electricity supply, taking over of assets and impeding project delivery. | Dialogue with DEE, Eskom and NT to align relief with Programme design. Clarity with DEE around the Eskom agency arrangements not being applied. |
| Contract Negotiation Delay Risk | Slow negotiations delay financial close and PBC mobilization beyond August 2026, considering local government elections scheduled for November 2026. | Dedicated PMO with procurement experience; milestone tracking, strong experience in collaborating with Municipalities. |
| Market Appetite Risk | The private sector does not bid for the contract or fails to demonstrate value for money and affordability in the procurement and contracting process | Programme preparation and market sounding to inform contract structuring and appropriate risk transfer |
| Programme Management Capacity Risk | Municipalities or PMO struggle to manage phased risk transfer and contract performance. | Technical Assistance, Third Party Monitoring, skills development. |
| Disbursement Risk | Failure to meet DLIs due to data issues, poor performance or non-compliance with governance conditions. | Real-time monitoring and corrective action support from PMO & IVA |

# APPENDIX 5: GOVERNMENT REQUEST FOR FINANCING

MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA

Private Bag X115, Pretoria, 0001 Tel: +27 12 323 8911 Fax: +27 12 323 3262
P O Box 29, Cape Town 8000 Tel +27 21 464 6100 Fax +27 21 461 2934
Website : www.treasury.gov.za , email : minreg@treasury.gov.za

**Ref: M3/4/2/2(1013/2025)**

Dr. Akinwumi Adesina
President of the African Development Bank
Avenue Joseph Anoma
01 BP 1387 Abidjan 01
**CÔTE D'IVOIRE**

Dear President,

**REQUEST FOR REQUEST FOR LOAN TO FINANCE THE JUST ENERGY TRANSITION PROJECTS IN SELECTED MUNICIPALITIES IN THE MPUMALANGA PROVINCE.**

Let me express my appreciations to the African Development Bank (AfDB) for its continuous support to South Africa, particularly through the policy-based loans and the provision of capacity building. Through the successful outcomes of the policy-based loans and the ongoing discussion of the third development policy operation with other development partners, we also appreciate the AfDB's excellent collaborative efforts between our government and the other development partners. In addition, the Government of South Africa welcomes the ongoing support of the AfDB in collaboration with Government of the United Kingdom (UK) to mobilize funding for the implementation of South Africa's Just Energy Transition (JET) program through the UK's Just Energy Transition Partnership (JETP). We welcome progress in developing the program and the funding mechanism of the UK's contribution to the JETP of US$1 billion guarantee from the UK's Foreign, Commonwealth and Development Office (FCDO) through the AfDB.

On this premise, we request a performance-based concessional loan to the sovereign of up to US$400 million to support the implementation of JET agenda. The financing to be made available will be prioritized to support municipalities in the Mpumalanga province in critical areas of water, sanitation, and electricity distribution projects under South Africa's JET Implementation Plan. As such, the requested financing will go a long way in the implementation of the requisite policies necessary for the country's development, in particular Government's commitment to the just transition in Mpumalanga.

The National Treasury team, led by Ms. Wanga Cibi, Chief Director: Liability Management (Email: Wanga.Cibi@treasury.gov.za), remains available for further consultations on the details of the requested loan.

I hope our above request would be agreeable and we are looking forward to hearing from you.

Yours sincerely,

**ENOCH GODONGWANA, MP**
**MINISTER OF FINANCE**
**DATE: 23/06/2025**

## APPENDIX 6: ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE

ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)

AFRICAN DEVELOPMENT BANK GROUP
2023 ISS Update v01

| | | | |
|---|---|---|---|
| **A. Basic Information**[15] | | | |
| **Project Title:** South Africa Municipal Reforms for Energy and Water-Mpumalanga Municipality | | | **Project SAP or TFMS Code:** P-ZA-K00-009 |
| **Region:** RDGS | **Country:** South Africa | | |
| **Project Sector Unit:** Multi Sector | | **Lending Instrument:** Result Based Financing (RBF) | |
| **Appraisal dates:** 16-Jan-26 **to** 23-Jan-26 | | **Estimated Approval Date:** 25-Mar-26 | |
| **Task Team Leader:** ESKENDIR DEMISSIE | | **Alternate Task Team Leader:** ANTONY KAREMBU; MOLEPO SEAGA | |
| **Environmental Safeguards Officer(s):** Pilila CHONGO \| Chimwemwe Roberta MHANGO | | | |
| **Social Safeguards Officer(s):** xxxx \| xxxx | | | |
| **E&S Category:** Category 2 (Moderate Risk) | **Operation Type:** Sovereign Operation / Public Sector Operation | | **Financial Intermediary:** No |
| **Categorization Date:** 6-Aug-25 | **Categorization Date in ISTS:** 6-Aug-25 | **Categorization Date in SAP:** 6-Aug-25 | |
| **Is this project processed under rapid responses to crises and emergencies?** | | | No |
| **Is this project processed under a waiver to ISS requirement(s) requested by the Borrower/Client and granted by the Board?** | | | No |
| **B. Disclosure and Compliance Monitoring**<br>**B.1 Mandatory disclosure**[16] | | | |
| **Environmental and Social Assessment/Audit/System/Others: Environmental and Social System Assessment (ESSA) (01)** | | | |
| Was/Were the document (s) disclosed ***prior to appraisal?*** | | | **Yes** |
| Date of "in-country" disclosure by the borrower/client | | | Click to select the date |
| Date of receipt, by the Bank, of the authorization to disclose | | | *23-Jan-26* |
| Date of disclosure by the Bank | | | 23-Jan-26 |
| **Resettlement Action Plan (RAP)**[17]**:** *Not Applicable* | | | |
| Was/Were the document (s) disclosed ***prior to appraisal?*** | | | **Not Applicable** |
| Date of "in-country" disclosure by the borrower/client | | | Click to select the date |
| Date of receipt, by the Bank, of the authorization to disclose | | | Click to select the date |
| Date of disclosure by the Bank | | | Click to select the date |

[15] ***Note****: This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.*

[16] *For multiple disclosure dates of the same type of document/instrument (ESIAs, RAPs, etc), please indicate the date of the last disclosure that meets the 50%+1 disclosure requirement.*

[17] *Including Livelihood Restoration Plan (LRP)*

| | |
|---|---|
| **Stakeholder Engagement Plan (SEP)[18]:** *Not Applicable* | |
| Was/Were the document (s) disclosed ***prior to appraisal?*** | Not Applicable |
| Date of "in-country" disclosure by the borrower/client | Click to select the date |
| Date of receipt, by the Bank, of the authorization to disclose | Click to select the date |
| Date of disclosure by the Bank | Click to select the date |
| **Pest or Vector Management Plan (PMP/VMP):** *Not Applicable* | |
| Was/Were the document (s) disclosed ***prior to appraisal?*** | Not Applicable |
| Date of "in-country" disclosure by the borrower/client | Click to select the date |
| Date of receipt, by the Bank, of the authorization to disclose | Click to select the date |
| Date of disclosure by the Bank | Click to select the date |
| **Vulnerable Peoples Plan (VPP):** *Not Applicable* | |
| Was the document disclosed ***prior to appraisal?*** | Not Applicable |
| Date of "in-country" disclosure by the borrower/client | Click to select the date |
| Date of receipt, by the Bank, of the authorization to disclose | Click to select the date |
| Date of disclosure by the Bank | Click to select the date |
| **Biodiversity Management Plan (BMP)[19]:** *Not Applicable* | |
| Was the document disclosed ***prior to appraisal?*** | Not Applicable |
| Date of "in-country" disclosure by the borrower/client | Click to select the date |
| Date of receipt, by the Bank, of the authorization to disclose | Click to select the date |
| Date of disclosure by the Bank | Click to select the date |
| **Livelihood Restoration Plan (LRP)[20]:** *Not Applicable* | |
| Was the document disclosed ***prior to appraisal?*** | Not Applicable |
| Date of "in-country" disclosure by the borrower/client | Click to select the date |
| Date of receipt, by the Bank, of the authorization to disclose | Click to select the date |
| Date of disclosure by the Bank | Click to select the date |
| **Riparian Communities Participation Plan (RCPP):** *Not Applicable* | |
| Was the document disclosed ***prior to appraisal?*** | Not Applicable |
| Date of "in-country" disclosure by the borrower/client | Click to select the date |
| Date of receipt, by the Bank, of the authorization to disclose | Click to select the date |
| Date of disclosure by the Bank | Click to select the date |
| **Emergency Preparedness & Response Plan (EPRP):** *Not Applicable* | |
| Was the document disclosed ***prior to appraisal?*** | Not Applicable |
| Date of "in-country" disclosure by the borrower/client | Click to select the date |
| Date of receipt, by the Bank, of the authorization to disclose | Click to select the date |
| Date of disclosure by the Bank | Click to select the date |
| **Hazardous/Medical Waste Management Plan (HWMP):** *Not Applicable* | |

*[18] Including Grievance Redress Mechanism (GRM)*

*[19] Refer to footnote 212 of the ISS: Depending on the nature and the scale of the risks and impacts of the project, the Biodiversity Management Plan (BMP) may be a stand-alone document, or it may be included as part of the ESMP prepared under OS1. Select this if a standalone BMP is required.*

*[20] Refer to footnote 190 of the ISS: The Livelihood Restoration Plan (LRP) is normally part of the Resettlement Action Plan (RAP). However, for complex livelihood restoration, a stand-alone LRP can be prepared as part of the ESMP. Select this if a standalone LRP is required.*

| | |
|---|---|
| Was the document disclosed ***prior to appraisal?*** | Not Applicable |
| Date of "in-country" disclosure by the borrower/client | Click to select the date |
| Date of receipt, by the Bank, of the authorization to disclose | Click to select the date |
| Date of disclosure by the Bank | Click to select the date |
| **Riparian Notification (RN):** *Not Applicable* | |
| Was the document disclosed ***prior to appraisal?*** | Not Applicable |
| Date of "in-country" disclosure by the borrower/client | Click to select the date |
| Date of receipt, by the Bank, of the authorization to disclose | Click to select the date |
| Date of disclosure by the Bank | Click to select the date |
| **Environmental and Social Management Plan of the Financing Agreement (FA-ESMP)** [21] | |
| Was the document disclosed ***prior to appraisal?*** | *No* |
| Date of "in-country" disclosure by the borrower/client | *16-Feb-26* |
| Date of receipt, by the Bank, of the authorization to disclose | ***16-Feb-26*** |
| Date of disclosure by the Bank | **17-Feb-26** |

**Is in-country disclosure of any of the above required documents not allowed as per the country's legislation or not expected because of crises/emergencies:** Not Applicable
**If applicable, please explain below:**

**Not applicable.**

| | |
|---|---|
| **B.2. Compliance monitoring indicators** | |
| Has satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies? | **Yes** |
| Has costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost? | **Yes** |
| Is the total amount for the full implementation for the Resettlement of affected people, as integrated in the project costs, effectively mobilized, and secured?[22] | **Not Applicable** |
| Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies? | **Yes** |
| Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents? | **Yes** |
| **C. Clearance** | |
| Is the project compliant with the Bank's environmental and social safeguards requirements, and can be submitted to Approval? | **Yes** |

| ***Prepared by*** | ***Name*** | ***Signature*** | ***Date*** |
|---|---|---|---|
| Environmental Safeguards Officer(s): | **Pilila CHONGO** \| **Chimwemwe Roberta MHANGO** | | 9-Feb-26 |
| Social Safeguards Officer(s): | **xxxx** \| **xxxx** | | 9-Feb-26 |
| Task Team Leader(s): | Seaga Molepo/Antony Karembu/Eskendir Demissie | | 19-Feb-26 |
| ***Submitted by*** | | | |
| Sector Director: | Daniel SCHROTH | [signature] | 19-Feb-26 |
| ***Cleared by*** | | | |
| Director SNSC: | Maman-Sani ISSA | [signature] | 25-Jun-26 |

[21] *As referred to in section III.2.3 of the Bank's Environmental and Social Policy (ESP)*
[22] *In case a Resettlement Action Plan (RAP) is/are not required although the Environmental and Social Impact Assessment (ESIA) is/are disclosed, attached the image/picture/photo of the area/site/landscape to evidence that it is free of any encumbrance (simple statement or letter from the borrower does not suffice), in addition to the statement by the Borrower that it is a public-owned land.*

## Site photos.

| Existing Water sub projects sites | |
|---|---|
|  |  |
|  |  |
| **Existing Energy sub projects sites** | |
|  |  |

# APPENDIX 7: FCDO GUARANTEE PROGRAMME FOR SOUTH AFRICA JUST ENERGY TRANSITION PARTNERSHIP (JETP)

**Background**

Following COP26 in 2021, a financing pledge of USD 11.6 billion was made by the International Partners Group (IPG) comprising the UK, France, Germany, USA, and the EU under the first-ever Just Energy Transition Partnership (JETP) towards supporting the implementation of South Africa's strategy for reducing greenhouse gas emissions and achieving the climate goals outlined in its updated Nationally Determined Contribution (NDC).

In fulfilment of its contribution, the UK, through its development agency, the Foreign Commonwealth and Development Office (FCDO), committed to provide a USD 1 billion guarantee to the Bank to increase financing to South Africa in support of eligible projects under its Just Energy Transition Investment Plan (JET IP).

On 1st December 2023, the Bank approved the FCDO guarantee, which would allow the Bank to enhance its lending to South Africa and help the country fulfil its goal of decarbonising the economy within its NDC target range of 350-420 Mt $CO_2$ by 2030. The guarantee will cover only new eligible sovereign or sovereign-guaranteed loans to projects under the JET IP, including renewable energy generation projects, critical transmission projects, as well as those linked to the social dimensions of the energy transition.

An initial pipeline of projects was agreed upon between the Bank and FCDO:

| Indicative list of eligible projects | Borrower | Amount (USD Mln) |
|---|---|---|
| Battery Energy Storage Scheme - Phase II | Eskom | **200** |
| Mpumalanga Municipality Utility Reform Program | South Africa / National Treasury | **400** |
| Transmission and Distribution Project | Eskom (or future National Transmission Company of South Africa) | **600** |
| ACT Programme – ADB Contribution | Eskom | **245** |
| Project(s) on green hydrogen and/or electric mobility/transport and/or pumped storage | TBC | **200** |
| Just Transition Project | TBC | **100** |
| **Total** | | **1,745** |

**Technical Features**

The main features of the guarantee as negotiated and agreed with FCDO are as follows:

- The FCDO Guarantee Programme is classified as a risk management operation for balance sheet risk management and to scale up headroom, where the guarantor is the FCDO and the Bank is the beneficiary.

- The Guarantee is Basel compliant in that is an unconditional, irrevocable, and on-demand guarantee from the FCDO to the Bank for a maximum guarantee amount of USD 1,000,000,000, to cover the defaults on principal and interest amounts of sovereign and sovereign-guaranteed loans to eligible projects under South Africa's JET IP on a pro rata basis.

• It will be programmatic and governed by a non-binding Framework Arrangement that establishes the guiding principles and operational guidelines for the Individual Guarantees issued for eligible projects under South Africa's JET Investment Plan (IP), ensuring that the maximum guarantee amount of the Programme is not exceeded.

• Individual Guarantees will be legally binding and issued for eligible loans on a project-by-project basis, as and when projects are appraised and approved by the Board of Directors and processed in accordance with the Framework Arrangement. The onboarding period for approved eligible loans is up to 31st December 2025 (with a possible extension at the sole discretion of FCDO, subject to a hard-stop date of 31st December 2028).

• The guaranteed loans will have a maximum maturity of 25 years (i.e., the maximum tenor of a Fully Flexible Loan), and the protection period under the Framework Arrangement will match the tenor of the longest applicable underlying loan.

• The Bank will **not** pay any fees/premiums to FCDO for this Programme therefore; the pricing of covered loans will be in line with approved ADB sovereign loan terms

• Each guarantee issued under the Programme is purely synthetic, meaning that the Bank remains the lender of record of the covered loans

• The percentage coverage of each guarantee will be partial (up to 50%). At any point in time during the transaction life, the Bank will maintain a Minimum Retention Ratio of at least 50% of its credit risk exposure for each underlying loan.

• A default event is defined as a non-payment of principal and/or interest amounts on the underlying loan on the original payment due date.

• Payment by the FCDO on a claim arising from a default event shall be made within 180 days of the due date. For sovereign-guaranteed loans, payment will occur when the South African government fails to make a repayment following the call on the sovereign guarantee.

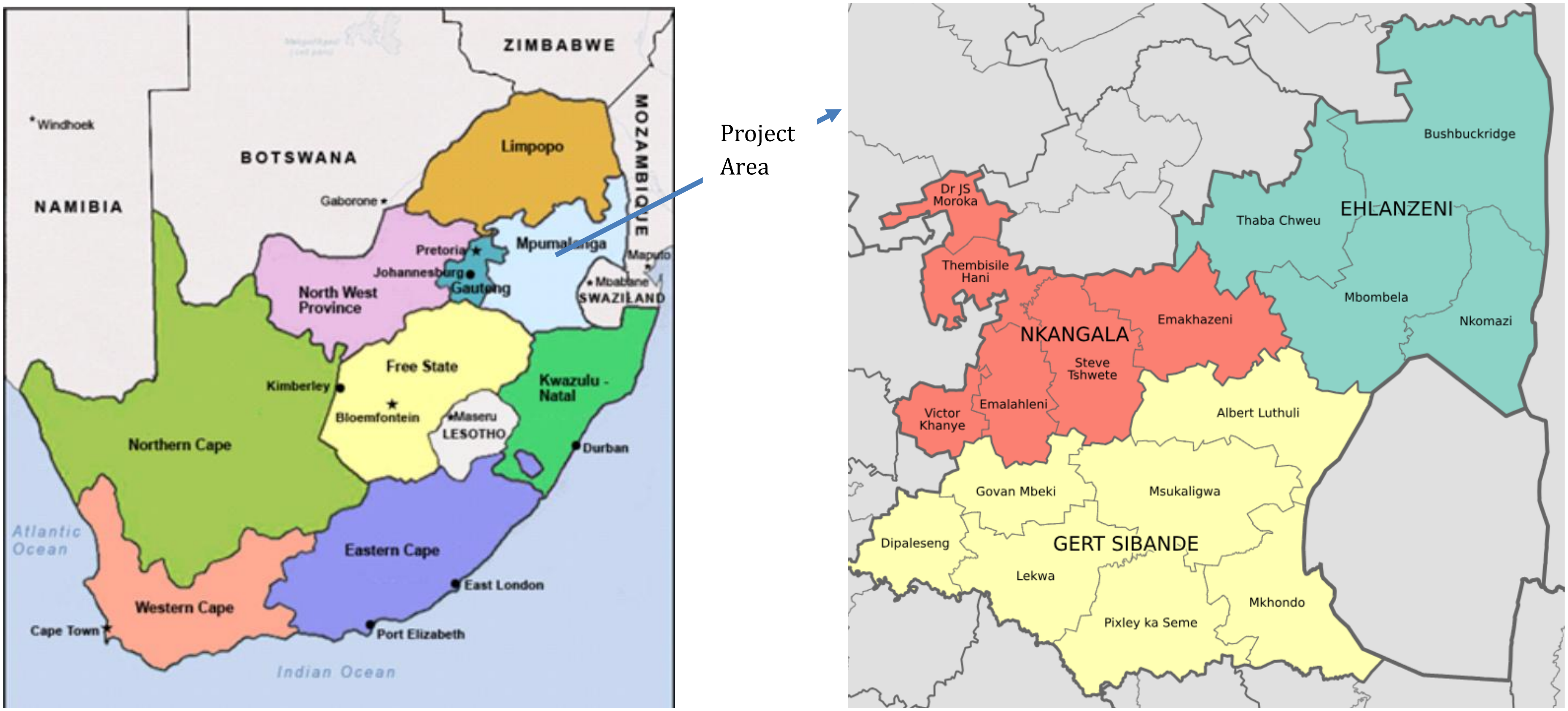
• In the event of payment of a claim, FCDO will cede their subrogation rights to the Bank, which shall remain the lender of record at all times, unless otherwise agreed in the legal documentation.

• The Bank is responsible for all loan recovery actions. FCDO is not repaying loans to the Bank on behalf of borrowers; rather, it compensates the Bank for the default.

**Conclusion**

This balance sheet optimisation transaction was designed to allow the Bank to increase its sovereign lending to South Africa by up to an additional USD 1 billion **above its current capacity, if the Bank experienced financing constraints** for projects in South Africa, by reducing the Bank's effective exposure to South Africa from additional sovereign financing.
Negotiations between the Bank and the FCDO to execute the Framework Arrangement and to agree on an agreed form of the individual Guarantee Agreement were concluded with the signing of the Arrangement. The Municipal Utility Reform Programme (MURP) is expected to be the first eligible underlying loan onboarded under the Framework Arrangement, for which an individual Guarantee Agreement will be signed between the UK and the Bank following Board approval.

# APPENDIX 8 MAP OF PROJECT AREA




Note: The boundaries, colours, denominations, and other information shown on this map do not imply any judgment on the part of the author(s)/institution concerning the legal status of any territory or the endorsement or acceptance of such boundaries.