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Disaster Risk Financing Approaches: Independent Report on the Experience of South Africa Municipalities

Disaster Risk Financing & Insurance Program

SUPPORTED BY WORLD BANK GROUP

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Executive Summary

South Africa is increasingly exposed to severe natural disasters. The National Disaster Risk Finance (DRF) Diagnostic noted that disaster relief costs amount to an average of R3.7 billion per year, with 86% of losses uninsured. The most recent Intergovernmental Panel on Climate Change (IPCC) report indicated that South Africa's natural disasters were likely to increase in severity and frequency given the likely increase in temperature due to climate change even after implementation or risk reduction activities (IPCC, 2022).

Municipalities are at the forefront of dealing with the impact of disasters. National Treasury and the World Bank, in collaboration with Switzerland's State Secretariat for Economic Affairs, commissioned Cenfri to better understand how municipalities finance disaster risk response to inform the implementation of the national DRF diagnostic and related strategy. The study draws primarily on interviews with 26 municipalities that received a disaster related grant in the past two years, supplemented with desktop research and interviews with the National Disaster Management Centre (NDMC), National Treasury, South African Local Government Association (SALGA) and the insurance industry. Local, district and metro municipalities were interviewed from provinces that experienced disasters. While the findings reflect municipal experiences, further work will be required to tailor actions at national and provincial levels (a summary of which is highlighted in Box 1 below).

Box 1: Disaster Management Responsibilities of Different Spheres of Government

The Disaster Management Act (2002) designates primary responsibility for disaster management to a specific sphere of government based on the disaster classification (local, provincial, or national). For instance, in the event of local disasters, the primary responsibility lies with the municipalities.

To lead the disaster management function, Disaster Risk Management Centers are established in South Africa at each level of governance: local, provincial, and national.

- The National Disaster Management Centre (NDMC) is the national agency responsible for guiding policy, legislation, and cross-functional coordination of disaster risk management activities across all government levels.
- The Provincial Disaster Management Centre (NDMC) supports the NDMC and municipal centers, linking national objectives with provincial and municipal priorities. It also must mobilize provincial resources and provide guidance to the relevant MDMCs during significant disasters.
- The Municipal Disaster Management Centre (MDMC) ensures the implementation of disaster management policies at the municipal level, supports local municipalities, and mobilizes municipal resources, while coordinating with provincial and national centers.

Section 2 of the DMA Act outlines the roles and responsibilities of various organs of state in managing disasters. In line with the principle of auxiliary support—which emphasizes utilizing existing structures and resources—disaster risk management must be integrated into the routine activities of relevant sectors and disciplines within these state organs and their substructures. Key entities involved include the Department of Social Development, the Department of Human Settlements, and the Department of Transport. A comprehensive overview of sectoral disaster management support is provided in Table 16 in Appendix H).

Source: National Disaster Management Framework (2005), Disaster Management Act No. 57 (2002)

Five of the six available DRF instruments were used by municipalities to respond to disaster related events across three categories (debt was not used by any municipalities interviewed):

- **Own budgets – reallocation and reprioritization as well as contingency reserves:** Municipalities are required to use their own funds in response to disasters to the extent that their budgets and legislation allows and can only request national support for unavoidable and unforeseeable events that they cannot fund themselves. Reprioritization and reallocation of municipal budgets together with contingency reserves were therefore the first line of defense to deal with disaster risks.
- **National funds:** Where municipalities cannot cover related costs from their own budgets they can apply for two national disaster grants: the Response grant for short term response (6 months) and the Recovery grant for infrastructure repair (1-3 years). Any funds spent from own budgets to respond to the disaster prior to allocation cannot be recouped from the grant. Low resource municipalities fully depended on these grants for response.
- **Insurance:** In limited cases, municipalities used insurance to cover some disaster costs, mostly for vehicles and buildings and to a limited degree infrastructure.

Each of these instruments offers unique benefits and challenges – these are captured in Table 1 below:

Table 1: Overview of the Use of and Benefits and Challenges of Municipal DRF Instrument by Respondent Municipalities

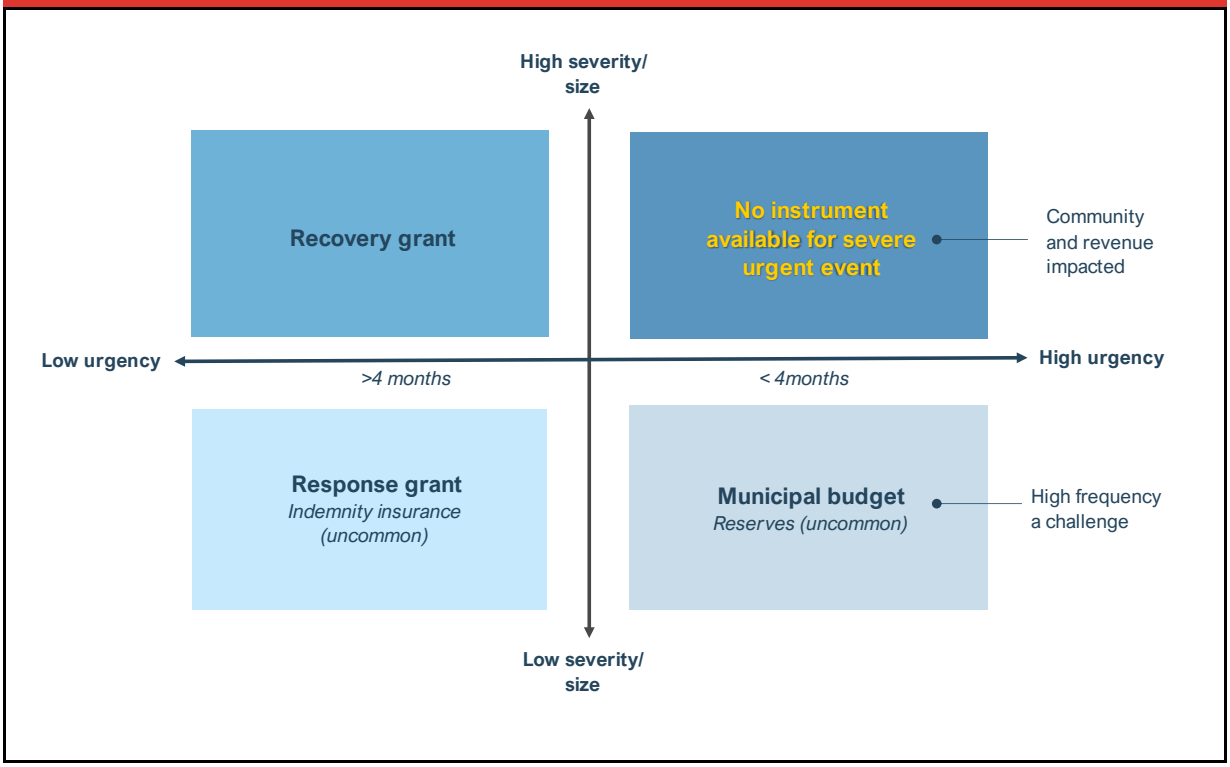
Instrument	Uptake % Muni-cipalities	Amount Median	Access time Months	Relevance	Benefits	Challenges
Response grant	76%	R12.8m	2-6 months	Primary instrument for low resource municipalities	Substantial source of funding for most municipalities	• Lack of certainty related to grant allocation process /amounts • Delayed grant receipt impacts response and recovery • Spending challenges related to finance conditions creates uncertainty and affects quality (especially roll over and supply chain requirements) Lack of skills and equipment for assessment and implementation
Recovery grant	44%	R37.3m	5-18 months	Primary instrument for low resource municipalities or severe events		
Budget reprioritization and reallocation	92%	N/a (not consistently recorded)	Immediate	Significant role, if available	Important instrument for response if available	• Budget reprioritization risks future disasters, effectively "robbing Peter to pay Paul." Budget re-allocation and use of other grants complex and slow

Table 1: Overview of the Use of and Benefits and Challenges of Municipal DRF Instrument by Respondent Municipalities						
Instrument	Uptake % Municipalities	Amount Median	Access time Months	Relevance	Benefits	Challenges
Contingency reserves	8%	N/a (small sample)	Immediate	Limited role	Allows for immediate response if available	• Ringfencing disaster contingency reserves difficult given competing priorities Municipalities unclear whether disaster related reserves are allowed
Insurance	32%	R4.9m	12-24 months	Limited role, small amounts received late	Risk transfer beyond budget and fiscus	• Municipal status quo affecting insurability Premiums and excess levels considered expensive for municipalities
Debt	0%	N/a	N/a	Not used in sample municipalities	Liquidity	• Hight cost • Only available for revenue generating capital expenditure Not considered as an option for municipalities post-disaster

Source: National Treasury (2024); Interviews

No instrument available for severe, urgent event. Municipalities lack access to a DRF instrument that can provide substantial funding immediately in the event of a disaster. While budget reprioritizations and reserves are available almost immediately, they depend on municipal resources and where the municipality stands within the budget cycle. Municipalities annual budgets are insufficient to respond to severe disasters and most struggle to create disaster related reserves in the face of competing priorities combined with lack of instrument to accumulate long term ring-fenced disaster funds. Response grants offer higher-value support but take an average of five months to be allocated, contrary to its design as immediate relief instrument. This leaves many municipalities without a dedicated DRF instrument that can be leveraged immediately for severe and urgent climate disasters as per Figure 1.

Figure 1: Municipal Disaster Finance Options



Source: Authors' own

Grant delays and disbursement challenges need to be addressed to improve municipal disaster response and recovery. 54% (140) of municipalities have received a grant in the past two years, with R2.4 billion and 139 grants allocated in 2023/24 alone. The scale of need for disaster grants has grown beyond what was initially anticipated and face challenges as summarized below:

- **Disaster grants are slow to arrive.** National grants are critical for disaster response but face significant delays in allocation due to complex verification and assessment processes and insufficient municipal capacity. Collation of provincial grants further contribute to delays. Rural municipalities, heavily reliant on grants, experience severe community impacts during these delays.
- **Lack of clarity on grant approvals.** Municipalities are not clear which projects would qualify for a grant, hampering pre- and post-disaster planning and response. Sector department responses to disaster risk (e.g. housing or social relief) is at times fragmented and slow to arrive requiring municipalities to lean on the disaster response grant or charities to cover these gaps.
- **Municipalities face challenges to spend large disaster grants in a short time frame in a way that delivers resilient quality infrastructure post disaster**. Recovery grants have to be spent within one or max two roll overs regardless of the size or number of projects required. Such short implementation periods for complex infrastructure projects, combined with limited skills, lack of access to emergency procurement protocols and standard Environmental Impact Assessment (EIAs) timelines that can exceed 12 months hinder effective implementation of disaster reconstruction required for resilient infrastructure.

Municipal insurance is inadequate for disaster risk coverage. Insurance plays a minimal role in disaster response due to underinsurance and poor asset maintenance that limits coverage on the part of the municipalities, and limited options provided by the insurance market for municipalities given lack of competition and regulatory constraints on parametric cover for catastrophic events to date (plans are underway to allow such products in future). Where respondent municipal assets were covered insurance assessments were complex and took a long time to pay out.

Municipalities face an unequal climate risk burden beyond their control and ability to fund, disaster risk reduction key. Climate risks, including floods and droughts, impose exogenous shocks on municipalities that are outside their control. The impact of such shocks places an uneven financial burden on municipalities. Regions with higher exposure struggle to raise revenue for disaster risk reduction, while equitable share allocations do not account for climate risk factors. High-risk, low-income municipalities remain particularly underprepared, relying solely on the slow-moving disaster grants to fund response and recovery. Such municipalities are stuck in a vicious cycle of insufficient funds to build resilient infrastructure and ongoing destruction of infrastructure by disasters increasing the cost of response and recovery.

Systemic weaknesses pose a challenge beyond finance. Broader systemic challenges, including inadequate municipal revenue, poor governance, lack of capacity and poor infrastructure quality, exacerbate disaster risks. Disaster management functions at municipalities is often under-resourced and lack access to higher level decision-making, resulting in ineffective prevention and response efforts.

Priority actions and recommendations. The study identified eight priority actions to strengthen municipal approaches to financing their disaster risk response and recovery efforts to shocks moving forward:

Table 2: Overview of the Priority Recommendations

	Priority	Rationale	Owner
1	Risk rate municipalities and provide additional revenue and infrastructure grant support to high climate risk municipalities for disaster risk reduction, accumulation of contingency reserves and asset maintenance practices.	Different municipalities face different climate risks and costs not matched by funding.	COGTA; National Treasury
2	Adjust the response grant to provide immediate relief and rehabilitation.	In very severe events (e.g., flood), funds are required immediately, and lengthy verification of response costs is unnecessary.	NDMC
3	Pay out the recovery grants over the Medium-Term Expenditure Framework (MTEF) in line with grant business plans rather than as a lumpsum upfront.	Large resilient infrastructure projects take more time to properly implement (including e.g. EIA) than recovery grants allow.	NDMC
4	Develop effective disaster-appropriate supply chain guidelines and build	Emergency procurement rules not considered	Office of the Chief Procurement Officer

Table 2: Overview of the Priority Recommendations			
	Priority	Rationale	Owner
	municipal capacity for implementation	available after state of disaster period.	
5	Improve grant clarity and administration – transparency, digital systems and better data needed	Disaster grants are administered in a largely manual, opaque, and inefficient manner.	NDMC
6	Disaster risk accountability to sit at the level of municipal director or mayor's office	Coordination across silos and long-term planning to prevent and respond to disasters not possible without access to senior decision-making structures.	COGTA; Municipalities
7	Revisit the role of insurance in municipal disaster management for effective risk layering	Challenges exist to provide and use municipal insurance – further work needed to unpack and address supply side constraints.	National Treasury; COGTA
8	Reduce fragmentation of disaster funding and clarification of the roles of the sectoral departments.	Overlaps and gaps between sector, provincial and municipal responsibilities and funding.	NDMC; National Treasury

Recommendations would need to be implemented in line with fiscal constraints. Disaster risk reduction investments may have short term costs but significant long-term benefits. The cost of the recommendations and related finance options to cover such costs at a local, provincial or national level would need to be considered in future work.

Alignment with ongoing national reviews. This study focused on municipal approaches to finance disaster response. Other work related to disaster risk reduction, as well as provincial and national approaches to disaster risk management and climate change is needed and some is ongoing. Examples of such initiatives include:

- The Department of Forestry, Fisheries and Environment (DFFE) climate change strategy including the design of a Climate Change Response Fund[1] and related financial instruments, which seeks to strengthen resilience in the face of disaster., which is being developed to support climate adaptation efforts, including disaster risk reduction, mobilizing both public and private funds.

1 The fund is being developed under the leadership of National Treasury, the Department of Forestry, Fisheries and Environment (DFFE), and the Presidential Climate Commission (PCC). It is expected to become operational in the 2025/26 financial year, though its exact modalities are still being finalised. The PCC is set to provide its final recommendations ahead of the 2025 State of the Nation Adress (SONA) and the Mid-term Budget Policy Statement (PCC, 2024; IOL, 2025).

- The NDMC and COGTA review of disaster risk management structures.
- National Treasury's conditional grant review, which is assessing how disaster-related funding is structured within the broader intergovernmental fiscal system.

Where relevant, the recommendations have considered these ongoing reviews to ensure alignment and efficiency in implementation.

Acronym List

COGTA	Department of Cooperative Governance and Traditional Affairs
CSIR	Council for Scientific and Industrial Research
DMA	Disaster Management Act
DMP	Disaster Management Plan
DoRA	Division of Revenue Act
DoRB	Division of Revenue Bill
DRF	Disaster Risk Financing
DRM	Disaster Risk Management
DRR	Disaster Risk Reduction
EIA	Environmental Impact Assessment
GIF	General Insurance Fund
IDP	Integrated Development Plan
IPCC	Intergovernmental Panel on Climate Change
KPA	Key Performance Area
KZN	KwaZulu-Natal
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MISA	Municipal Infrastructure Support Agency
MTEF	Medium-Term Expenditure Framework
NDMC	National Disaster Management Centre
NDMF	National Disaster Management Framework
NT	National Treasury
P4R	Partnership for Risk and Resilience
PDMC	Provincial Disaster Management Centre
SADRI	Southern Africa Drought Resilience Initiative

SAIA	South African Insurance Association
SALGA	South African Local Government Association
SARB	South African Reserve Bank
Sasria	South African Special Risk Insurance Association
SASSA	South African Social Security Agency
SRD	Social Relief of Distress
USD	United States Dollar
USDG	Urban Settlement Development Grant

1. Introduction and Context

South Africa is highly vulnerable to natural disasters. Between 1952 and 2019, South Africa experienced USD 9 billion in economic losses due to disasters, including droughts, floods, wildfires, and social violence, with an acceleration in losses due to the increasing frequency and severity of shocks (World Bank, 2022). The "Day Zero" drought alone cost the Western Cape more than R5 billion, reducing the production of deciduous fruit, wine, and citrus, and contributing to the loss of 25,000 jobs (StatsSA, 2017). More recently, the 2022 KwaZulu-Natal (KZN) floods saw 459 people lose their lives, over 4000 homes destroyed, 40 000 people left homeless, and 45 000 people temporarily left unemployed. The cost of infrastructure and business losses amounted to an estimated USD 2 billion (Grab & Nash, 2023).

These events are increasing in frequency and severity. The most recent Intergovernmental Panel on Climate Change (IPCC) report indicated that South Africa's natural disasters were likely to increase in severity and frequency given the likely increase in temperature due to climate change even after implementation or risk reduction activities (IPCC, 2022). Municipalities are at the forefront of dealing with the impact of disasters.

To better plan for disasters, National Treasury conducted a National DRF Diagnostic with the World Bank and prepared a DRF strategy in 2024. The DRF Diagnostic found that annual disaster relief costs in South Africa cost an average of R3.7 billion per year, with uninsured losses accounting for 86% of the total, necessitating significant government support. The annual funding gap is projected to exceed R2.3 billion, compared to the current pre-arranged funding of R1.4 billion (World Bank, 2022). The National DRF Strategy identified three priority areas for reform:

1. Increase the availability of funds to strengthen fiscal and financial resilience to shocks.
2. Improve the distribution of funds to address response gaps with a focus on efficiency and timeliness.
3. Enhance data collection to support better budgeting and effective risk management.

The Strategy noted the importance of incorporating the perspectives of municipalities as key actors in disaster response.

Purpose of this report. National Treasury and the World Bank commissioned Cenfri to interview municipalities to gain a deeper understanding of how municipalities finance their disaster risk response and recovery efforts and to identify recommendations in support of the implementation of the DRF strategy. The study focused on the funding sources municipalities utilized in response to disasters, the rationale behind their use, the challenges associated with these instruments, and potential alternatives.

An overview of the methodology and approach to the study is summarized in Box 2 below.

Box 2: Methodology and Approach

This study draws primarily on interviews with municipalities, supplemented by data analysis, desktop research and interviews with key stakeholders.

Data analysis was conducted to select the sample of municipalities for the study, to identify trends in grant use and to capture data on the sample of municipalities interviewed. This included the National Treasury Local Government Datasets on grant allocations as per Division of Revenue Act (DoRA) 5b/7b, and data on municipal income, as well as survey data from a sample of municipalities (supplemented by interviews).

Desktop research was undertaken to understand the disaster risk finance context and legal environment in South Africa, including the DRF diagnostic, the DRF strategy and legislation related to disaster-risk management, disaster related grants and municipal financial management.

Municipality interviews were conducted with 25 municipalities selected from those municipalities that received a disaster response or recovery grant in the past two financial years (2022/23 and 2023/24) to obtain an understanding of their experience to respond to and finance recent disasters. Municipalities were interviewed from the most exposed provinces and covered local, district and metro municipalities, rural and urban municipalities and a range of municipal income levels. A detailed table summarising the grant distribution and sampling proportions is included in Table 14 in Appendix A for reference.

Stakeholder interviews were held with representatives from National Treasury, the National Disaster Risk Management Centre (NDMC), the Provincial Disaster Risk Management Centre (PDMC), the South African Local Government Association (SALGA), South African Insurance Association (SAIA) and private sector insurers to inform the survey design and recommendations included in the report. The full breakdown of interviews conducted is captured in Table 14 in Appendix A.

The research findings and recommendations are discussed as follows:

- Section 2 provides an overview of DRF instruments available to municipalities, summarizing their usage, accessibility, and challenges as noted by respondent municipalities.
- Section 3 sets out the priority recommendations stemming from the analysis in the rest of the report.
- Section 4 provides an in-depth analysis of each of the DRF instruments available to municipalities.
- Section 5 discusses the disaster management function and disaster risk reduction (DRR) practices at municipalities.
- Section 6 outlines the conclusion.

2. Findings in Brief

As per the DMA (Section 56 (2) (b)), municipalities are required to use their own resources as first response to disasters and only request national support for unavoidable and unforeseeable expenses beyond their means. National grants are available for response and recovery for such costs. Insurance and debt can also be used to fund disaster response and recovery. This section provides a brief overview of the use of these instruments among municipalities, as well as the key challenges that need to be addressed. Section 0 provides a deep dive into each instrument with related detailed recommendations.

2.1 Overview of Instruments and Requirements

Six instruments were identified for municipalities to use to finance their response to disasters: disaster response grants, disaster recovery grants, budget reprioritization and reallocation, insurance and debt. Table 3 below provides a summary of the requirements to use each of the instruments.

Table 3: Overview of DRF Instrument Requirements

	Requirements for use
Response grant	1. Disaster declared, application verified, grant conditions are met, and funds are available. 2. For use within 6 months after transfer 3. Successful roll-over
Recovery grant	1. Disaster declared, application verified, grant conditions are met, and funds are available. 2. Approval only granted during budget adjustment period and released annually between January & February. 3. For use within 1 – 3 financial years (dependent on the scope of work) 4. Successful roll-over
Contingency reserves	1. Availability of operational funds 2. Formal reallocation of budget tabled in Municipal Council. 3. Formal reallocation of other conditional grants, upon National Treasury approval of joint request from NDMC and the transferring officer
Budget reprioritization and reallocation	1. Set aside during the regular budget cycle 2. Must comply with the MFMA Section 12 and 13 3. Guidelines on budgeting for disasters per National Disaster Management Framework
Insurance	1. Valued at replacement rate 2. Adequate documented asset maintenance 3. Successful claims assessment, and excess fee payment 4. Some assets excluded – network assets
Debt	1. Debt tender to market 2. Good financial standing 3. Only applicable for income generating assets

Sources: NDMC (2023); Division of Revenue Bill (2024) MFMA Circular No. 116 (2022); MFMA (2003), NDMF (2005), Interviews.

Disaster response and recovery primarily funded by budget reallocation and grants. Budget reallocation and reserves are immediately available whereas all other instruments take months to access which make them less appropriate for immediate response.

- **Own resources** - budget reprioritization and reallocation as well as contingency reserves: Budget reprioritization and reserves were the only instruments that could fund immediate disaster risk response, as such funds do not require extensive verification and approval for use. Budget reallocation and the use of unspent grants from sector departments were also used in response but took time to access given additional approvals required. (See sections 4.2 and 4.3 for a detailed discussion of these instruments.)
- **Grants**: Municipalities relied on the municipal disaster grants to finance disaster related costs where they were unable to cover related costs from their own budgets. The Response grant is available for short term response (6 months) and the Recovery grant for recovery and infrastructure repair (1-3 years). Grants require cost assessment, verification and approval from PDMC, NDMC and National Treasury prior to allocation. Grants take on average 5 months from event to receipt and costs incurred in the interim cannot be claimed from the grant. (See section 4.1 for a detailed discussion of these instruments.)
- **Insurance**: A third of municipalities interviewed also claimed from insurance to cover some disaster costs. Indemnity insurance covered a small part of the cost required for response and recovery. Those insurance claims also require assessment and as result can also take a long time to receive post disaster. (See section 4.4 for a detailed discussion of insurance.)

2.2 Overview of Challenges

Table 4 below provides an overview of the DRF instruments used and related benefits and challenges as noted by interviewed municipalities:

Table 4: Use of DRF Instruments by Respondent Municipalities

Instrument	Uptake % Municipalities	Amount Median	Access time Months	Relevance	Benefits	Challenges
Response grant	76%	R12.8m	2-6 months	Primary instrument for low resource municipalities	Substantial source of funding for most municipalities	• Lack of certainty related to grant allocation process /amounts • Delayed grant receipt impacts response and recovery • Spending challenges related to finance conditions creates uncertainty and impacts quality (especially roll over and supply chain requirements) • *Lack of skills and equipment for assessment and implementation*
Recovery grant	44%	R37.3m	5-18 months	Primary instrument for low resource municipalities or severe events		

Table 4: Use of DRF Instruments by Respondent Municipalities

Instrument	Uptake % Municipalities	Amount Median	Access time Months	Relevance	Benefits	Challenges
Budget reprioritization and reallocation	92%	N/a (not consistently recorded)	Immediate	Significant role, if available	Allows for response if available	• Budget reprioritization risks future disasters, effectively "robbing Peter to pay Paul." • *Budget re-allocation and use of other grants complex and slow*
Contingency reserves	8%	N/a (small sample)	Immediate	Limited role	Allows for response if available	• Ringfencing disaster contingency reserves difficult given competing priorities • *Municipalities unclear whether disaster related reserves are allowed*
Insurance	32%	R4.9m	12-24 months	Limited role, small amounts received late	Risk transfer beyond budget and fiscus	• Municipal status quo affecting insurability • *Premiums and excess levels considered expensive for municipalities*
Debt	0%	N/a	N/a	Not used in sample municipalities	Liquidity	• Hight cost • Only available for revenue generating capital expenditure • *Not considered as an option for municipalities post-disaster*

Source: National Treasury (2024); Interviews

No instrument available for a severe, urgent event beyond own budget. While budget reprioritizations were available almost immediately, they typically involved relatively small amounts and depended on where the municipality stood within the budget cycle. No instrument is available for large scale immediate response. Response and recovery grants offered higher-value support but often took a significant amount of time to be disbursed. Reserves and insurance provided some relief but are utilized by only a small number of municipalities. Existing debt instruments were not considered appropriate for disaster response and recovery.

National grants play a critical role in disaster response but face significant challenges, particularly in the initial response and verification processes. The need for disaster grants has significantly increased beyond what was anticipated in the initial design. 54% (140) of all SA Municipalities have received a grant in the past two years with R2.4 billion and 139 grants allocated in 2023/24 alone. Many smaller rural municipalities with high disaster exposure are wholly dependent on grants to fund response, leading to severe community impacts during delays. Delays in grant receipt are extensive and significantly impacts municipalities' ability to respond. Complex verification processes, lack of skills or equipment for verification and collation of application for provincial disasters are some of the challenges that delay grant allocation. Municipalities often face limited

clarity on which projects will be approved for grants, creating uncertainty and hampering their ability to plan both pre- and post-disaster. While other non-financial disaster support is available through sectoral departments, such as building materials and emergency housing construction from the Department of Human Settlements, these responses are often slow and fragmented. As a result, the response grant is frequently used to cover these areas, further stretching its intended scope.

Municipalities also face challenges spending grants for complex infrastructure recovery in the short timeframes allowed. Recovery grants were designed to be spent over 1-3 years but typically have to be spent within 15-18 months given roll-over restrictions. Funds spent prior to grant receipt cannot be recovered, which delays implementation of recovery efforts (as municipalities have limited funds). Once funds are available, delays in grant receipt often invalidate access to emergency procurement protocols and more urgent Environmental Impact Assessment (EIA) timeframes.

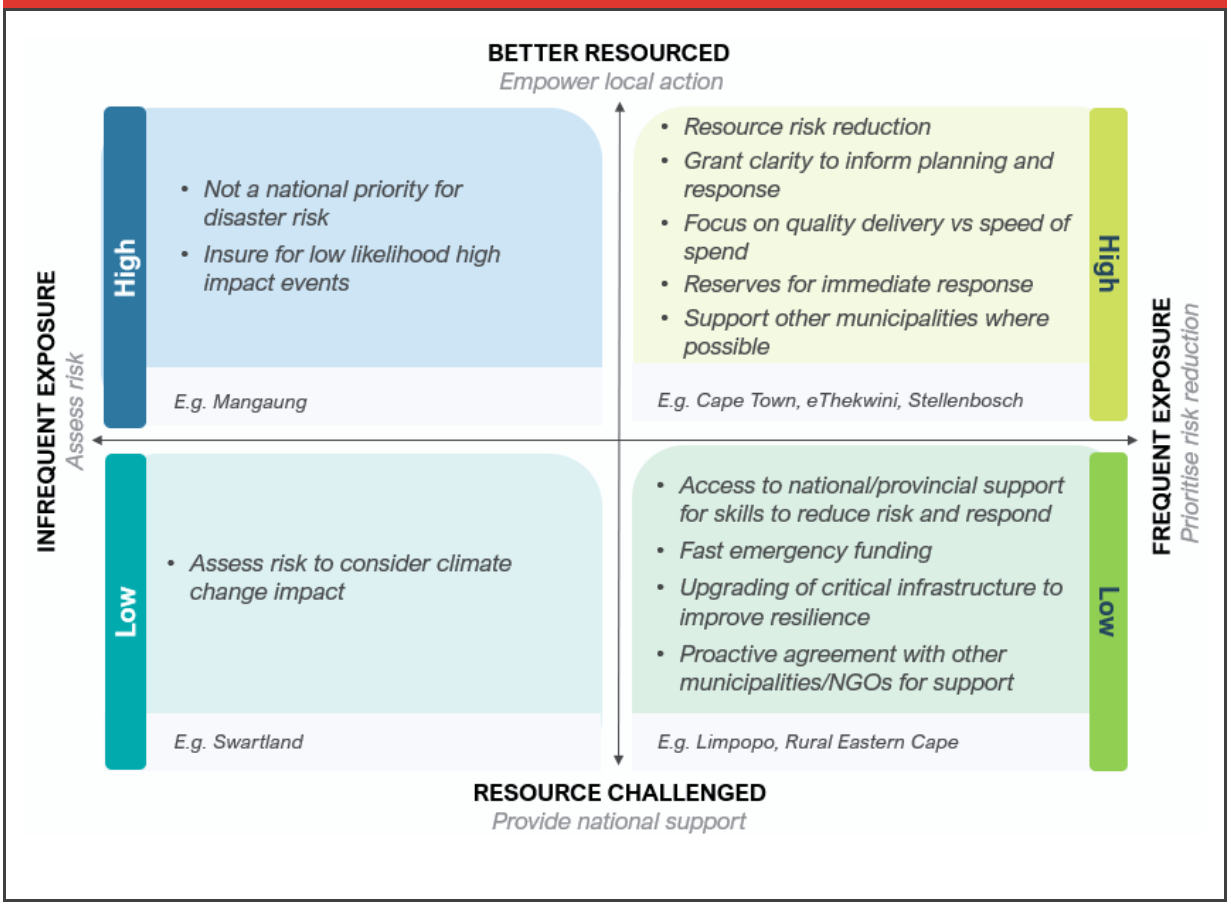
Beyond grants, insurance played a limited role to transfer risk related to disasters. A third of municipalities interviewed claimed from indemnity insurance in response to disasters and where it was used, claim payment took a long time. Most municipalities were underinsured due to incorrect use of existing products and product gaps. Infrastructure exposed to disaster risks are not sufficiently covered and assets are not well-maintained which impacts cost and extent of cover. The cost and availability of cover was noted as a key barrier to use with only two insurers providing municipal cover. Supply side constraints were beyond the scope of this study but needs further investigation to identify challenges faced by insurers to provide cover to municipalities. Product innovation has also been limited due to regulatory challenges to issue parametric cover to date.

Municipalities face different levels of climate risk exposure and costs that are not matched by available funding. Climate change is increasing the costs of essential services such as water and electricity, as well as the financial burden of responding to natural disasters. These exogenous shocks are unevenly distributed across municipalities. Regions that are arid or prone to flooding are more exposed to these risks than other areas, yet these factors are not currently reflected in the equitable share allocation and municipalities have struggled to raise local revenue for disaster risk reduction and response. Continuous use of annual budgets for frequent disaster response in high-exposure municipalities comes at a trade-off which is particularly severe for poorer municipalities. The total costs of disasters are not well tracked making the scale of the problem and related trade-offs difficult to assess.

Municipal needs differ based on the extent of exposure and resourcing. Targeted responses are required based on these needs as reflected in Figure 2 below.

The scale and exogenous nature of these risks, combined with their unequal distribution makes national risk pooling and funding critical. Poorer municipalities with high exposure are in particular need of additional assistance.

Figure 2: Targeted Response Based on Municipal Realities



Source: Authors' own

Finance is only one piece of the puzzle: broader systemic and disaster risk management challenges also play a significant role. The findings of the study point to a number of cross cutting challenges. Finance can only fix so much – systemic causes need to be addressed related to municipal revenue, municipal management and historic infrastructure quality. Given the current and expected scale of natural disasters, efforts to reduce and plan for disaster risk is critical to manage the impact on the fiscus. Many disaster risk units are siloed within municipalities and under resourced which results in ineffective disaster prevention and response.

These challenges are unpacked for each of the DRF instruments in greater detail in section 4 and 5.

Drawing on the findings of this report, this study has identified priority actions to enhance municipal strategies for financing disaster risk response and recovery efforts in the face of future shocks. These actions are detailed in the following section.

3. Priorities for Action

Eight priority recommendations were identified from this study. These are summarized in Table 5 below and discussed in the sub-sections to follow. The recommendations identified are allowed under current regulation, although some guidelines may be needed to enable implementation of some. The remaining sections of the report set out the supporting findings for these action priorities and also include more detailed recommendations at the end of each section. Appendix I provides a summary of recommendation per stakeholder.

Table 4: Overview of the Priority Recommendations			
	Priority	Rationale	Owner
1	Risk rate municipalities and provide additional revenue and infrastructure grant support to high climate risk municipalities for disaster risk reduction, accumulation of contingency reserves and asset maintenance practices.	Different municipalities face different climate risks and costs not matched by funding.	COGTA; National Treasury
2	Adjust the response grant to provide immediate relief and rehabilitation.	In very severe events (e.g., flood), funds are required immediately, and lengthy verification of response costs is unnecessary.	NDMC
3	Pay out the recovery grants over the MTEF in line with grant business plans rather than as a lumpsum upfront.	Large resilient infrastructure projects take more time to properly implement (including e.g. EIA) than recovery grants allow.	NDMC
4	Develop effective disaster-appropriate supply chain guidelines and build municipal capacity for implementation	Emergency procurement rules not considered available after state of disaster period.	Office of the Chief Procurement Officer
5	Improve grant clarity and administration – transparency, digital systems and better data needed	Disaster grants are administered in a largely manual, opaque, and inefficient manner.	NDMC
6	Disaster risk accountability to sit at the level of municipal director or mayor's office	Coordination across silos and long-term planning to prevent and respond to disasters not possible without access to senior decision-making structures.	COGTA; Municipalities
7	Revisit the role of insurance in municipal disaster management for effective risk layering	Challenges exist to provide and use municipal insurance – further work needed to unpack and address supply side constraints.	National Treasury; COGTA
8	Reduce fragmentation of disaster funding and clarification of the roles of the sectoral departments.	Overlaps and gaps between sector, provincial and municipal responsibilities and funding.	NDMC; National Treasury

3.1 Risk Rate Municipalities and Provide Additional Revenue and Infrastructure Grant Support to High Climate Risk Municipalities for Disaster Risk Reduction, Accumulation of Contingency Reserves and Asset Maintenance Practices

Climate change is increasing the frequency and cost of dealing with natural disasters. These costs are not spread equally between municipalities. Arid and flood risk-prone areas are more exposed than other regions – factors not yet accounted for in the equitable share allocation.

A dedicated and systematic approach is needed to ensure high-risk municipalities are better equipped to prepare for, respond to, and recover from disasters. Tailored support and clear guidelines on national assistance for disaster-related costs could enable municipalities to better manage disaster risk. Support could include the following components:

a) In line with the DRF Diagnostic, National Treasury could rate municipal disaster risk exposure using for example the Council of Scientific and Industrial Research's (CSIR)'s Municipal Disaster Vulnerability Index is an existing measure which could be used to determine disaster exposure (CSIR, 2019).

b) The risk rating could be integrated into the equitable share formula to improve the sustainability of funding to high-risk, low-income municipalities. Alternative mechanisms beyond the equitable share could be considered to provide this additional support under stricter conditions.

c) Municipalities would be required to use the additional funding for i) disaster risk reduction activities and ii) to fund the contingency reserve thresholds proposed by the National Disaster Management Framework (NDMF). Higher resource municipalities may be able to self-fund such contingency reserves over time through own revenue or other financial instruments.

d) To enable operation of long-term ring fenced contingency reserves National Treasury would need to prescribe a disaster risk contingency reserve framework under Section 13(1)(b) of the Municipal Finance Management Act (MFMA) MFMA (2003) so that municipalities meet the thresholds prescribed as required in terms of the NDMF.

e) Additional infrastructure support is needed for high-exposure municipalities with limited resources and poor infrastructure. The Municipal Infrastructure Grant (MIG) is the largest conditional, infrastructure-related grant available to municipalities. On average, disaster grant allocations account for 8% of the average MIG allocation. Climate resilience and disaster risk reduction measures in the MIG are critical to better prepare for disasters and construct resilient infrastructure in the face of climate change (e.g. building practices and spatial planning informed by climate risk). Providing targeted assistance to high-risk municipalities to implement DRR strategies will further reduce risk while also limiting future disaster-related costs on the fiscus. In addition, specifying a dedicated municipal disaster risk reduction grant under the MIG to upgrade and complement critical infrastructure will break the recurring cycle of disasters for such municipalities. For example, the grant could fund nature-based solutions (e.g., wetland restoration to mitigate flooding and soil erosion), critical infrastructure upgrades, or community-based resilience projects such as the development of local early warning systems. A team within the NDMC or Municipal Infrastructure Support Agency (MISA) would be required to provide evidence-driven guidance and support implementation at the municipal level given local skills gaps.

f) Municipal governance related eligibility and accountability requirements would be critical for any additional funding to ensure funds are allocated towards disaster risk management. Terms would need to be agreed between National Treasury and the Department of Cooperative Governance and Traditional Affairs (COGTA).

3.2 Adjust the Response Grant to Provide Immediate Relief and Rehabilitation

Existing assessment and verification requirements for the disaster response grant should be adapted to enable their original objective of immediate relief and rehabilitation following disasters. Current processes are slow and application for immediate relief is conflated with processes to those for longer term and more complex rehabilitation and reconstruction. These processes need to be

split out with simplified streamlined processes developed to provide immediate relief grant payments. Two potential approaches could be considered:

- Automatic allocation: A predetermined amount could be disbursed on the declaration of a disaster based on objective parametric criteria developed by the NDMC—such as the scale of the disaster and the number of affected individuals—rather than requiring assessment and cost verification before disbursement.
- Fast-tracked verification: Simplified and streamlined verification procedures could be developed tailored to immediate relief requirements, ensuring funding is released within predetermined timelines (e.g., 2–3 weeks).

Not all municipalities have the capacity to use funds for immediate relief. Mechanisms are needed for NDMC or PDMC to provide emergency goods and services directly—rather than allocating funds—in cases where local municipalities lack the capacity or disaster management function to respond effectively. This could include stockpiling essential emergency goods and equipment to achieve economies of scale. The review of the current disaster management framework is exploring this issue in more detail.

Other complementary measures should also be implemented to maximize the effectiveness of existing funding and enable a swift response:

- Establishment of funded long-term contingency reserves (as per Priority 1) to enhance municipal response capabilities.
- Strengthening capacity and authority for DRR and Disaster Risk Management (DRM) (as per Priority 5).
- Streamlining and automate administrative processes (as per Priority 6) to reduce delays and improve response times.
- Enhancing disaster relief coordination across government entities (as per Priority 8).
- Developing effective emergency-specific procurement protocols, including pre-approved contractors, to expedite response efforts (as per Priority 4).

These reforms can be implemented within the existing legal framework but will require additional NDMC resources and capacity to manage a higher volume of grants and direct emergency interventions.

3.3 Pay out the Recovery Grants Over the Medium-Term Expenditure Framework (MTEF) in Line with Grant Business Plans Rather Than as a Lumpsum Upfront

Large infrastructure projects require sufficient time to implement well. Recovery grants are allocated in a lumpsum and allow for only one roll over (or, with difficulty, two roll overs) which creates false urgency to spend fast rather than a focus on quality delivery. To support planning and the effective execution of projects, recovery grants should be allocated over the MTEF in line with

the business and cashflow plans municipalities submit in support of the grant (disbursing grants in tranches are allowed by existing legislation[2]).

Recovery grant application processes and engagement between municipalities and the PDMC should be adjusted to encourage such multi-year applications. Additionally, application protocols between the NDMC and National Treasury should be refined to facilitate recovery grant allocations over the MTEF, aligning with business plans and related cashflow requirements.

The allocations per year would need to be confirmed by National Treasury and gazette upfront to create the certainty needed for contracting and planning. Disbursement per tranche could be conditional on the level of spend or achievement of milestones, ensuring accountability while allowing flexibility.

3.4 Develop Effective Disaster-Appropriate Supply Chain Guidelines and Build Municipal Capacity for Implementation

Emergency procurement protocols exist but are not considered available after the state of disaster has passed (3 months from the declaration) and require further improvements to be fit for purpose for immediate disaster response. It is recommended that the Office of the Chief Procurement Officer improves the national disaster-related supply chain guidelines to ensure they are fit for purpose to support disaster response in consultation with the NT, NDMC and municipalities. Municipalities noted the need for more streamlined procedures, including specific timelines for advertising, tender selection, and city manager signoffs, tailored to the urgency of disaster scenarios. The applicability of emergency protocols beyond the immediate disaster timeframe (currently three months) also requires clarification. Further embedding these procedures into disaster response grant conditions would enhance accountability, reduce delays, and improve the overall efficiency of disaster response and recovery efforts.

Additionally, targeted capacity building for Chief Financial Officers (CFOs) and supply chain officers to enhance their readiness and effectiveness in disaster response scenarios. Additionally, municipalities should establish pre-approved supplier agreements (term contracts) in advance to enable rapid response action.

3.5 Improve Grant Clarity and Administration

The number and value of disaster grants have increased significantly over the past three years beyond what was anticipated in the initial design. The administrative capacity and implementation support has lagged the need for these grants. Municipalities are not clear on which expenses will qualify for disaster grants and find the current grant application processes fragmented, opaque and complex to implement. There is no existing manual or guidance on the application process outside the grant framework published each year in the Division of Revenue Bill. Clarification of the scope of the grant and improvements in grant administration is needed to support grant implementation. These reforms will require additional capacity and funding to the NDMC given the scale of disaster grants. The following measures are needed:

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2 The grant framework (per the Division of Revenue Bill (2024)), specifies that a first tranche can be transferred initially, with subsequent transfers conditional on 60% of the first tranche being spent.

a) **Simplified guidance**: Clear, consistent, user-friendly templates and guidelines are needed to clarify grant allocation criteria and to simplify the application processes for municipalities. These materials could provide step-by-step instructions and clarify roles and responsibilities between the relevant organs of state, specifying which disaster-related costs are eligible for national funding. Municipalities and sectors need to be trained on these approaches as well as on the risk management practices they should have in place.

b) **Digital grant management system**: The development of a centralized digital system for disaster grant management and verification should be expedited to reduce the administrative burden to administer the grant and improve coordination across municipalities, sector departments, districts, the PDMC, NDMC, and National Treasury, while also integrating with existing government systems.

c) **Better data**: The total cost of disasters and the spending of grants is not accurately recorded or aggregated. A digital system could support data quality to improve accountability, facilitate evidence-based decision-making, and provide insights to refine policies and practices. Municipalities need to systematically track disaster-related expenditures to enable policymakers to assess the true financial impact of disasters. A structured framework for categorizing and monitoring these expenses is essential for effective oversight, better resource allocation, and stronger disaster risk financing strategies. This will also be an important component to track spending of ringfenced contingency reserves.

3.6 Disaster Risk Accountability to Sit at The Level of Municipal Director or Mayor's Office

Disaster management functions in municipalities are often positioned outside core municipal structures, operating in siloes and facing severe resource constraints. This reduces their ability to influence critical DRR activities and limits their effectiveness. Stronger mandates for disaster planning and coordination within and between municipalities are needed to improve disaster risk reduction and management related activities. It is recommended that the COGTA and the NDMC implement the following:

a) Act on the NDMC's National Disaster Risk Management Framework recommendation to situate the Disaster Risk Management (DRM) function within the Office of the Mayor or at municipal director level with related KPAs. KPAs should include interdepartmental engagement on DRR and DRM activities, and reporting lines for disaster management personnel to ensure integration into municipal decision-making processes. This should be accompanied by targeted capacity development initiatives to equip municipal officials with the necessary skills and resources to fulfil their DRM mandates effectively.

b) Promote intermunicipal and provincial support structures for DRR and disaster response to enhance capacity in under-resourced areas. This could include establishing communities of practice, mentorship or peer support programs to share learnings on effective approaches. It should also address formalizing intermunicipal support for disaster response to enable swift action (e.g. firefighting support between municipalities or provinces in exchange for food and accommodation). Additionally, mechanisms should be put in place to facilitate access to shared provincial-level resources—such as specialized equipment, trained personnel, and technical expertise—particularly for municipalities with limited local capacity.

3.7 Revisit the Role of Insurance in Municipal Disaster Management for Effective Risk Layering

Municipalities are underinsured due to incorrect use of existing products and product gaps. To enhance the effectiveness of municipal insurance offerings, innovation is needed along three key lines:

Deepen Partnership and Technical Capacity to Implement Effective Insurance Practices.

Municipalities underinsure and struggle to claim on insurance policies during disasters due to insurance product gaps and problematic practices at municipal level:

a) National Treasury and SALGA could support municipalities with insurance training and guidelines to improve practices in critical areas in partnership with the insurance industry. The guidelines could include identifying key assets to insure (including critical infrastructure) and ensuring proper asset maintenance, valuation, and coverage (e.g., keeping updated maintenance records, insuring at replacement values, and defining appropriate levels of indemnification). Building on successful partnerships—such as those with Santam, which involve delivering disaster preparedness training, funding risk reduction workshops, and co-developing response plans—can serve as a strong foundation. Expanding these efforts to include greater collaboration with entities like the South African Local Government Association (SALGA), and the South African Insurance Association (SAIA) could further support capacity building, promote best practices, and foster a culture of risk-informed decision-making.

b) A risk layering strategy is needed to best use private resources for disaster risks including new insurance models to address risks not currently commercially insurable. Only two insurers offer municipal cover. A deep dive into supply side barriers to offering municipal insurance is needed beyond the scope of this study. National Treasury should start by convening insurers, and reinsurers to understand existing barriers and identify possible market innovation in the space drawing from global models such as the Australian municipal insurance model.

   The South African Special Risk Insurance Association (Sasria) has been effective at covering civil unrest as an example of an approach to cover commercially uninsurable risk. Efforts to expand this model to respond to climate risk and natural disasters should be accelerated.

Improve the Speed of Receipt for Disaster Risk Claims through Parametric Insurance for Metro, Provinces or Nationally

Parametric insurance cover is not yet available for urban risks in South Africa but could be used for immediate payment when a disaster occurs. Guidelines from the South African Reserve Bank (SARB)s for the use of parametric insurance as a potential solution for larger cities, provinces, or national-level coverage is needed from National Treasury and the SARB. Parametric insurance pays out a predetermined amount when a predetermined parameter is met, e.g. rainfall recorded in excess of 30- or 50-year levels in a specific area, and the payout depends by how much the level in the contract is breached. These products could provide stop-loss coverage, with pricing determined by the likelihood of the event and the amount of coverage required. Critical infrastructure should be prioritized for such cover.

Formalize Self-Insurance as a Reserve Mechanism

Municipalities often self-insure for infrastructure due to the perceived high cost of insurance and limits in the assets covered by insurance. Self-insurance is typically unfunded. Formal self-insurance or ring-fencing of reserves could be enabled through the use of structures similar to cell captives, to reduce the cost of currently available commercial cover, expand the range of assets that can be insured and incentivize risk reduction practices and improve governance of climate risk reserves beyond what is possible under municipal budgets. Municipalities could self-insure up to a defined threshold (e.g., R2 million) and build reserves within a ring-fenced, captive-like structure with supplemental parametric cover for catastrophe risks. While a full cell-captive structure may not be necessary, appropriate governance arrangements and a tailored structure would need to be developed that speak to municipal realities (e.g. risk management, coverage and claims processes could be tailored to municipal requirements and premiums would be risk profile dependent to incentivize risk reduction. Engineering and risk management capacity could be available through the structure to support risk reduction and build technical capacity to better manage municipal risks.)

Regulatory reform of the MFMA or guidelines may be needed to facilitate the implementation of these mechanisms, enabling municipalities to effectively reduce costs and broaden their insurance coverage. National Treasury should develop municipal insurance guidelines and training to improve practices in critical areas in partnership with the insurance industry. The guidelines could include identifying key assets to insure (including critical infrastructure) and ensuring proper asset maintenance, valuation, and coverage (e.g., keeping updated maintenance records, insuring at replacement values, and defining appropriate levels of indemnification). Building on successful partnerships—such as those with Santam and Old Mutual, which involve delivering disaster preparedness training, funding risk reduction workshops, and co-developing response plans—can serve as a strong foundation. Expanding these efforts to include greater collaboration with entities like the South African Local Government Association (SALGA), and the South African Insurance Association (SAIA) could further support capacity building, promote best practices, and foster a culture of risk-informed decision-making.

National Treasury could investigate the feasibility of such a structure to better transfer municipal disaster risk.

Box 3: What is a cell captive?

Globally, cell captive insurance grew out of the captive insurance concept. Captive insurance is a model where an entity self-insures its own assets by setting up its own dedicated insurance license. Cell captive insurance originated as a means for corporates to do the same but without the need for its own subsidiary license.

The cell structure allows the cell owner the independence to tailor its insurance to suit their needs, based on their risk appetite, as well as the ability to innovate in an agile structure that sits outside of the corporate culture and legacy systems of “traditional” corporate insurers.

Source: National Treasury (2023); Cenfri (2019)

3.8 Reduce Fragmentation of Disaster Funding Through Clarification of the Roles of the Sectoral Departments

The current disaster grant landscape is fragmented, with unclear roles and responsibilities between municipalities, provinces and sectors which creates inefficiencies and delays in disaster response and recovery efforts. As result, municipalities need to step into roles intended for sector departments (e.g. fixing a school affected by floods or providing temporary shelter for displaced people), through the disaster grant funding.

COGTA and the NDMC need to review existing funding processes and consider reforms where problematic overlaps or gaps are identified between municipalities and sectors.

A "grant map" could be useful to categorize all disaster-related funding instruments by purpose (e.g., emergency housing, social relief), including the conditions, processes, and responsibilities associated with each instrument. This could ensure municipalities and other stakeholders have a clear understanding of available funding options and their intended uses. The NDMC's coordination role should also be strengthened to navigate remaining gaps. National Treasury is currently undertaking a review of the conditional grant framework, the implication of which should be considered for this recommendation.

4. DRF Instrument Deep Dive

This section provides a detailed outline of each of the financial instruments available to municipalities for disaster response and recovery, their adoption, the challenges associated with their use, and the recommendations for each noted from respondent municipalities.

4.1 Municipal Disaster Grants

NDMC administers two types of grants to municipalities affected by disasters: The Disaster Response grant and the Disaster Recovery grant. Detail on the respective grant frameworks, and insights on grant uptake and implementation from municipal interviews and data analysis are presented in the section below.

Overview of Disaster Grants

The funding principles of the two grants are based on the Disaster Management Act. Both grants aim to support municipalities in addressing the impacts of disasters, but differ in purpose, timing, and scope, discussed in further detail in the subsections for each grant. Both grants are however rooted in the same Disaster Funding guiding principles as per Section 56 and 57 of the Disaster Management Act (DMA) (Box 4) which details the considerations underlying provision of financial assistance.

Box 4: The DMA Disaster Funding Guiding Principles

56(4) Any financial assistance provided by a national, provincial or municipal organ of state in terms of subsection (2)(a) must be in accordance with the national disaster management framework and any applicable post-disaster recovery and rehabilitation policy of the relevant sphere of government, and may take into account:

a) whether any prevention and mitigation measures were taken, and if not, the reasons for the absence of such measures

b) whether the disaster could have been avoided or minimised had prevention and mitigation measures been taken

c) whether it is reasonable to expect that prevention and mitigation measures should have been taken in the circumstances

d) whether the damage caused by the disaster is covered by adequate insurance, and if not, the reasons for the absence or inadequacy of insurance cover

e) the extent of financial assistance available from community, public or other non-governmental support programmes, and

f) the magnitude and severity of the disaster, the financial capacity of the victims of the disaster and their accessibility to commercial insurance.

57. When a municipality or a province in the event of a local or provincial disaster requests the national government to financially contribute to post-disaster recovery and rehabilitation, the following factors may be taken into account:

(a) Whether any prevention and mitigation measures were taken or initiated by the municipality or province, and if not, the reasons for the absence of such measures.

(b) whether the disaster could have been avoided or minimised had prevention and mitigation measures been taken.

(c) whether it is reasonable to expect that prevention and mitigation measures should have been taken or initiated in the circumstances by the municipality or province;

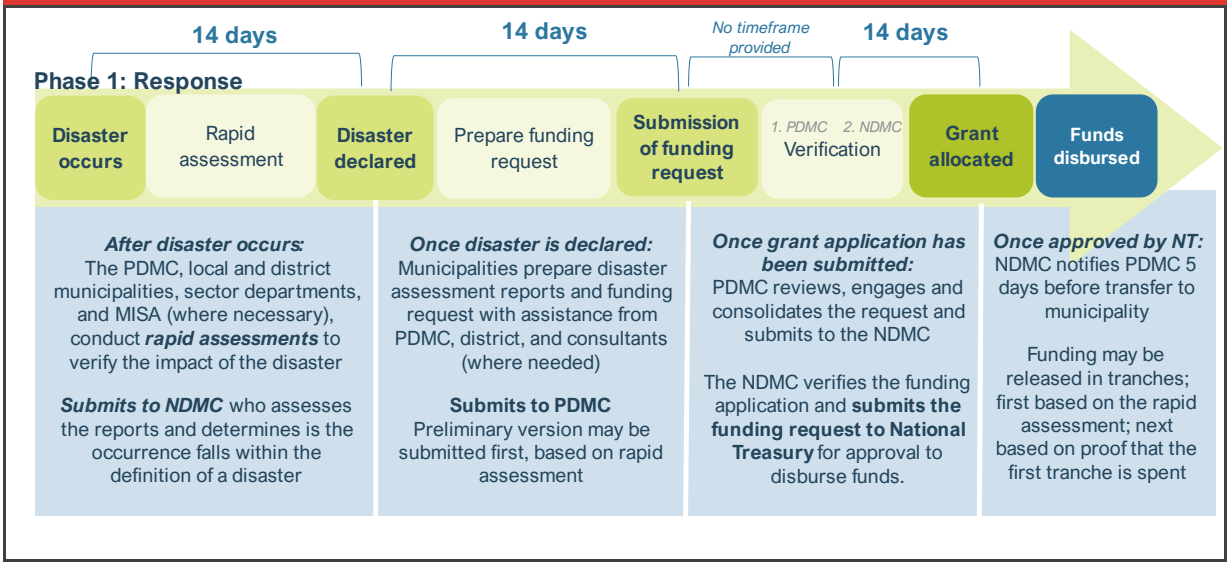
(d) whether the damage caused by the disaster is covered by adequate insurance. and if not, the reasons for the absence or inadequacy of insurance cover; and

(e) the magnitude and severity of the disaster and whether or not available financial resources at local level, or if it is a provincial disaster. at provincial level. are exhausted.

Disaster Response Grant

The Response grant is designed to provide municipalities with immediate funding for disaster response. As outlined in the Division of Revenue Bill (DoRB) (2024), the goal of the Response grant is to "enable timely response to address community needs regarding impending or disastrous events classified by the National Disaster Management Centre". The grant needs to be spent within a six-month implementation period, and typically covers emergency repairs to critical infrastructure, and emergency provision of critical goods and services (such as temporary shelters, temporary access roads and bridges, and mobile classrooms). The grant may only be used if the municipality is "unable to deal with the effects of the disaster utilizing own legislation, guidelines, and available resources" (DoRB, 2024). An overview of the application process is provided in Figure 3.

Figure 3: Disaster Response Grant Process



Source: DoRB (2024); NDMC (2023)

Before municipalities can submit a request for funding, the occurrence must be declared as a disaster by the NDMC. Within the first 14 days after a disaster has occurred, rapid assessments should take place to verify the impact of a disaster. This forms the basis for the NDMC to declare and classify the disaster in line with the DMA. Once classified, the municipalities have 14 days to prepare and submit a funding request to the PDMC, containing, for instance, number of households, livestock and infrastructure affected and details of damages and losses, total funds required, and an implementation plan with project details.

The funding request goes through multiple layers of verification before it can be approved for transfer by National Treasury. Both the relevant district municipality and the PDMC assists the

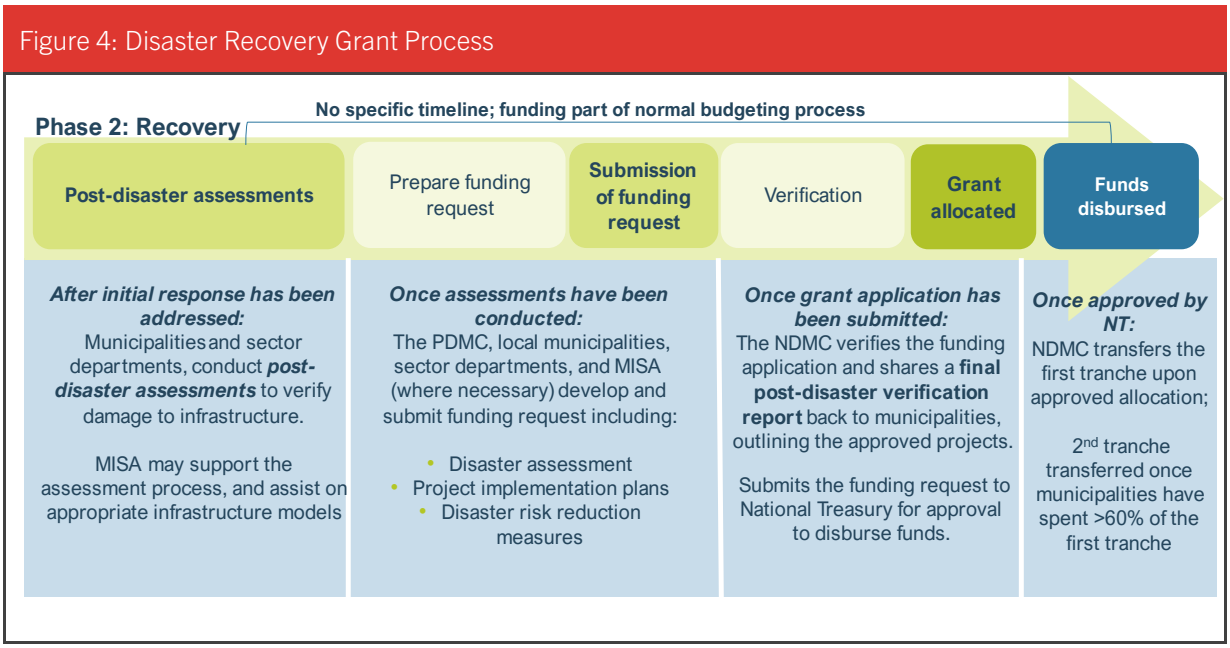
municipalities in compiling the funding request. Where necessary, the MISA assists in technical assessments and verification. The PDMC must sign off on the application (the grant framework does not specify a timeframe for this process). Once the PDMC has forwarded the request to the NDMC, the grant framework stipulates that the application should be verified and forwarded to National Treasury within 14 days, who then approves the grant for transfer. The response grant may be released in tranches – the first after the rapid assessment, and the next tranche based on proof that the first tranche has been spent.

The Response grant is funded by the government's contingency reserve. The central contingency reserve is allocated approximately R5 billion annually for unexpected financing needs. However, this reserve is not earmarked for natural disasters, and sometimes used or other budgetary items such as bailouts or to meet the public wage bill. If depleted early in the budget cycle, funds may be unavailable. If so, the government needs to reallocate funds from other grants or wait until the next budget cycle (World Bank, 2022).

Disaster Recovery Grant

Rehabilitation and reconstruction of municipal infrastructure is funded through the Disaster Recovery grant. The Recovery grant funding process is outlined in Figure 4. The purpose of the grant is to "rehabilitate and reconstruct municipal infrastructure damaged by a disaster" (Division of Revenue Bill 2024, 2024). Contrary to the Response grant, it is not designed for rapid disbursement and forms part of the normal budgeting process.

Figure 4: Disaster Recovery Grant Process



Source: DoRB (2024); NDMC (2023)

Extensive assessments form part of the Recovery grant funding request. Municipalities, with support from PDMC, and relevant sector departments, conduct post-disaster assessments as part of the funding request. The application includes a business plan setting out the timelines, technical reports and cost estimates per project. In addition, the projects should incorporate disaster risk reduction measures to prevent reoccurrence of disaster damages in the future.

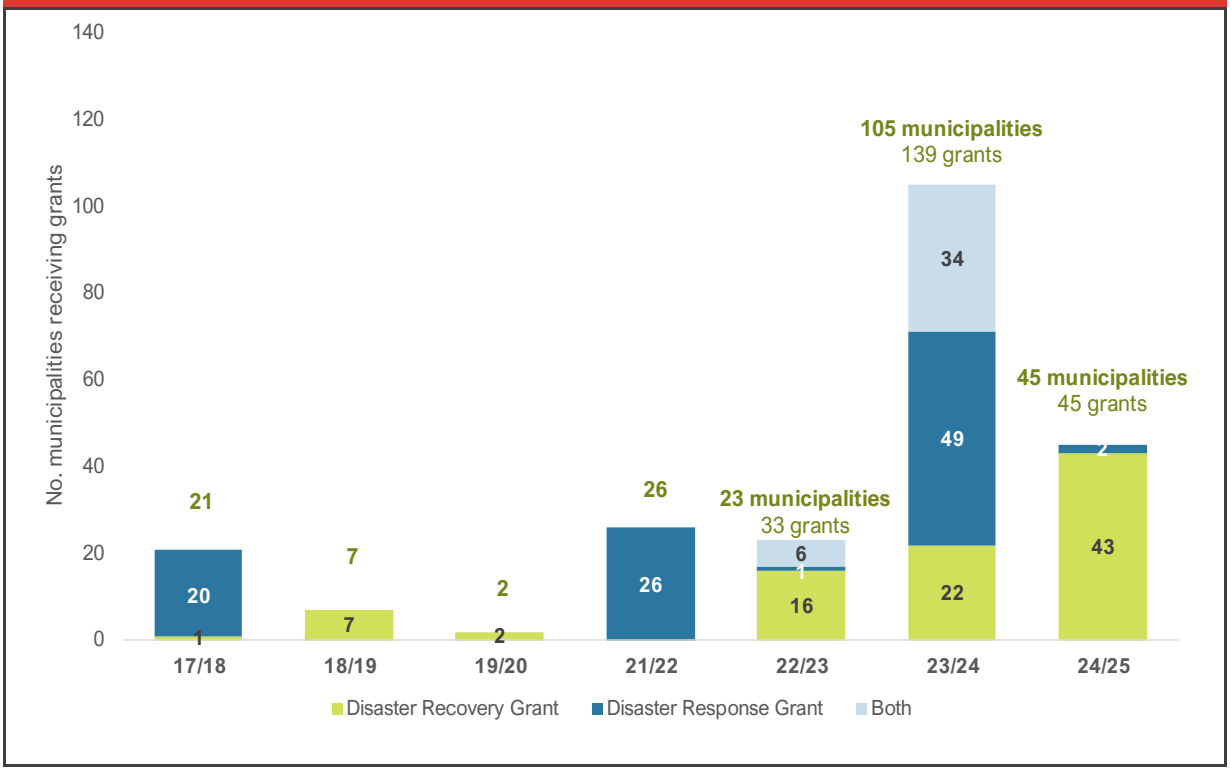
Similar to the Response grant, the funding request goes through multiple layers of verification. The application needs sign off by PDMC before NDMC can verify the application and submit to

National Treasury. The grant framework also outlines that MISA may assist in the assessment and verification process, to provide technical expertise and advise on pre-engineering processes to be followed (such as Environmental Impact Assessments and Water Use License Applications).

Uptake of Disaster Grants

Over half of municipalities have received a disaster recovery or response grant since 2022 – exposure and capacity differ. The number of disaster grants allocated have increased significantly in the past years (see Figure 5). 54% (140) of all municipalities in South Africa have received at least one Disaster grant since 2022, although with significant variation between provinces. For instance, 85% of municipalities in the Eastern Cape have received a Response grant compared to only 9% in Gauteng. These disparities highlight differences in both disaster exposure, and capacity to respond to disasters. The median Recovery grant amount is approximately R37.3 million, while the median Response grant is R12.8 million[3].

Figure 5: No of Grants Allocated



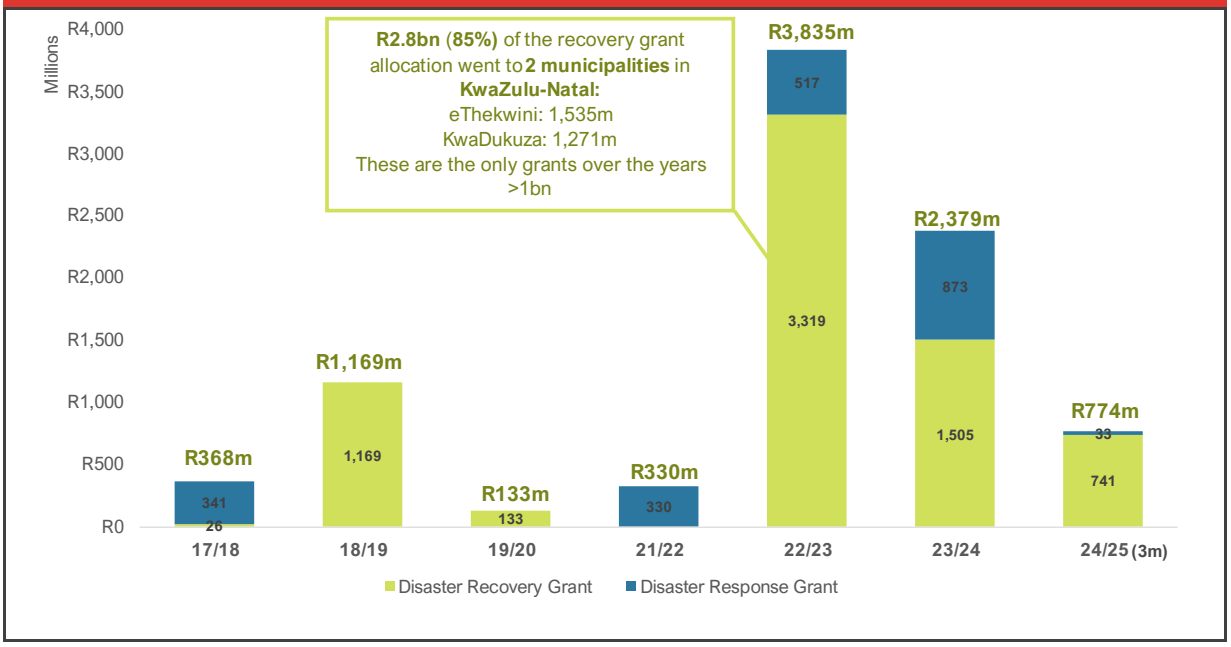
2020/21 excluded due to Covid-19. Refers to new allocations and excludes rollovers.
Source: National Treasury (2024)

Significant amounts have been allocated to municipalities, although the total cost of disasters is not known. The 2022/23 financial year stands out (see Figure 6 below), primarily due to two grants exceeding R1 billion. Both grants were allocated in response to severe flooding in KZN – considered the most catastrophic natural disasters ever recorded in the province (Wits University, 2023). Outside these two allocations, grants below R20m constitute nearly 70% of grants allocated over the past 5 years. Municipalities receiving larger allocations are predominantly concentrated in coastal

3 *The median Recovery grant excludes two outlier grants which were above R1 billion: grants to eThekwini and KwaDukuza after the KwaZulu-Natal flooding in April 2022.*

areas (See Appendix D). The total cost of disasters to the municipalities significantly exceeds the grant amounts but are not recorded.

Figure 6: Allocation Amounts

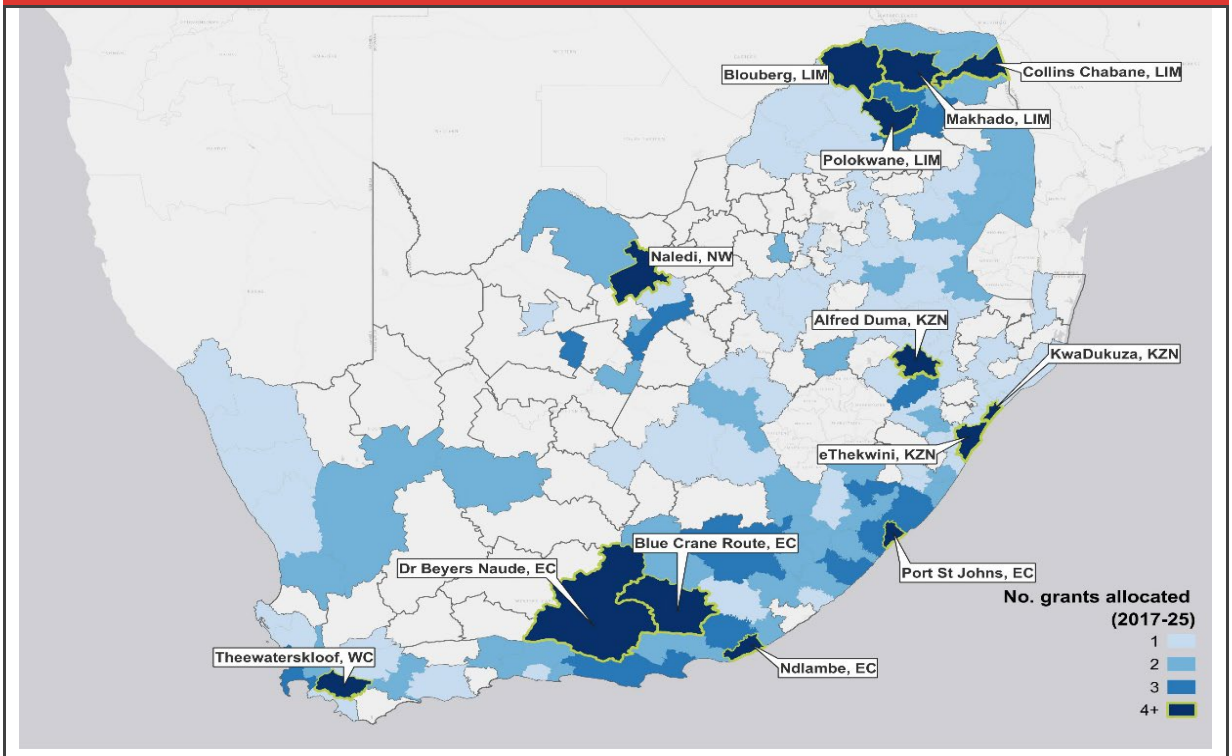


2020/21 excluded due to Covid-19. Refers to new allocations and excludes rollovers.
Source: National Treasury (2024)

Disaster exposure differs, as does the degree of dependence on the grant. 13 municipalities have received four or more grants during the past seven financial years, with distinct clusters observed in coastal regions and Limpopo (see Figure 7 below). Data on cost per disaster type is unavailable, but interviews indicate that recent disasters were largely flood related whereas many drought disasters were experienced in 2017/18. Grants are disproportionately important in rural municipalities, who are unable to initiate response efforts using their own budgets. As shown in Appendix D, grants represent less than 2.5% or 2.5–5% of total income for most municipalities. However, in low-income rural areas like parts of the Eastern Cape and KZN, grants often exceed 10% of income. Notably, in 2023/24, a recovery grant for Impendle municipality accounted for nearly 60% of its income. Grants are allocated for capital expenses and make up far greater proportions of capital budgets.

> *"It's something that we know for sure that we are going to be hit by disaster even now with the summer rains that are coming now. I think there is some delays on the on the summer rain, but I can rest assure you now that we're going to be hit by another disaster."*
>
> Municipality in the Eastern Cape

Figure 7: Geographic Distribution of Grants

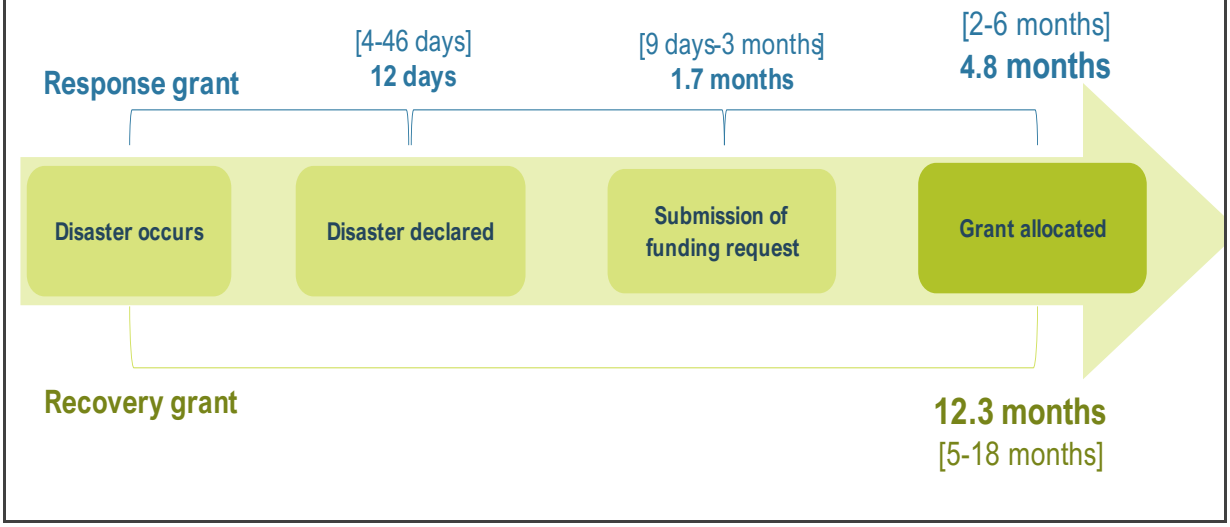


2020/21 excluded due to Covid-19.Source: National Treasury (2024)

Challenges Aassociated with the Municipal Disaster Grants

Response grant allocation on average received nearly five months after disaster. Sample municipalities reported the time from disaster occurrence to receive the Response grant ranges from two months up to six months, averaging at nearly five months (see Figure 8). The Recovery grant takes on average one year to receive, ranging from five months to 18 months.

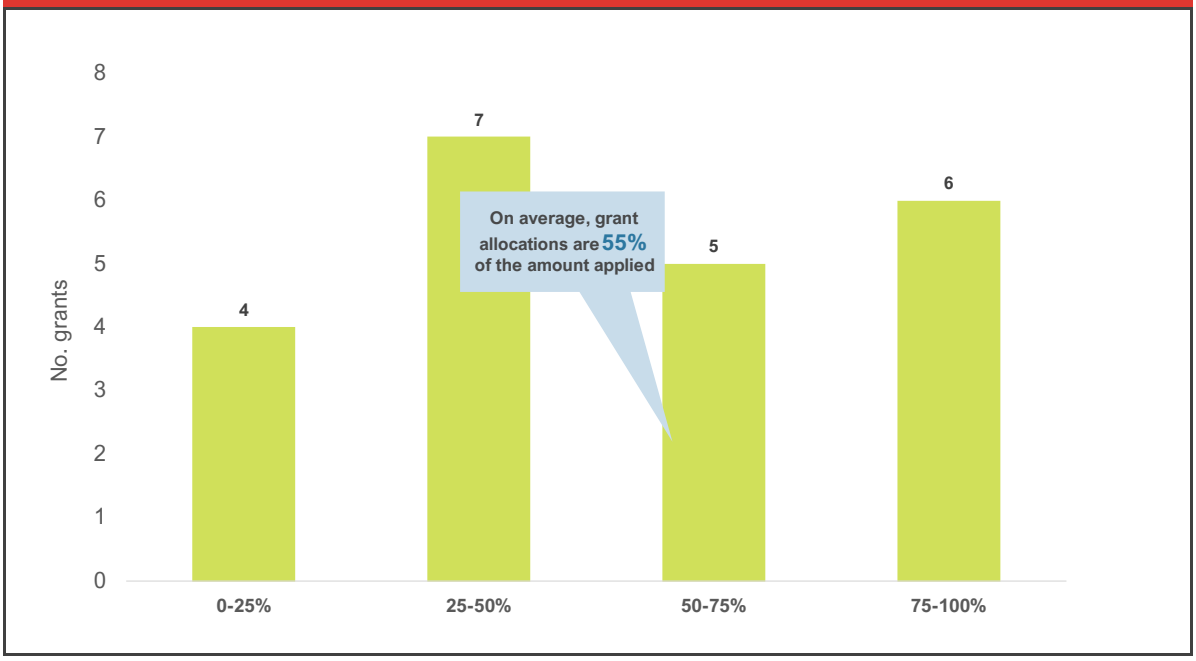
Figure 8: Average Allocation Timeline



Source: Interviews

Inability to recover costs spent prior to allocation delays response and recovery. Municipalities are unsure whether a grant would be approved and, if approved, which projects would be approved. As per Figure 9 below, interviewed municipalities received an average of 55% of the amount applied for, with little explanation on how decisions were made to prioritize some projects over others. This leaves them unable to spend on response and recovery as they cannot be reimbursed for projects that are not yet approved, and municipalities indicate that the supply chain regulations prevent them from starting any procurement processes before funding is received in their budgets. Ultimately, it is the local communities who suffer from the delayed response, particularly in less resourced municipalities that do not have room within own budgets for disaster response.

Figure 9: Amount Allocated as % of Amount Applied For



Source: National Treasury (2024); Interviews (n=22 municipalities who shared the amount applied for)

Initial Response and Verification Challenges

Delays in initial response and verification stem from bottlenecks in both the assessment and approval stages. Some of the key reasons cited are outlined in Table 6 below.

Table 5: Delays Cited by Respondents	
Assessment and application delay	Verification and approval delays
Access to site (e.g. flood water, rural/remote areas)	**Multiple layers of verification** of damage and cost (District, Province, NDMC, National Treasury)
Need to hire consultants or **specialist equipment** for assessment	**Collation** across municipalities for Provincial disasters
Limited staff capacity to navigate grant application processes while also implementing immediate response (safety of residents)	**Applications disputed**/additional information required
Lack of clarity on application process	**No centralised system** to manage applications
	Disagreements or **lack of clarity on responsibilities** between municipality, district, province and sectors
	Provincial cabinet and **gazette timeframes**

Source: Interviews

Difficulties in accessing sites after disasters can delay assessments. Rapid assessments are meant to take place within the first 14 days of disaster but are hampered by disaster realities. Damage assessments are only possible once floodwaters have receded and accessing affected sites takes time or in some cases specialist equipment which is not available.

Lack of skills and equipment delay assessment. Limited staff capacity related to the application process is a common issue. Staff must balance application tasks with immediate disaster response, and the technical nature of assessments may requires hiring external consultants or specialist equipment, causing further delays. The required technical skills are not readily available outside of the metros. Limited capacity for comprehensive assessments, impacts the amount applied for, and in turn the amount allocated. While engineers from MISA should be available to advice on technical matters, some municipalities indicated they were put on a waiting list for assessment which took time.

> *"We didn't do justice to submitting a comprehensive report to apply for funds, so the amount was a drop in the ocean."*
>
> Municipality in KwaZulu-Natal

> *"You've got to submit as realistic possible costs as possible because we have had it that we submit cost for R8 million, but it actually cost R21 million because we didn't have time to get the costing done by experts."*
>
> Municipality in Eastern Cape

Opaque and manual application and verification processes across different tiers creates uncertainty and inefficiency. Funding requests must pass through several levels for input and verification, including sector departments, the district, the PDMC, and ultimately NDMC and National Treasury. Many municipalities report confusion over roles and responsibilities on their part as well as between the others responsible for verification. Each level often requires additional documentation, amendments, repeated assessments, or site visits, prolonging the process. Since there is no centralized application system, applications are largely managed through email, making coordination across these levels challenging and inefficient for the municipalities as well as the PDMC and NDMC.

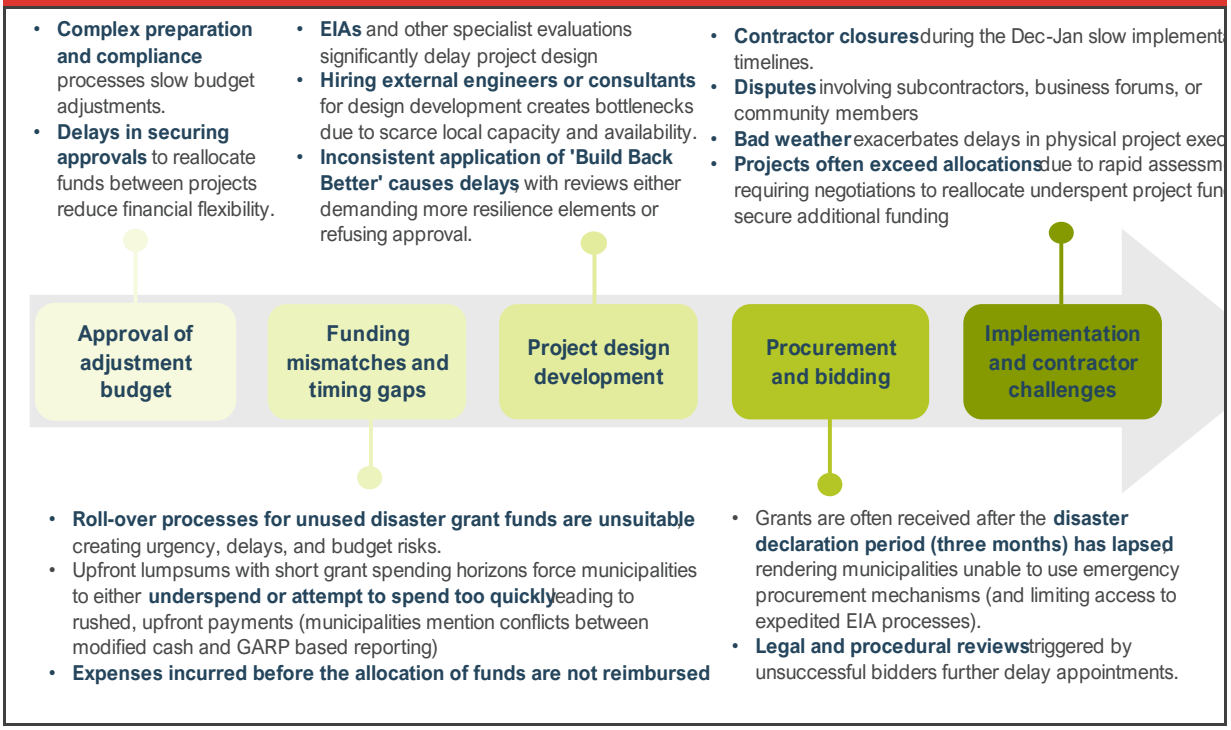
Collation of applications for provincial disasters delays the allocation of individual grants. For a provincial disaster declaration, the province must gather inputs across all affected municipalities, requiring each to complete and submit their assessment. The grant application can only be made when the last municipal assessment is completed. For instance, following the September 2023 floods in the Western Cape, affected municipalities faced a five-month delay from the disaster event to allocation of a Response Grant, despite most submitting their rapid assessment within two weeks and their full application within two months. Stellenbosch municipality indicated that the flood was considered a one in a two-hundred-year event and the damage was severe. They had to respond before grant receipt to safeguard roads and bridges and meet the demands of the tourist season on which they depend for revenue. They could not recover the related costs they incurred from the grant when allocated.

Grant Disbursement and Expenditure Challenges

Municipalities interviewed report higher spending on grants than what is recorded nationally. National data recorded in National Treasury Local Government Datasets understates the degree of municipal expenditure on grants. Across all years, national data shows that municipalities have spent 50% or less of grants, while interviewed municipalities consistently reported much higher expenditures. This highlights issues in data quality and data reporting practices, for instance, discrepancies arising from when funds have been rolled over and not spent until the follow fiscal year, or because committed funds are not recognized as expenditures until they have been paid.

Beyond reporting, many municipalities face challenges in utilizing allocated funds. Municipalities cite a variety of reasons for delays and underutilization, as outlined in Figure 10.

Figure 10: Expenditure Delays Cited by Respondents



Source: Interviews

Lumpsum allocations with limited roll over limits the spending horizon of recovery grants, impacting delivery quality. Recovery grants were designed for an implementation period of 1-3 years. While the grant framework allows disbursement in tranches, most municipalities are allocated grants in one lump sum[4] which limits the spending horizon as the number of roll overs are capped

When funds are received near the end of the financial year (March allocation is common), municipalities face a narrow window to apply for a roll-over for funds unspent by June (the municipal year-end). Municipalities can only submit the roll-over application when their financial statements are completed in August, and thus roll-overs are typically only approved in October. This process is disruptive to project implementation. During the 4–5-month waiting period, municipalities may need to pause work, delay contracting, or bridge financing with own funds, which has impacts on other capital projects. A first roll-over is usually granted, but subsequent roll-overs are rarely approved, even for ongoing projects with committed funds (expenditure is limited to payments that can be verified prior to yearend). Recovery grants allocated in March therefore have a maximum spending timeframe of 15 months till the following June (Read the case study on George municipality in Box 5 below, further elaborated in Appendix E).

For large infrastructure projects typically funded by recovery grants, spending within a short period of time is often unrealistic or inappropriate for the nature of work. Municipalities need to hire technical consultants (e.g. project managers and engineers), comply with the normal procurement requirements and fulfil various environmental and legislative requirements which takes time. Municipalities noted that just the Environmental Impact Assessments (EIAs) can take up to 18 months, as there is no fast-track process available after the disaster period has lapsed. EIA is also required to rebuild on the same footprint as the asset that was damaged.

Where the spending horizon is not matched to the project requirements it requires municipalities to spend fast at the cost of quality delivery. Municipalities that need more time to implement complex projects well run the risk of having to return their grant funds (see the example of George in **Box 5** below).

Box 5: Case Study - Grant Spending Horizon Challenges in George Municipality

George experienced a severe storm in 2021 and received a R237.5 million recovery grant for 34 projects. The grant was received 15 months after the disaster occurred without much advance communication. A 36-month implementation period was requested given the complexity and need for an EIA. A 24-month implementation period was approved.

The funds were allocated in March which required a first roll over in June which was granted. As anticipated, it took time to hire the required technical staff, complete the EIAs (which took over 12 months) and design and procure such substantial projects. George therefore applied for a second roll over 15 months after receipt of the funds to allow them to spend the remaining R130.5 million of funds committed to projects. Despite still falling within the 24 months originally approved, the roll-over was declined twice and only granted on appeal by the province. George noted that the emphasis on cash spend rather than committed funds in reporting creates the wrong incentives for municipalities and indicated that they were able to take the risk to properly implement the

4 Grants depend on the availability of funds from the fiscus. Larger recovery grants are often allocated at the *end of the* National government's financial year (March) based on unspent funds. The NDMC recommends that larger allocations are paid out as a lumpsum to National Treasury as future funding availability is uncertain. National Treasury have indicated that allocation in tranches should be feasible and should be further explored.

projects over more than one roll over period, but that many other municipalities were not able to do so which creates a false incentive to spend fast rather than well. Please see the full case study on George municipality in Appendix E.

Source: Interviews

"Build back better" vs. "like for like" requirements are applied inconsistently, with both cited as delaying applications. The grant framework for the recovery grant emphasizes the need to consider disaster resilience elements in the design of new infrastructure, the design of which can take significant time. On the other hand, the response grant is made for emergency repairs and need to be on a 'like-for-like' basis. Langeberg municipality noted that it took them months to get an approval to move a water pump to a safer location under their Response grant, as the project conditions outlines that they were not allowed to make improvements under the project conditions.

Delays in grant receipt invalidate access to emergency procurement – supply chain regulations noted as a critical constraint. Within the disaster declaration period municipalities can use emergency procurement processes. When allocation is delayed beyond the disaster declaration period (3 months), emergency procurement mechanisms and expedited EIAs may no longer be available. Most municipalities have been unable to justify use of emergency procurement protocols to their accounting departments after the state of disaster has lapsed and noted that the supply chain regulations were not fit for purpose in for disaster related response and recovery.

There is limited ability to move funds between approved projects. For instance, savings in one project cannot be used to address overruns in another without formal reallocation approvals. Project overruns are likely to occur as initial rapid assessments are often inaccurate given the short timeframe and limited skills for such assessments. With limited flexibility, delays occur as municipalities negotiate reallocation of funds or seek additional financing to cover unforeseen expenses.

Recommendations

Municipalities made several recommendations to improve the effectiveness of the municipal disaster grants as tools for climate DRF. These are briefly described below in Table 7 categorized by the key challenges outlined above.

Table 6: Disaster Grant Related Recommendations

Challenge	Recommendations	Linked priority action
Lack of certainty related to grant allocation process and amounts	Simpler, faster and more transparent verification and assessment process (system) needed.	5. Improve grant clarity and administration
	Clarity on what municipalities should plan for and where they can expect national support, ideally based on objective, transparent criteria related to impact and capacity.	5. Improve grant clarity and administration

Table 6: Disaster Grant Related Recommendations		
Challenge	Recommendations	Linked priority action
Delayed grant receipt impact response and recovery	Improve speed of access to response funds by splitting the response grant to include a rapid grant allocated based on parametric criteria for severe events	2. Adjust the response grant to provide immediate relief and rehabilitation.
	Establish a mechanism to permit reimbursement of predetermined expenses before grant allocation for severe events.	Not prioritised as it was attempted previously without success
Spending challenges related to finance conditions creates uncertainty and impacts quality	Pay out the recovery grant in tranches in line with business plans rather than loading financing upfront	3. Pay out the recovery grants over the MTEF in line with grant business plans rather than as a lumpsum upfront.
	Develop disaster-appropriate supply chain guidelines and allow as condition of grant	4. Develop effective disaster-appropriate supply chain guidelines and build municipal capacity for implementation
	Waive or simplify roll-overs in line with grant timeframes and conditions	3. Pay out the recovery grants over the MTEF in line with grant business plans rather than as a lumpsum upfront.
National grant expenditure data not reliable	Review reporting process on disaster expenditure to generate more reliable data (including cash vs accrual accounting)	5. Improve grant clarity and administration
Lack of local skills and specialist equipment impacts assessment and implementation timeframes	Make provincial resources in terms of specialist equipment and skills (project managers and engineers) available to municipalities for assessment and to implement response and recovery projects	1. Risk rate municipalities and provide additional revenue and infrastructure grant support to high climate risk municipalities for disaster risk reduction, accumulation of contingency reserves and asset maintenance practices.

4.2 Budget Reallocation

In times of disaster, municipalities are required to prioritize their own budgets, particularly operational funds, for immediate response. They can also formally reallocate funds by tabling an adjustment budget for larger expenses and reallocating from other conditional grants during emergencies, though this process may take longer and requires additional approvals. Section 4.2 explores these different approaches, based on insights from interviewed municipalities.

Overview of Budget Reprioritizations and Reallocations

Reallocations and reprioritizations within existing municipal budget allowed during emergencies. When disaster occurs, municipalities are expected to contribute financially to response and recovery efforts from their own resources and budgets, in line with Section 57(e) of the DMA (2002). Section 29 of the MFMA (2003) outlines that municipalities may in emergency or other exceptional

circumstances authorize unforeseeable and unavoidable expenditure for which no provision was made in an approved budget. The mayor may authorize such expenditure through an adjustment budget tabled at a municipal council meeting. Municipalities can also reprioritize funds earmarked for items such as routine maintenance, travel, and community development within their operational budgets. These shifts allow municipalities to address immediate needs more quickly than tabling an adjustment budget.

Funds from other conditional grants may be reallocated to pay or alleviate impact of a classified disaster. In addition to using the existing budget, conditional grants that have been allocated to a municipality can be reallocated for disasters if it is requested both by the department that administers that conditional grant and the NDMC, as per the DoRA (2024) 19(6)(a). The receiving officer must also confirm that these funds are not already committed before National Treasury can approve the reallocation, and the funds must be used in the same financial year, same sphere, and same functional area that they were originally allocated for.

Uptake of Budget Reallocations and Reprioritizations

Reprioritization of existing budgets is the only instrument available for immediate response. Of the 25 municipalities interviewed, 23 reported using some of their own budgets to respond to disaster, primarily through reprioritizing operational budgets. Due to internal reprioritizations not being clearly tracked, municipalities were in general not able to provide a monetary estimate of the total cost of a disaster or the extent of budget reprioritization or reallocation in response. However, better resourced municipalities indicated that this was the main instrument used for most disasters, given that such funds can be made available almost immediately.

Few municipalities reported undergoing a formal budget reallocation process. Reallocation of budgets are too slow to respond to immediate disaster needs as it requires tabling an adjustment budget at the municipal council. KwaDukuza municipality noted that the process required different departments collaborating to identify savings within their respective budgets and pooling these resources to support disaster response.

Reallocations from conditional grants less common. Only four municipalities reported reallocating funds from other conditional grants, three from the MIG and one from the Urban Settlement Development Grant (USDG).

Challenges Associated with Budget Reprioritizations and Reallocations

Reprioritizing funds is challenging for municipalities with limited income. Operational budgets serve as the only immediate tool for disaster response and recovery but is primarily suited for immediate relief efforts, like providing food and shelter, rather than larger infrastructure projects. While most municipalities report some use of this strategy, constrained budgets often leave little flexibility to shift funds. The ability to do so also depends on the timing of the disaster within the financial year. For example, Swartland municipality noted reprioritization of operational funds was possible when a disaster occurred early in the financial year, since most funds were not yet committed. In contrast, disasters occurring later in the year pose greater challenges, as operational funds may be depleted.

Maintenance funds are often reprioritized for disaster response, thereby increasing vulnerability to future disasters. Most municipalities used maintenance funds for disaster response as there was discretion in its use and related to similar departments that implement the response. For instance, Ray Nkonyeni noted topping up their R82m grant with another R3m that had been intended for

pothole patching. Delaying planned repairs to address immediate damages reduces infrastructure lifespan undermines preparedness for future disasters. This challenge is especially pronounced in municipalities with limited resources and high disaster exposure, where maintaining resilient infrastructure is an ongoing struggle.

"It's like Robbing Peter to pay Paul"

Municipality in KwaZulu-Natal

"We don't have a budget for reserves for disasters, but we have our own internal operational funding. [. . .] so what we will do when we have such disasters is that we will be moving money around between different accounts [..]usually operational and maintenance budgets are the first line of defense".

Municipality in the Eastern Cape

Adjustment budget processes complex and lengthy. Municipalities noted that formal reallocations are not suitable for immediate response as the adjustment budget process takes time. Damages may be exacerbated while waiting for approval.

Conditional grants difficult to repurpose. Reallocation of spending from the MIG was noted as politically and administratively challenging. For example, iLembe Municipality noted that MIG funds are tied to strategic projects outlined in their Integrated Development Plans, which are the result of years of negotiation and community engagement. Many of these projects represent commitments to the community: in Chris Hani, R40 million from the MIG were meant for pipeline construction to improve community access to water, while the USDG in eThekwini was intended for urban and informal settlement upgrades. This requires municipalities to justify why the spending would not proceed as planned, alongside obtaining various regulatory and sectoral approvals which municipalities indicate can be difficult to obtain. Flexibility to reallocate is further constrained when grant-funded projects are already in implementation.

Recommendations

Municipalities put forward several recommendations aimed at enhancing the effectiveness of budget reprioritization and reallocations as essential tools for climate DRF. These recommendations, categorized by the relevant challenge are captured in Table 8 below:

Table 7: Recommendations Related to Budget Reprioritisations and Reallocations

Challenge	Recommendations	Linked priority action
Budget reprioritisation risks future disasters, effectively "robbing Peter to pay Paul."	Budgets for critical maintenance and infrastructure needed for disaster risk reduction should be ring-fenced and excluded from disaster response funds.	1. Risk rate municipalities and provide additional revenue and infrastructure grant support to high climate risk municipalities for disaster risk reduction, accumulation of contingency reserves and asset maintenance practices.
Budget re-allocation and use of other grants complex and slow	Approach needs to be simplified with fast tracking measures or dispensations for application use during disasters.	5. Improve grant clarity and administration

4.3 Contingency Reserves

Municipalities should proactively plan for disaster response and recovery financing needs through their regular budgeting processes. This includes setting aside contingencies and reserves to ensure funds are available when disasters strike. This section explores how municipalities use these tools to prepare for and manage financial risks associated with disasters.

Overview of Contingency Reserve Frameworks

The DMA encourages budgeting for disasters. While section 4.2 outlines reprioritizations and reallocations of municipal budgets after disasters have occurred, another option is budgeting for disasters prior to their happening. The DMA (2002) (see **Box 6**) outlines that budgetary thresholds may be prescribed for municipalities to access disaster grant funding. The National Disaster Management Framework (NDMF) (2005) outlines that this intends to "encourage budgeting for disasters through threshold funding", and reduces the risk of moral hazard (NDMF, 2005).

Box 6: Disaster Management Act Budgetary Thresholds

56(3) The Minister may, in the national disaster management framework, prescribe a percentage of the budget, or any aspect of a budget of a provincial organ of state or a municipal organ of state, as the case may be, as a threshold for accessing additional funding from the national government for response effort"

Source: DMA (2002)

Municipalities are expected to have funds available to respond to disasters up to a pre-determined percentage of their budget. Per the NDMF (2005), municipalities in the lowest revenue range are assigned a threshold of 1%, while metropolitan municipalities with substantial revenues should allocate at least 0.5% of their own revenues to disaster response and recovery (see detailed table in Appendix G). Municipalities should fund up until this threshold and can request financial assistance beyond it. The NDMF further states that the COGTA should implement monitoring mechanisms within the existing reporting cycle, to verify that municipalities adhere to the thresholds (NDMF, 2005). Such reserves have not been implemented in practice as discussed below.

Municipalities may establish accounts for relief efforts. A municipality can, in accordance with Section 12 of the MFMA (2003), legally establish an account "for the purpose of relief, charitable, trust, or other fund", provided certain conditions are met. Funds may be withdrawn without appropriation in terms of an approved budget, only if in accordance with a decision of the municipal council, and for the purposes and conditions under which the fund was created.

Discretionary funds have been used in the past as alternative but are not encouraged by National Treasury. The NDMF notes that some municipalities have a "Mayoral Discretionary Fund" aimed at providing relief to local communities. However, National Treasury's budget circular discourages the use of discretionary funds or similar allocations and refers municipalities to instead align with provisions in the MFMA Section 12 (MFMA Circular No. 108, 2021). Discretionary funds are at risk of being misaligned with constitutional mandates to prioritize community needs, lacking clear alignment with specific budgetary votes, and undermining the budget consultation process, ultimately at risk of misuse or corruption.

MFMA allows municipalities to invest money not immediately required. While funds forming part of the annual budget are meant to be spent in a specific fiscal year, another avenue for municipal disaster funding is building up long-term contingency reserves which can accumulate over time and be withdrawn in a year where the municipality experiences a disaster. According to the MFMA section 13 (1)(b), the Minister may prescribe a framework within which municipalities must invest money not immediately required, however there is currently no prescribed framework relating to disaster funding.

Uptake of Contingency Reserves

Only one municipality reported having a dedicated, ringfenced budget for disasters. Out of the municipalities interviewed only eThekwini had a dedicated reserve, amounting to R150 million in the 2023/24 financial year. It was established in response to lessons learned from the 2022 floods. While it was not utilized during those floods, it has been employed in subsequent disaster responses. It is funded as part of the normal municipal budget process but remains unallocated to any specific department. Instead, it sits with the municipal treasury and can be accessed upon request, subject to Executive Committee approval. Details on the structure, operation, and utilization of the fund are outlined in **Box 7** below. A few municipalities reported having some discretionary or flexible funding that they could allocate towards disasters when required.

More common to allocate moderate relief funds within the disaster management budget. At least 11 municipalities include smaller allocations for essential relief supplies such as blankets, mattresses, food, and water or disaster preparation and awareness. Where provided, the amounts are small, ranging from R2.7m in eThekwini to 85,000 in Msunduzi in the municipalities interviewed.

> *You see, we do have an allocation for disasters. However, that allocation for the disaster, it doesn't merely resolve, you know, the infrastructure related matters. It only resolves the operational matters.*
>
> **Municipality in the Eastern Cape**

Box 7: Case Study - Disaster Budget in Ethekwini Municipality

Background

Learnings from the 2022 floods in KZN, prompted eThekwini municipality to allocate R150 million toward disaster response and recovery for the 2023/24 financial year. These fund aims to ensure immediate needs can be addressed while other funding options, such as Disaster grants, are explored.

Fund structure

The funds are ring-fenced within the municipal budget, sitting with the municipal treasury and not allocated to any specific department. Funds are released only upon approval to ensure they are exclusively utilised for disaster-related expenses, the process of which includes:

- Initial assessment: The Disaster Management Unit assesses the affected area, estimating operational costs such as temporary shelter needs, and the Technical Department evaluates if there is a need for immediate infrastructure repairs.
- Operational vs Capital needs: Operational expenses (such as food, and equipment hire for shelters) can be covered almost immediately, while Capital expenses (such as infrastructure restoration) require Committee approval.

- Approval process: Reports from initial assessment are processed with the Chief Financial Officer and the Accounting Officer, and submitted to the Executive Committee which convenes a meeting to determine how much funds are required to intervene. Based on this, funds can be sourced from the reserve.

Expenses covered

Examples of expenses that have been covered with the fund in the current financial year include:

- Hire of chemical toilets for displaced individuals
- Unblocking of stormwater drainage due to floods
- Repairs and maintenance of assets
- Additional asphalt requirements to repair roads damaged by floods
- Special vehicles hire to clear blockages caused by floods

Allocation and replenishment

The amount set aside is determined each year as per the regular budgeting process. If funds are exhausted, an adjustment budget process would be needed to top up if necessary.

Rollovers and accumulation

Unused funds cannot be rolled over, restricting the municipality's ability to accumulate funds over time. The municipality expressed that that the ability to build up funds over time instead of making a yearly provision would be useful, given that they face disasters almost every year and grants take a long time to come through.

Source: Interviews

Challenges Associated with Contingency Reserves

Reserve requirements to access funds not enforced. In practice, National Treasury does not extensively enforce the threshold percentages outlined in NDMF, nor monitors whether municipalities allocate such contributions during their budgeting cycles, meaning municipalities aren't effectively incentivized to budget for disaster.

Municipalities face challenges in setting up disaster contingency reserves due to limited financial resources. Many municipalities simply lack the funds to set aside for disasters, or struggle to justify such allocations given competing and often more urgent spending priorities. The Eastern Cape Provincial Treasury drove an initiative to prescribe that municipalities set aside 2% of their income for a reserve for disasters, but no municipalities interviewed had yet established such a reserve.

Municipalities are unclear whether disaster related reserves are allowed. There are notable differences between municipalities regarding their views on budgeting for disasters and unforeseen expenses. Some municipalities claim they are prohibited from making such allocations, while others acknowledge it is a requirement they have been unable to meet. This may partly stem from the (MFMA Circular No. 108, 2021) stating National Treasury's position on discretionary-type funds. There appears to be uncertainty around budgeting for disasters, discretionary funds, and long-term contingency reserves, and municipalities may thus be uncertain about what is permissible under the regulatory framework, in particular when it comes to accumulation of funds over time.

Recommendations

A key recommendation highlighted by several high-risk municipalities was the establishment of ring-fenced contingency budgets, as is captured below in Table 9.

Table 8: Recommendations Related to Reserves and Contingency Funds

Challenge	Recommendations	Linked priority action
Ringfencing disaster contingency reserves difficult given other competing priorities and a lack of regulatory clarity.	Ring-fenced contingency reserves to be implemented for high-risk municipalities for immediate response in line with the proposed NDMF budgetary thresholds (additional funding may be needed).	1. Risk rate municipalities and provide additional revenue and infrastructure grant support to high climate risk municipalities for disaster risk reduction, accumulation of contingency reserves and asset maintenance practices.

4.4 Insurance

This section explores the realities of municipal indemnity insurance[5], highlighting the gaps, challenges, and areas for improvement as revealed through interviews with municipalities.

Overview of Insurance

Municipal insurance gap in South Africa. Most public infrastructure remains uninsured, creating a large contingent liability for the government. While some large municipalities, like Cape Town and eThekwini, have municipal insurance pools, the coverage is often limited due to poor data quality and inadequate asset maintenance records. Existing insurance is limited to indemnity cover as parametric cover for urban risks are not yet available. As was noted in the National DRF Diagnostic, there is a potential opportunity to enhance these insurance pools, improve asset coverage and expand it to critical public infrastructure (World Bank, 2022).

Limited choice with two providers covering most municipalities. The municipal insurance market in South Africa is dominated by two providers, with one provider having a dominant market share. A third provider left the market due to reasons unrelated to its municipal portfolio.

> *"The insurance market just needs to be a bit more competitive. Because irrespective of the broker that's being utilized, we still see that the underwriter is generally the same. The assessors are generally the same individuals, and the loss adjusters are generally the same.*
>
> *Maybe it's a matter of economies of scale from an insurance perspective, but for us, I think that the lack of the market being opened up and the lack of competition within the market does have a bit of a detrimental effect on what's available."*
>
> Municipality in the KZN

[5] *This is the classic type of insurance where damages have to be assessed, and the payout is related to the damages; as opposed to parametric (or index -based) insurance where the payout is linked to an index (e.g. wind speed, precipitation amount, vegetation cover).*

Limited cover for infrastructure assets. Municipalities are typically insured for their movable assets and buildings. Infrastructure is underinsured, especially roads, bridges and underground assets. Power stations, water treatment facilities, and pump stations are mostly covered, but their associated distribution networks—such as pipelines beyond 150 meters from the source or electrical grids—are excluded from cover. Effective asset management is required for most policies.

Weather events are a common exclusion. Climate disasters, often categorized as "acts of God," are a common exclusion in municipal insurance policies. This leaves many municipalities unable to claim for events such as floods and storms, which are increasingly frequent due to climate change. Even when coverage is available, insurers often apply strict limits, resulting in payouts that only cover a portion of the total repair costs.

Uptake of Insurance

Insurance plays a small role in disaster risk response and recovery as municipal infrastructure is underinsured. While most municipalities possess some form of insurance, just 32% (8) of the municipalities interviewed noted submitting a claim in response to damage caused by a disaster. Damage to uninsured infrastructure (roads, bridges, underground assets) is common during particularly flood events. Municipalities cite high cost and excess as a reason for not covering assets and rather "self-insuring" on an unfunded basis (effectively not insuring). Where assets are covered, municipalities often struggle to claim as policy conditions are not met (see below).

Some municipalities have adopted or are interested in alternative insurance models. In addition to the typical indemnity cover taken out by municipalities, some have adopted alternative approaches, while others are exploring different models. For example, the City of Cape Town established a self-insurance where sector departments within the metro pay premiums into a city-wide fund. A detailed overview of the City's General Insurance Fund is provided in Box 8 below. During interviews, two larger municipalities that are frequently exposed to flood disaster suggested the development of national or regional municipal insurance pools. However, many smaller and less exposed municipalities are reluctant to share risk, and efforts to develop such approaches in the Western Cape have not yet been effective.

Box 8: Case Study - The City Of Cape Town's General Insurance Fund (GIF)

Over a decade ago, the City of Cape Town established the GIF, a pioneering initiative to address the municipality's diverse insurance needs through a self-insurance model. This fund demonstrates how local governments can proactively manage risks while maintaining cost efficiency and operational autonomy. Each line department within the municipality is mandated to pay premiums into the fund, aligning their financial contributions with their insurance needs.

Scope of coverage. The GIF provides comprehensive insurance coverage for all municipal assets, liabilities, and selected public infrastructure. It includes protection against various risks, such as natural hazards and business interruptions, ensuring the continuity of critical services. General exclusions include subsidence and landslip risks, and specific exclusions include road and bridges, as well as other infrastructure such as dam walls, retaining walls not forming part of buildings, and water and sanitation piping except within 150 metres of treatment facilities or reservoirs.

Reinsurance protection for catastrophes. At its most recent valuation, the GIF was valued at R600 million. To safeguard the GIF against catastrophic losses, reinsurance is procured for claims exceeding R15 million per event. The fund's capacity enables it to cap annual premium increases

at 5 percent, maintaining affordability for line departments while building reserves for future claims.

Administration and governance. The Insurance Unit, housed within the City's Treasury Department, oversees the administration of the fund. The unit's responsibilities include:

- **Underwriting**: Setting premiums and assessing risks associated with municipal assets.
- **Contract** Management: Defining and enforcing policy terms and conditions.
- **Claims Management**: Assessing, verifying, and settling claims promptly to maintain trust and operational continuity.

The unit is supported by a purpose-built 24-hour live insurance administration IT system, which integrates with the city's asset registry. This system enhances operational efficiency by providing real-time data on insured assets and their valuation. It also supports risk assessments, efficient claims processing, and strategic decision-making.

Sources: (Maher, et al., 2023), CPT General Insurance Fund Policy (2018)

Challenges Associated with Insurance

Municipalities face several key challenges with insurance, encompassing issues of adequate coverage, cost, and claims processing.

Municipal status quo affecting insurability. Aging infrastructure, insufficient maintenance, and poorly planned urban development hinder municipalities' ability to secure adequate insurance. For example, infrastructure in some areas has exceeded its intended lifespan of 20–30 years, resulting in frequent breakdowns and escalating repair costs. In rapidly growing areas, such as Midrand, the mismatch between infrastructure capacity and urban density also renders some assets uninsurable according to insurance providers. Additionally, insurers report that municipalities often fail to comply with policy requirements, such as maintaining assets[6], retaining evidence of maintenance or declaring all insured items. These issues frequently result in denied or reduced claims.

Premiums and excess levels considered high. High premiums and significant increases in policy costs over time place substantial strain on municipal budgets. Municipalities indicated that premiums exceeded the typical maintenance budgets for certain assets, and one municipality referenced a premium increase of approximately 300% within a 6-month period, due largely to vehicle claims damaged during social unrest. Many municipalities also described high excess payments as an additional barrier. Excess payments were noted at 10% of the claim value, and R500k in the case of one municipality interviewed. Many claims fall below that value or threshold, effectively excluding most claims. The KwaDukuza case study below exemplifies municipalities' cost concerns.

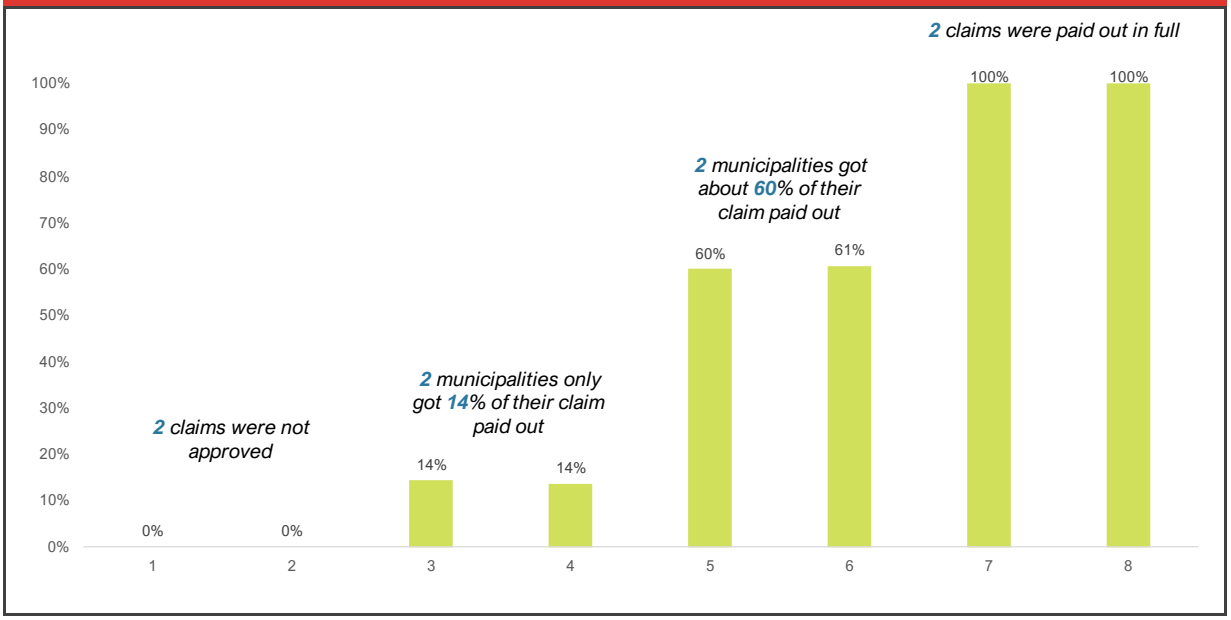
Insurance at book value and incomplete asset registers leads to part payment of claims. Many municipalities maintain asset registers and insure assets at net book value rather than replacement value, leading to significant underinsurance. This discrepancy, combined with inaccurate and

6 *Poor maintenance directly affects risk preparedness. For example, fire risks present a growing challenge. The poor maintenance of fire safety systems and inadequate municipal fire services have led to an increase in fire-related claims. Insurers have noted that fire damage is compounded by poor municipal capacity to respond, leading to extensive destruction and liability issues.*

outdated asset registers, results in inadequate payouts that fail to cover actual repair or replacement costs. For example, a provider insured a heritage municipal building for R10M based on the asset register of the municipality, when in reality, its replacement value was R140M.

Claims processing takes a long time. Municipalities had varying success with the payout of their claims, as reflected in Figure 11 below. Where claims were paid, most took a long time to settle - ranging between a year to two years. High value claims related to infrastructure were particularly complex and slow, limiting the efficacy of insurance as a suitable financial instrument for immediate recovery in disaster situations (see the KwaDukuza case study in Box 9 below, including a detailed timeline of the claim process in Appendix F). In eThekwini Municipality's case, an R927 million claim remained unresolved at the time of this study, years after the event. In other instances, municipalities reported waiting several financial cycles to access payouts, especially during periods of high demand such as after the 2021 social unrest in Kwa-Zulu Natal.

Figure 11: Insurance Payout as % of Amount Claimed



Source: Interviews

Box 9: Case Study - Kwadukuza–The Cost and Constraints of Insurance Post-Kzn Floods

When KwaDukuza Municipality faced the challenge of recovering from the catastrophic April 2022 floods in KwaZulu-Natal, insurance emerged as a critical tool to address the crisis. The floods came at a time when municipal budgets were nearly exhausted late in the financial year and disaster grant applications delayed due to administrative processes. This created an urgent need for financial mechanisms to fund immediate recovery and rebuild resilience.

KwaDukuza's insurance portfolio:

- Insured asset base: excluding roads, the insured asset base is valued at approximately R1.5 billion.

- Costs: the municipality's annual insurance premiums range from between R6–7M. This includes infrastructure, but primarily covers fixed assets (buildings), vehicles and third-party liabilities.
- Premium accuracy: Assets were not insured at replacement values but rather book value.
- Composition and coverage most of the premiums are for coverage of vehicles rather than for buildings and infrastructure. Roads were uninsured due to high costs associated with coverage.

Timeline of the claim process. On April 13, 2022, the claim was submitted to their broker for disaster related damages to insured assets included electrical infrastructure, such as substations and cables, buildings and other community infrastructure. Approximately 17 weeks later, on September 9, 2022, quotations for the damaged sites were submitted to the assessors. After several months of reviews, meetings, and disputes over cost estimates and exclusions, the first interim settlement of R181,000 was reached on May 24, 2023, over a year after the claim was registered. A revised interim settlement of R282,000 was proposed in July 2023 but rejected by the municipality. A larger interim settlement was proposed in January 2024, and the final settlement agreement of R5.6M was reached on April 25, 2024, concluding the two-year claims process (more details on composition below).

The process was fraught with delays, including:

- Pre-existing claims from the 2021 social unrest had created a backlog, leaving KwaDukuza in a lengthy queue for assessments.
- Inaccessible infrastructure pending assessments, such as a submerged substation
- Insurers required extensive documentation, including detailed records of repairs and maintenance schedules.
- Insurers and assessors required detailed quotations, which led to time-consuming back-and-forth processes between the municipality and insurers.
- Various meetings with business units, insurers, and assessors to align on requirements and expectations caused delays.
- Submitted repair cost estimates were originally too high, leading to the appointment of a quantity surveyor and additional reviews

A detailed breakdown of the claim process is captured in Appendix F, as received from the municipality.

Limited cost recovery. The R5.6M received comprised R0.27M for community infrastructure, R0.22M for buildings, and R4.4M for electrical infrastructure. However, the funds fell short of covering the full extent of the damages, leaving significant gaps in recovery efforts and undermining future resilience. The municipality felt that while the insurance premiums represented a substantial financial commitment, they did not guarantee timely or value-for-money support during disasters.

Exploring alternatives. KwaDukuza explored cost-saving measures, including self-insurance, but concluded that this approach was impractical as they were concerned that they could not build a sufficiently large reserve. From the municipality's perspective, access to a disaster risk pool would be materially impactful.

Source: Interviews and written inputs from KwaDukuza

Insured assets go unrepaired due to delayed claims. The consequences of delayed or incomplete claims can be severe. Infrastructure such as roads, bridges, and sewer systems often remain

unrepaired for extended periods following disasters. For example, damages from storms in KZN two years ago continue to impact communities due to incomplete repairs. Municipalities' financial constraints exacerbate these issues, as insurance payouts are sometimes reprioritized for other uses, leaving infrastructure in disrepair.

A lack of appropriate asset management processes limits claim value. Many municipalities reported difficulties during the claims process due to failures in adhering to and documenting asset management procedures. Key challenges included distinguishing disaster-related damage from pre-existing conditions, addressing administrative backlogs, and managing unsuccessful claims caused by issues such as inadequate maintenance or missing maintenance records. These factors further delayed the claims process and reduced the amount paid out.

Recognizing these challenges, some insurers are exploring alternatives to cash payouts to contain costs. For example, one insurer has partnered with a company to assess claims and source local contractors to perform repairs directly, bypassing the need to disburse funds to municipalities. This approach helps ensure that funds are used as intended and that repairs are carried out promptly.

Tender procurement process focusses on cost rather than risk management. Insurance tenders are typically awarded every three years and are heavily price-driven, with most of the decision weighting based on cost. This focus on affordability over adequacy creates perverse incentives, where policies offer limited coverage and suboptimal terms. Insurers have called for regulatory reforms to prioritize comprehensive coverage and risk management over low premiums.

Single risk caps make large assets difficult to insure. Insurers have limits to the amount of risk they are willing to underwrite in a single location, limiting cover available for large assets, like stadiums, in the local market.

Constrained reinsurance capacity limits options. Insurers indicate that reinsurance is increasingly difficult and costly to obtain in areas of high exposure to natural disasters. The impact of this problem on the insurability of municipal assets and the cost of insurance was beyond the scope of this study and requires further investigation.

Recommendations

Both municipalities and insurance providers made several recommendations to improve the effectiveness of insurance as a tool for climate disaster risk finance as well as improving the insurability of municipalities. These are captured in Table 10 below.

Table 9: Insurance Related Recommendations

Challenge	Recommendations	Linked priority action
Limited viable options – most are slow and expensive with exclusions	Deepen partnership and technical capacity to implement effective insurance practices.	7. Revisit the role of insurance in municipal disaster management for effective risk layering
	Improve the speed of claim payout for large risks through parametric insurance for metro, provinces or nationally.	7. Revisit the role of insurance in municipal disaster management for effective risk layering
	Formalise self-insurance as a reserve mechanism	7. Revisit the role of insurance in municipal disaster management for effective risk layering

4.5 Other DRF Related Support

This section outlines any other instruments or support municipalities rely on to finance their disaster risk management activities.

Debt

Debt was not considered an option for municipalities post-disaster. Municipalities may, according to Section 46 (1) of the MFMA (2003), incur long-term debt only for "capital expenditure on property, plant or equipment to be used for the purpose of achieving the objects of local government". This provision implies that taking on debt is legally permissible during disaster recovery for restoring or building certain assets such as roads, water systems, or public facilities that align objectives of local government, although no municipality reported doing so. Some municipalities indicate that they would consider borrowing to replace destroyed infrastructure, but high interest rates make it undesirable. Others noted having policies that restrict borrowing unless the debt can generate future revenue.

Exploring innovative financing mechanisms. The more capacitated municipalities noted that their current approach to debt financing was conservative and indicated that they would be interested to better understand blended finance options available to borrow to reduce disaster risk. Additionally, collaborative approaches, such as municipalities pooling resources or collectively negotiating terms, were also noted as potential options to reduce borrowing costs.

Sector Response

Several organs of state have specific legal mandates as first responders during disasters. These are further detailed in Appendix H, but include, for example:

- The Department of Social Development through the South African Social Security Agency (SASSA) are expected to provide humanitarian support such as meals, blankets, and mattresses and can also provide cash assistance or vouchers in form of the Social Relief of Distress (SRD) grants. The SRD grants stem from the Social Assistance Act (2004), and affected individuals apply for this grant at the nearest SASSA office or online (Republic of South Africa, 2024).
- The Department of Human Settlements should provide technical support during disaster assessments and verification and assist with provision of building materials and construction of emergency housing. An Emergency Housing Fund is available to this effect, which used to allocate an Emergency Housing Grant to the municipalities (Division of Revenue Bill 2023, 2023; National Disaster Management Centre, 2023).
- The Department of Transport should assist with emergency repairs to road infrastructure and construction of emergency bridges (National Disaster Management Centre, 2023)

Overlaps and gaps between support from sectoral departments and disaster grants create challenges for municipal budgets. Despite these clear mandates, municipalities report gaps or delays in support from sectoral departments, with disaster-related costs primarily covered by municipal grants and budgets. Overlap between sectoral department responsibilities and disaster grants creates confusion over roles and responsibilities. For instance, While the Department of Social Development and SASSA are mandated to provide immediate humanitarian aid, municipalities note this support rarely materializes. With response grants rarely getting paid out on

time, many municipalities now budget for such items this within their disaster management budget or rely on NGOs such as Gift of the Givers. This redundancy and lack of coordination create inefficiencies, grey areas, and delays, undermining effective disaster response.

Limited uptake of other grants. Although the SRD grants should be available to individuals after disasters, interviewed municipalities did not mention this to be prevalent. Until 2023/24, there was also a dedicated Emergency Housing Grant, but it was allocated only five times in 2022/23 and six times in 2021/22 (DoRA 2021; 2022). The grant was restructured into a centrally managed Emergency Housing Fund under Department of Human Settlements to streamline operations and improve efficiency, but challenges persist, as only 5% of the R476 million allocated to the Emergency Housing Fund was spent by the end of the first year (Parliament of the Republic of South Africa, 2024).

Support from Other Actors

Municipalities also rely on other institutions to help them manage their disaster risk. Support from the private sector, charities, universities and other municipalities were mentioned in interviews.

Private Sector Support

The private sector often plays a crucial role in disaster preparation, response and recovery. Municipalities have reported receiving both immediate relief and long-term support for recovery and mitigation efforts. Santam, through their Partnership for Risk and Resilience, have supported 82 municipalities with a wide range of initiatives focused on risk assessment, risk reduction and preparation, including e.g. firefighting equipment and training, CSIR investment in the Greenbook for climate change adaptation, early warning systems and education and awareness campaigns related to drought, fire and flood (Santam, 2022). Toyota, heavily affected by the 2022 KZN floods, collaborated with the municipality to assess damages and fund consultants. In tourism-dependent areas, local businesses have financed urgent repairs to sustain economic activity, for instance, in Ray Nkonyeni private companies funded most of the repairs in the central business district. Private businesses have also been noted to provide lodging and food for emergency personnel.

Charities/NGOs

Reliance on NGOs for initial social relief. Organizations like Gift of the Givers and the Red Cross provide in-kind support, such as food parcels, blankets, and emergency training. In some cases, municipalities fully depend on these charities for social relief given limited support from sectoral departments to the extent that NGOs take the lead in relief with municipalities in a supporting role only.

> "The city assists the NGOs, rather than the NGOs assist the city" [in delivery of relief efforts]
>
> Municipality in KwaZulu-Natal

Partnerships with NGOs may vary from informal collaborations to formal agreements. The support is often ad-hoc and reactive to the disaster. But municipalities have also been known to form more formal partnerships with NGOs, through Memorandum of Understanding, service-level agreements, or advisory committee participation.

Universities

Collaboration with universities valuable for risk assessment and management. A few municipalities mentioned noted collaborating with universities. This was primarily in municipalities with universities close by the municipality on an ad hoc basis. Examples of support given from universities include climate disaster risk assessment, disaster risk strategy development and climate modelling. For instance, Overberg worked with all three Western Cape Universities - Stellenbosch University conducted part of their calibration modelling to consider ground stations or satellite data for climate predictions. Municipalities noted this support was valuable as it would have been difficult for them to afford on their own.

Other Municipalities

Municipalities depend on each other for support during disasters. This includes sharing critical resources, such as water tankers and firefighting personnel. Overstrand municipality (See Box 10) highlighted this as instrumental in addressing immediate needs and mitigating disaster impacts. However, these arrangements are typically informal, which can discourage resource sharing due to fear of not being reimbursed or lead to offers of assistance being declined altogether. For example, when some municipalities in the Eastern Cape needed firefighting support, municipalities the Western Cape offered assistance but required the Eastern Cape to provide housing and food for the firefighters. The Eastern Cape municipalities lacked a formal process to approve this arrangement and, as a result, could not accept the help which extended the impact of the disaster. Formalizing such collaborations, for instance, through risk pooling and resource-sharing agreements, could enhance support mechanisms between municipalities.

Box 10: Case Study - Inter-Municipal Support in Overstrand Municipality

The role of neighbouring municipalities in disaster management cannot be overstated. During the September 2023 floods, where heavy rains, strong winds, and significant infrastructure damage severely impacted the Overberg District, nearby municipalities stepped in to provide crucial resources and support, filling gaps in Overstrand's capacity and exemplifying the power of inter-municipal collaboration.

Resource sharing. Neighbouring municipalities played a critical role in disaster response. For instance, during a severe water shortage caused by damaged infrastructure, Nearby municipalities and the private sector (e.g. Coca Cola) dispatched water tankers to provide water supplies in cutoff areas across the municipality. Additionally, firefighting equipment and personnel from these municipalities supported Overstrand during simultaneous disasters, such as wildfires and floods. Their contributions were instrumental in addressing immediate needs and mitigating the disaster's impacts.

Operational arrangements. These collaborations are often governed by informal cost-sharing arrangements. Overstrand covered specific expenses, including housing and meals for supporting personnel. Fortunately, local businesses, particularly guesthouses and hotels, played a pivotal role in housing emergency personnel. By offering temporary accommodations for external personnel, these businesses helped alleviate Overstrand's operational burden.

However, the salaries and overtime costs of the emergency personnel were carried by the municipalities under which the personnel were employed. Overstrand also covered the operational costs of machinery used in the response efforts. For example, the operational costs of water tankers provided by nearby municipalities and the private during the disaster amounted

to R235,000—a significant but necessary expenditure to secure essential resources and services.

Challenges. While inter-municipal collaboration has been invaluable, it is not without challenges. The absence of formal reimbursement mechanisms can sometimes discourage municipalities from lending their resources. Supporting municipalities often face their own emergencies, which can constrain their ability to provide critical resources during simultaneous crises. Additionally, informal arrangements for cost-sharing and resource allocation may result in inefficiencies and delays in disaster response.

This case study underscores the importance of formalising inter-municipal agreements to ensure smoother collaboration and resource sharing during disaster events.

Source: Interviews

Recommendations

Municipalities made several recommendations to improve the use of debt and non-financial resources as tools for climate disaster risk finance. These are captured in Table 11 below.

Table 10: Recommendations Related to Other Instruments

Challenge	Recommendations	Linked priority action
Limited borrowing options	Blended finance options to be considered for larger municipalities/ districts/ provinces	1. Risk rate municipalities and provide additional revenue and infrastructure grant support to high climate risk municipalities for disaster risk reduction, accumulation of contingency reserves and asset maintenance practices.
The response grant often covers emergency housing and social relief costs, despite alternative, dedicated instruments	Reduce fragmentation of disaster funding through reform or clarification of disaster grant landscape.	8. Reduce fragmentation of disaster funding and clarification of the roles of the sectoral departments.
The lack of formal agreements for intermunicipal support during disasters leads to difficulty to share resources.	In line with the NDMF (2005), formalise intermunicipal support for disaster response, for instance, through mutual assistance agreements, or SALGA	6. Disaster risk accountability to sit at the level of municipal director or mayor's office
Limited technical expertise within municipalities for disaster risk assessments and management	Coordinate support from universities to better leverage local expertise	Out of scope as not finance related.

5. Disaster Management Function and Disaster Risk Reduction Amongst Municipalities

5.1 Overview of Disaster Management and DRR Approaches Within Municipalities

DRR implementation requires coordination across municipal departments. As outlined in the Disaster Management Act of 2005, the disaster management function serves as the primary driver for implementing disaster risk management policies within the municipal sphere. This includes managing and coordinating disaster risk management activities and priorities across relevant sector departments. The function also encompasses facilitating the development, implementation, and maintenance of DRR strategies across municipalities. A critical aspect of this role involves monitoring the implementation of these strategies by sectoral departments within the municipality to ensure alignment and effectiveness.

DRR activities are detailed in municipalities' IDPs. While the Disaster Management Act (Act 57 of 2002) makes specific provision in, Chapter 6 of the Act, for the funding of post-disaster recovery and rehabilitation, it also requires that a disaster management plan should be prepared for a specific municipal area and should form an integral part of the municipality's overall integrated development plans (IDP) (Republic of South Africa, 2002). Such a disaster management plan must indicate measures to reduce the vulnerability of disaster-prone areas, communities and households, as well as the appropriate strategies for prevention and mitigation. These disaster management plans are annexed to IDPs to ensure alignment with municipal priorities, budgeting, and council ownership. However, while disaster management plans are generally in place, the extent and consistent funding of DRR efforts vary among municipalities.

Sectoral departments are required to conduct disaster risk assessments for their functions. In addition to the DRR activities outlined in municipal disaster risk management plans, sections 25, 38, 39, 52, and 53 of the Disaster Management Act mandate that organs of state across all spheres of government conduct disaster risk assessments, identify and map risks and hazard-exposed areas, and develop and implement comprehensive disaster management plans (Republic of South Africa, 2002). These plans must detail, among other elements, the application of disaster management concepts and principles, including expected climate change impacts and risks; contingency strategies and emergency procedures, along with measures to finance them; and disaster risk reduction and climate change adaptation measures. Furthermore, organs of state are required to regularly review, update, and submit their disaster management plans.

Placement of the disaster management function varies. The positioning of the disaster management function varies across municipal organograms. In some municipalities, it is situated under the Community Services Directorate, while in others, it forms part of Public Safety. None of the municipalities interviewed indicated that the function has been integrated into the highest decision-making level, in contrast to the NDMC's guidance on this matter. According to the NDMF, it is proposed that: "Municipal disaster management centres (MDMCs) must be located at the highest decision-making level and cut across departments involved in disaster risk management. It is strongly recommended that the MDMC be positioned in the Office of the Mayor or Executive Mayor, as appropriate" (National Disaster Management Centre, 2005).

5.2 Challenges Related to DRR

Climate risks, including floods and droughts, impose uneven financial burdens on municipalities. Regions that are arid or prone to flooding are more exposed to these risks than other areas, yet these factors are not currently reflected in the equitable share allocation. Municipalities with lower financial capacity are disproportionately affected, facing significant challenges in raising revenue for DRR. The current conditional grant system is geared toward response and recovery rather than proactive risk reduction, leaving many poorer, low-resource municipalities without access to dedicated funding for DRR initiatives. This creates a significant equity issue, as these municipalities are left underprepared and highly vulnerable to large disasters, relying solely on slow-moving disaster grants to finance recovery efforts.

Most DRR activities require funding from sector budgets. DRR is often constrained by the lack of a focus on municipal planning and budgeting processes, particularly within IDPs. While DRR is acknowledged in planning documents, its integration into broader budgets—such as those for resilient infrastructure development and stormwater maintenance—is often insufficient. This leads to gaps in addressing resilience, which disaster management teams are then expected to fill with limited resources. As a result, there is a greater focus on immediate relief measures, such as food parcels and blankets, rather than on long-term resilience initiatives. For example, one municipality allocated approximately R2.7 million for disaster relief and emergency shelters, but this budget was depleted within five months, highlighting the challenge of funding reactive costs that ideally should be addressed through broader, resilience-focused investments.

Disaster management functions often do not have sufficient access to decision making. A key challenge to secure cross-cutting buy-in at the management level and influence DRR activities is that the disaster management function is not well integrated in municipal decision making. During interviews with disaster management representatives, it was frequently noted that the function operates in a silo, with limited engagement with those directorates responsible for infrastructure repair and maintenance. This limits the function's ability to coordinate during a crisis or inform risk reduction actions and related budgets. Accountability and related KPAs are needed at director or mayoral level effective disaster risk reduction and response.

> *"I think there's a general understanding within municipalities—not just among councilors but also municipal officials at the management level—that without embedding risk assessment into management and decision-making processes, we keep circling around the same issues. The placement of the disaster management function is critical, where the function sits is often outside decision-making levels.*
>
> *If disaster management is placed at a junior level, where issues have to be escalated through one, two, or several managers, by the time it reaches management at a decision-making level, it doesn't receive the attention it deserves."*
>
> Municipality in Kwa-Zulu Natal

Effectiveness of disaster management forums varies. To further support coordination in response to disasters, municipalities can set up disaster management forums in line with the Disaster Management Act (Republic of South Africa, 2002). The effectiveness of these forums differs across municipalities. Proactive disaster preparation and response structures and advisory bodies to

coordinate across departments have been more effective than reactive structures created purely to manage specific events (see example of approach adopted by Umgeni Municipality below).

Box 11: Case Study - Collaborative DRR Structures In Umgeni Municipality

Umgeni Municipality's Disaster Management Plan (DMP) promotes a shared responsibility for disaster risk reduction, preparedness, response, and rehabilitation. The DMP integrates a risk reduction component supported by a practical implementation plan.

Disaster risk mitigation is a collaborative effort. Coordination is led by the Disaster Management Advisory Forum, which meets quarterly and brings together representatives from internal departments and external organisations like the Lion's River Fire Prevention Association. Relevant risks are allocated to appropriate departments based on their expertise—for example, infrastructure risks to the Infrastructure Department or IT-related risks to the IT Department.

Progress on mitigation activities, such as stormwater clearing, is tracked by technical departments and reported monthly. These reports are reviewed by the DM Advisory Forum, relevant subcommittees, or the Chief Audit Executive as part of the municipality's broader risk management system.

Annual disaster management reports consolidate progress on risk reduction, preparedness, response, and rehabilitation. These reports are reviewed by the District and Provincial Disaster Management Centres and submitted to the council, ensuring accountability and oversight.

By fostering collaboration among departments and stakeholders, Umgeni Municipality showcases how shared responsibility, and structured coordination can enhance disaster risk management capabilities and preparedness.

Source: Interviews

Aging infrastructure exacerbates disaster vulnerability. Outdated infrastructure remains a critical issue, with many municipalities highlighting that old infrastructure is ill-equipped to withstand current climate challenges, thereby increasing disaster vulnerability. This highlights the need for DRR efforts to focus not only on disaster management or response but also on extensive infrastructure rebuilding. In such cases, the "build back better" approach is essential to ensure that damaged infrastructure is reconstructed to be more resilient. The R1.2 billion grant for KwaDukuza was allocated with this goal in mind; however, the "build back better" approach is inconsistently prioritized due to the financial implications and the extended time frames required for rebuilding.

> *So, when the floods hit, the infrastructure we have is predating, maybe pre-94. So, it is very susceptible to natural disasters, in particular rains or cyclones.*
>
> Municipality in the Eastern Cape

Box 12: Case Study - Eastern Cape Infrastructure Vulnerable to Disasters

Poor infrastructure. Eastern Cape municipalities indicate they are in a perpetual state of disaster, in part driven by historical infrastructure challenges - with the prevalence of dirt roads and deteriorating basic infrastructure exacerbating the impact of weather events, severely disrupting the province's ability to function. Adding to this challenge, many settlements are situated in flood-prone areas. Despite recognising these risks, little has been done to relocate these communities to safer zones, which further intensifies the vulnerability of the population.

Recurring disasters and financial constraints. Eastern Cape municipalities face severe flooding on an almost yearly basis, with interviewees consistently reporting at least one major flood event annually.

"It's something that we know for sure—we're going to be hit by disaster, even now with the summer rains that are coming… I can rest assure you now, we're going to be hit by another disaster."

"You are facing another disaster, whilst you have not resolved this one. So it makes sense that we had disaster issues that were mounting to about 119 [million Rand]. It's a perpetuated process of disasters over the number of years."

Blurring of the lines between routine and disaster-related infrastructure impacts. A fundamental issue in the Eastern Cape is the lack of clarity around what constitutes a disaster. Many municipalities tend to focus on deteriorating infrastructure as a primary challenge, which can overshadow the identification and management of specific natural disaster events. This perception extends to their understanding of disaster-related costs, with municipalities often attributing expenses to routine operational costs rather than distinguishing between chronic infrastructure problems and acute disaster events. As one interviewee noted, there is a blurred line between the two, making it difficult to assess the true scope of the disaster response needs.

Capacity challenges to DRM. The challenges of access and skills in the Eastern Cape further complicate DRM. Verification of disaster impact is difficult due to the overlap of multiple, recurring disasters, which often impact and delay previous assessments. This not only slows down individual responses but also highlights that DRM interventions may not be the most effective solution. Instead, addressing the structural issues of infrastructure and governance is essential to reducing the vulnerability of these communities and ensuring more sustainable disaster resilience in the long term.

Source: Interviews

Poor maintenance practices are a key driver of avoidable disaster-related damages. Proper maintenance of critical infrastructure, such as stormwater, water, wastewater, and energy systems, is essential to preventing severe disaster impacts. However, the failure to adhere to engineering standards leaves these systems highly vulnerable to weather-related damage. Many municipalities have pointed to the lack of appropriate maintenance practices as a core contributor to such damages, particularly when it comes to the poor upkeep and clearing of stormwater drainage systems. This issue was highlighted by the Eastern Cape Members of the Executive Council for COGTA in the aftermath of the October 2024 floods, who stated:

"We have not received funding from the national government for the June disaster, but that is not an excuse for maintaining daily operations,"
"They do not require national funding. This is about operations and maintenance and the management of refuse. When you don't manage refuse properly, it gets into your stormwater channels, blocks them, and then you have a man-made disaster in the end."

Source: News24 (2024)

The Auditor-General's (AG) latest report highlights that municipalities allocate significantly less than the recommended 8% of their budgets to infrastructure maintenance, with many spending only 1% or less (Auditor-General South Africa, 2023). Chronic underinvestment not only accelerates infrastructure deterioration but also increases the cost of disaster recovery when failures occur.

Governance challenges undermine effective disaster management. This lack of budgeting for maintenance is part of a broader issue of weak financial management and governance in many municipalities. Poor audit outcomes are widespread, with only 34 (13%) of municipalities receiving clean audits for the 2022-23 financial year. Audits of infrastructure projects (such as those funded by Municipal Infrastructure Grants), found deficiencies with 54 (72%) of 75 projects. Most of the projects were delayed, cost more than planned or were of poor quality (Auditor-General South Africa, 2023). Where municipalities have demonstrated persistent shortcomings in governance of funds, simply increasing funding without addressing the root causes is likely to lead to further inefficiencies and waste scarce national resources.

DRR mandate between municipal, district, and provincial levels is often unclear. Responsibilities between organs of state and spheres of government are not always clear, and priorities may not always align, leading to overlaps and gaps in DRR responsibilities. This role confusion can delay funding applications, hinder response efforts, and weaken accountability (see Langeberg experience in Box 13).

Box 13: Case Study - Langeberg Municipality - The Cost of Clearing Silt Under the Montagu Bridge

Impact on the town and economy. Langeberg Municipality faces a persistent challenge in Montagu, one of its most economically significant towns, due to silt accumulation under the Montagu Bridge. This build-up leads to repeated flooding during rainfall, obstructing access to the town. As a prime tourist destination, these floods undermine Montagu's accessibility, impacting both residents and businesses, and ultimately hurting the local economy.

Challenges in clearing the silt. The impacts are significant - the flooding disrupts access to Montagu, affecting around close to 20,000 residents, as well as seasonal and migrant workers and tourists. While the solution seems straightforward—clearing the silt—several challenges hinder progress. The municipality lacks the specialised equipment required for this task, and the silt must be transported to a designated site for sustainable use, which adds further logistical complexity. Additionally, clearing the silt is expensive, with an estimated cost of over R3million for the first phase related to the critical section of the river. Due to a limited operational budget, the municipality cannot finance the removal on its own, and disaster relief funds are restricted to infrastructure repairs, not operational tasks like silt removal.

Responsibility and jurisdictional challenges. Responsibility for the bridge lies with the Provincial Department of Infrastructure in the Western Cape. The Provincial Department has found it challenging to prioritise the cost given limited resources. The municipality is under significant public pressure to resolve the issue quickly, though jurisdictional limitations complicate their ability to take immediate action.

This situation highlights the challenges of aligning priorities across different levels of government.

Source: Interviews

Complexity regarding responsibilities for DRR activities on land held under traditional authorities. In many rural municipalities, DRR efforts are hampered by uncertainty over governance

arrangements. According to the Traditional Leadership and Governance Framework Act 41 of 2003, Traditional Councils are mandated to "alert any relevant municipality to any hazard or calamity that threatens their area of jurisdiction, or the well-being of people living there, and contribute to disaster management in general" (Republic of South Africa, 2003). In practice, however, disaster response functions often fall to municipalities. Effective DRR requires broader collaboration, including on areas like spatial planning, which often falls under the remit of Traditional Councils. This overlap in responsibilities creates ambiguity, particularly as Traditional Councils are frequently excluded from Disaster Management Advisory Forums. Despite these challenges, some proactive municipalities have successfully implemented initiatives such as educational campaigns and engagement with traditional leaders on risk reduction practices. These efforts have fostered productive collaboration in certain areas, demonstrating the potential for more integrated approaches to DRR.

Challenges in ensuring that disaster management plans are practical and address causes of risk. Many municipalities struggle to develop and implement disaster management and contingency plans effectively. Spatial development and land use matters are common challenges for disaster risk planning. Limited internal resources often lead to plan development being outsourced to external consultants, resulting in minimal local ownership and poor integration into municipal operations. Furthermore, climate change-related risks are frequently overlooked in these plans and despite the persistent and growing risks, settlements continue to be established in flood-prone areas, with inadequate efforts to relocate communities to safer locations.

> *"Yes, there is a disaster plan, but I don't think that plan is reviewed as often as it needs to be because it takes a higher-level thinking. For example, floods seem to be a constant at this point and then you take climate change, which is also a disaster risk at the moment. So, I think it's due for an update."*
>
> **Municipality in the Eastern Cape**

5.3 Recommendations

Municipalities put forward several recommendations aimed at enhancing the effectiveness of disaster management and DRR- these are captured in Table 12 below.

Table 11: Recommendations Related to Disaster Management and DRR

Challenge	Recommendations	Linked priority actions
Some municipalities are under fiscal distress or dysfunctional	Include disaster risk exposure into the equitable share formula to improve the sustainability of funding to municipalities and provide additional infrastructure support for high-exposure municipalities with limited resources and poor infrastructure	1. Risk rate municipalities and provide additional revenue and infrastructure grant support to high climate risk municipalities for disaster risk reduction, accumulation of contingency reserves and asset maintenance practices
Disaster management responsibilities often overlap, lack clarity, or are misaligned between the national, provincial, municipal and sector level	Clearer delineation and devolution of DRR roles and budgets across government levels are required – with accountability mechanisms	8. Reduce fragmentation of disaster funding and clarification of the roles of the sectoral departments.
Disaster management functions often do not have	Disaster risk coordination at municipal director level needed, including related KPAs.	6. Disaster risk coordination at municipal director level needed

Table 11: Recommendations Related to Disaster Management and DRR		
Challenge	Recommendations	Linked priority actions
sufficient access to senior decision-making structures.		
Environmental assessment processes delay disaster response and recovery	Expedite EIA timelines for disaster responses	Out of scope for this assignment as not finance related
Land allocation and construction in high-risk areas	Spatial planning and traditional leader engagement are critical, but enforcement remains challenging despite some awareness successes	Out of scope for this assignment as not finance related
Lack of data on total cost of disasters and opportunity cost	Research and reporting are needed to track disaster impacts and guide DRM, start by tracking municipal grant applications	5. Improve grant clarity and administration

6. Conclusion

This study provides an overview of the perspectives of South African municipalities on how they finance their disaster risk response and recovery efforts and identifies recommendations to improve their ability to manage disaster risk response. These findings and recommendations are intended to support the implementation of the national DRF strategy. The priority recommendations are included in Section 3 of the report and a complete view of recommendations is in Appendix I.

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8. Appendix

A. Breakdown of the sample municipalities by province and municipality type

The table below summarizes the grant distribution and sampling proportions of the for the interviewed municipalities.

Table 12: Overview of the Municipal Interview Sample by Province

	No. of Municipality	No. of municipalities that received a grant in the past 2 years	No. of municipalities included in the sample	No. of municipalities interviewed
Total EC	39	31	10	4
District	6	2	1	1
Local	31	28	8	2
Metro	2	1	1	1
Total FS	23	6	3	1
District	4	0	0	0
Local	18	5	2	0
Metro	1	1	1	1
Total GT	11	1	1	0
District	2	0	0	0
Local	6	0	0	0
Metro	3	1	1	0
Total KZN	54	32	12	8
District	10	5	3	1
Local	43	26	8	6
Metro	1	1	1	1
Total LP	27	13	4	4
District	5	0	0	0
Local	22	13	4	4
Total MP	20	15	5	2
District	3	0	0	0
Local	17	15	5	2
Total NC	31	1	1	0
District	5	0	0	0
Local	26	1	1	0

Table 12: Overview of the Municipal Interview Sample by Province				
	No. of Municipality	No. of municipalities that received a grant in the past 2 years	No. of municipalities included in the sample	No. of municipalities interviewed
Total NW	22	3	2	1
District	4	1	1	1
Local	18	2	1	0
Total WC	30	14	7	6
District	5	0	0	0
Local	24	13	6	5
Metro	1	1	1	1
Total	257	116	45	26

B. Stakeholders engaged

The below stakeholders were interviewed to inform this report.

Table 13: Breakdown of all Interviews Conducted

Type	Stakeholder
Association	SALGA
	SAIA
Government body	NDMC
	National Treasury
	Western Cape Provincial Government
	Western Cape PDMC
Insurer	Guardrisk
	Santam
Municipality	Bushbuckridge
	Chris Hani District
	City of Cape Town
	eThekwini
	George
	Govan Mbeki
	Greater Tzaneen
	iLembe District
	iNkosi Langalibalele
	Kouga
	KwaDukuza
	Langeberg
	Lephalale
	Makhado
	Mangaung
	Msunduzi
	Nelson Mandela Bay
	Ngaka Modiri Molema District
	Ngqushwa
	Overstrand
	Polokwane
	Ray Nkonyeni
	Stellenbosch
	Swartland
	uMhlathuze
	uMngeni

C. Key indicators

The below table sets out the data collected from 25 municipalities covering 33 disasters between 2017 and 2024. “Count” reflects the number of disasters where reliable data is available for a specific indicator.

Three outliers were excluded from the figures: 2 grants that exceeded R1 billion and one grant that was paid out after more than four years.

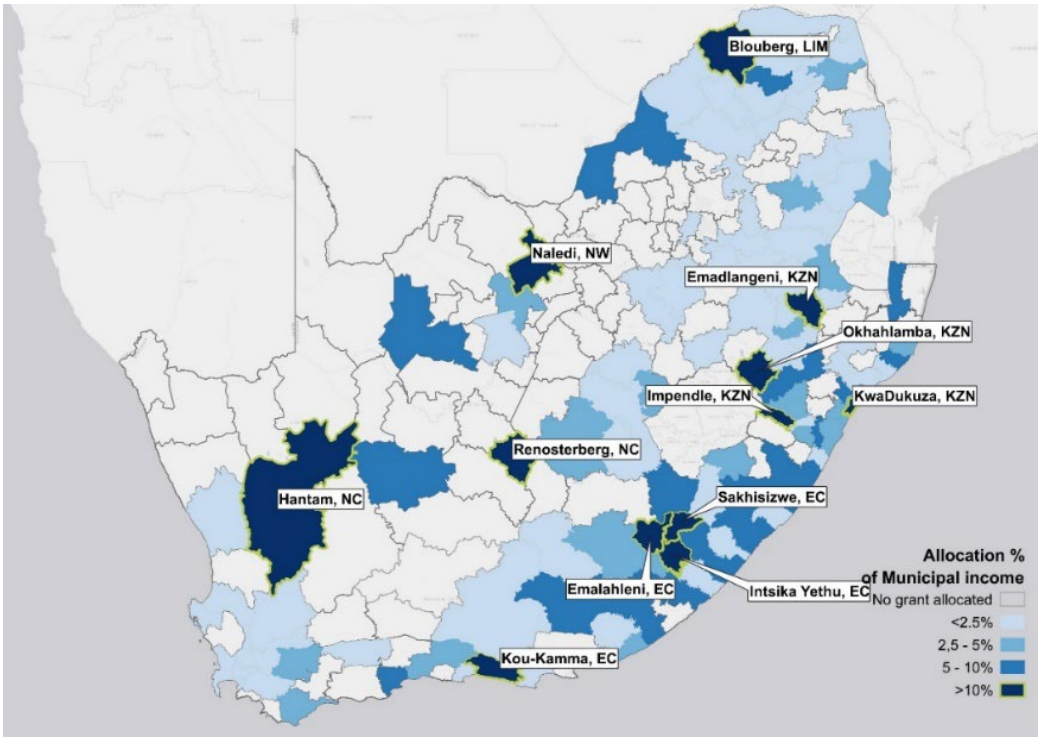
Indicator	Count	Total	Lowest	Highest	Median	Average	Note	Source
Disaster grants								
Grant value applied for	23	9,605,279,562	350,000	5,500,000,000	57,000,000	417,620,851		Interviews
Grant value received (response)	18	515,918,000	350,000	185,000,000	12,811,000	28,662,111		DORA/interviews
Grant value received (recovery)	18	1,056,850,000	4,450,000	237,497,000	37,283,000	66,053,125	Excludes 2 grants >1bn	DORA/interviews
Funding gap (Grant value applied for vs received)		5,640,669,631	4,400,000	3,780,215,000	40,901,000	331,804,096		Calculated
Timeline from event to declaration (weeks)	12		1	7	2	3		Interviews
Time from event to application (months)	18		0.25	3.25	1.75	1.50		Interviews
Time from event to receipt (response) months)	17		1.75	5.75	4.75	4.25		Interviews/DORA

Indicator	Count	Total	Lowest	Highest	Median	Average	Note	Source
Time from event to receipt (recovery) (months)	17		4.75	18.50	12.25	12.75	Excludes an outlier >4 year	Interviews/DORA
Expenditure per interviews	18	375,951,000	3,500,000	82,298,000	13,306,000	23,496,938	Excludes 2 grants >1bn	DORA
Other instruments								
Insurance claimed	8	1,011,563,356	1,427,106	927,000,000	10,250,000	126,445,420		Interviews
Insurance received	7	28,553,398	300,000	9,000,000	4,854,447	4,079,057		Interviews
Timeline for claim (years)	5		1	2	2	1.25		Interviews
Reserves	1	150,000,000	150,000,000	150,000,000	150,000,000	150,000,000	2 municipalities indicated use of reserves, but only 1 could quantify	Interviews
Grant reallocation	2	40,900,000	900,000	40,000,000	20,450,000	20,450,000	4 municipalities indicated grant reallocation, but only 2 could quantify	Interviews
Budget reallocation or reprioritisation	14	1,260,442,432	900,000	650,050,000	5,625,000	90,031,602	23 municipalities indicated reprioritisation, but only 14 could quantify	Interviews

D. Data analysis

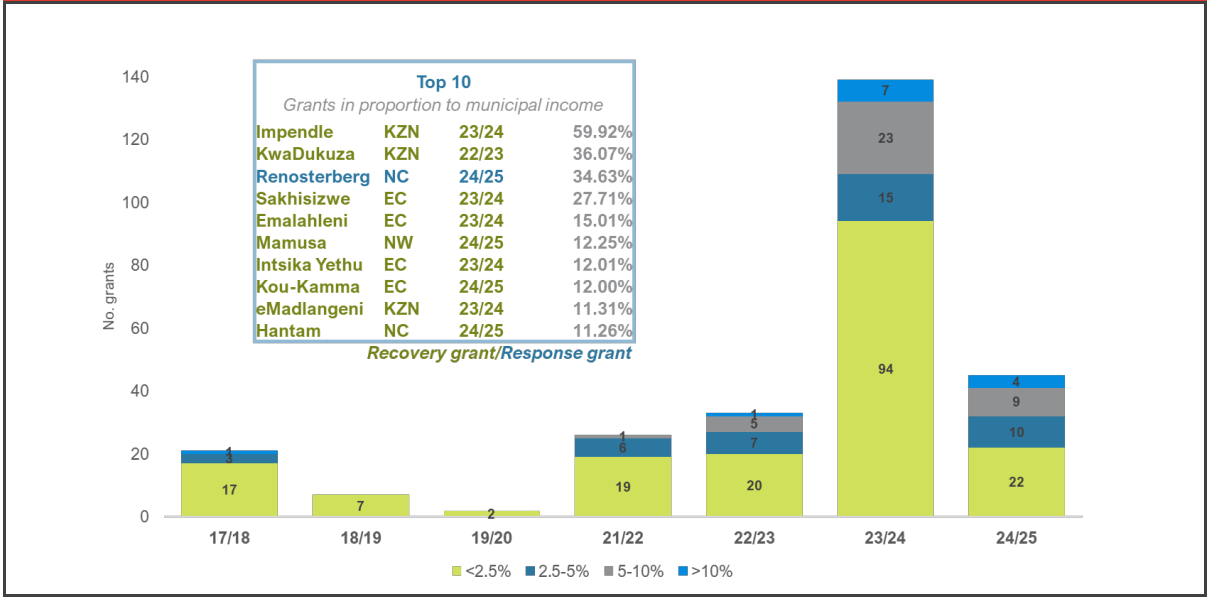
Additional data was analyzed for the purpose of this report as set out below.

Figure 12: Grant Allocations as % of Municipal Income (Geographic Distribution)



The map displays allocations as a percentage of municipal income. For each municipality, the highest allocation over the past three years (2022-2024) was selected. The income variable is based on 2023/24 figures.
Source: National Treasury (2024)

Figure 13: Grant Allocations as % of Municipal Income)



20/21 excluded due to Covid-19.
Source: National Treasury (2024)

E. George Municipality Case Study: George Municipality's struggle with roll-overs, restricted spending horizons and funding delays

The below case study sets out George's experience with a severe storm based on interviews and direct inputs from the municipality

On 21-22 November and 06 December 2021, George Municipality faced a severe storm that brought over 148 mm of rainfall within 48 hours, causing widespread damage to infrastructure and displacing hundreds of families. Critical water systems failed, including burst raw water supply pipes that left parts of the town without potable water for up to five days.

The municipality used their own resources for the immediate response to provide safety and accommodation for families, restore critical infrastructure including water supply and safe access (roads), and to clear away debris blocking access and posing a potential health hazard.

A disaster was declared on December 21st, and by December 24th, the municipality had submitted its application for a disaster response grant to the PDMC. Operational costs for contractors, debris clean-up, and community support—including debris removal alone, which exceeded R2.8 million—were excluded from the application. The municipality was advised to apply for the response grant given immediate needs, but the business plan template restricted the implementation period to six months. This conflicted with the actual time required for some projects, which were projected to take up to 36 months to complete. In their application, the municipality sought to address this discrepancy by including the following note regarding the misalignment between the response grant business plan timeline and the actual implementation period:

"It is to be noted that certain sector involvement is required, and the extent of the damage incurred will not make it possible to do all remedial works within the 6 months period as indicated below. Certain works will be able to be addressed immediately on receipt of the disaster grant funding; however, other works

will require the appointment of a consultant and potentially an open tender procurement process in line with the MFMA and SCM policy."

The PDMC subsequently submitted the application to the NDMC on 30 December 2021.

With the exception of an email from the PDMC in October 2022, the municipality received limited guidance on the status of their application and which projects would likely obtain funding. On 16 March 2023, the municipality was unexpectedly informed—15 months after the event—that their application had been successful. Days later, on 31 March 2023, they received R237.5M for 34 projects. Following this, the municipality initiated an adjustment budget in April 2023, which required council approval. Expenditure could only commence once the funding was incorporated into their budget.

Despite the urgency to spend the disaster response grant recently received, the municipality faced protracted timelines for initiating and implementing the projects – key challenges included:

Consultant and contractor appointments: Contracted services, including professional engineering service providers (consultants, environmental specialists, health and safety agents, etc.), could only be appointed after project approval and fund allocation. Contractors could only be engaged for construction-ready projects once all necessary statutory approvals were obtained. Consultants for all projects were ultimately appointed in early May 2023.

Environmental and legislative requirements: Flood-related damage required remedial works in natural drainage and river courses, necessitating Environmental Impact Assessments and Water Use Licenses with specialist studies – this took up 18 months to complete for some projects and significantly delayed construction. Due to the time lag between the disaster and grant allocation, the Department of Water and Sanitation and the Department of Forestry, Fisheries and the Environment (DFFE) did not deem the projects urgent, requiring full statutory application processes to be followed.

Escalation of costs: Implementation costs in 2023/24 were significantly higher than those submitted in 2021 due to rising construction costs, further damage from subsequent high rainfall events, and the expiration of emergency procurement options. Additionally, lengthy statutory approval processes and the need for extra specialist input further contributed to cost escalations.

With George only having received the grant funding on 31 March 2023, with only three months remaining in the financial year, a rollover application to National Treasury for the unspent funds was submitted. The rollover was subsequently approved in November 2023. While awaiting the outcome of a rollover application, the municipality provided bridge financing for project costs, which required reprioritizing other planned capital projects for that financial year.

Due to the delays outlined above, a second rollover application for R130.5 million was submitted to National Treasury on 31 August 2024, with support from the PDMC and NDMC (within 24-month spending timeframe condition of the grant). While awaiting National Treasury's decision, the Municipality again had to provide bridging finance. On 22 October 2024, National Treasury informed the Municipality that the application was not supported. The Municipality submitted an appeal on 28 October 2024, which was also declined. Subsequently, Provincial Treasury submitted a further appeal to National Treasury on 13 November 2024. After reviewing Provincial Treasury appeal, National Treasury informed the Municipality on 4 December 2024 that their decision had been revised, approving the full rollover amount of R130.5 million for the 2024/25 financial year.

Uncertainty relating to rollovers results in a number of complications for the municipality. Once construction begins, it could not simply be stopped or cancelled, as partially completed projects or works that fail to function as intended are considered fruitless and wasteful expenditure. The municipality is obligated to complete such projects to provide public benefit, even at its own expense. Additionally, the municipality faced potential claims from service providers for loss of profit and income if contracts were cancelled. Public liability was another significant concern, especially given the time elapsed since the disaster and the completion of remedial works. If the municipality fails to address known public health or safety hazards, it could be held legally liable for damages. This situation not only exposes the

municipality to legal and financial risks but also leaves vulnerable communities at greater risk, as they are most directly affected by flood events.

Based on their experience, the George Municipality proposed several key recommendations, many of which were included in their monthly reports to the NDMC:

Extended timeframes for damage assessment and costing: Municipalities should be granted a more realistic period to accurately quantify and estimate the damage, as well as the required remedial and reconstruction efforts, following significant disasters. While preliminary estimates can be prepared quickly, a more detailed submission should be allowed within 60 days after the initial assessment. This period would accommodate the formal disaster declaration process and gazetting, ensuring more precise cost calculations for funding applications.

Flexible grant allocation periods: Disaster grant allocations should allow sufficient time to complete necessary works. Allocations should also factor in cost escalations due to construction inflation, particularly when delays occur in the award of funding.

Reallocation of project savings: Municipalities should have the flexibility to reallocate savings from one project to address funding shortfalls in another within the total grant allocation. This approach acknowledges the inherent difficulty in accurately quantifying costs in advance.

Multi-year funding for disaster grants. To avoid the need for rollover applications for unspent funds, municipalities should be allowed to submit realistic programs and cashflows. Allocating disaster grants over multiple financial years, aligned with implementation timelines, would better reflect project realities. This approach could also reduce the financial strain on National Treasury and the national fiscus by spreading costs over several years. Direct involvement from National Treasury could help alleviate uncertainties related to implementation delays, compliance with expenditure timelines, and funding security.

Streamlined sector collaboration: Given the complexity and scale of required remedial works, which involve consultants, specialists, and interdepartmental approvals, the NDMC should enhance collaboration with sector departments. This would ensure that once a disaster is declared and funding allocated, municipalities can promptly begin work.

Improved program and cashflow planning: Allowing municipalities to prepare and submit realistic programs and cashflows would avoid reliance on rollovers and better accommodate extended project timelines. This would also help distribute the disaster funding burden more effectively and provide clarity on grant expenditure requirements.

Additionally, the municipality emphasized that their primary source of funding for disaster prevention and response comes from local budgets, which have been severely impacted by Eskom-related electricity revenue losses. Investments in prevention require a business case to demonstrate future cost savings, which can be challenging to quantify. The delays and uncertainties surrounding disaster grant funding have made these funds less accessible and reliable.

The municipality advocated for alternative approaches to disaster financing, such as self-insurance models or joint borrowing arrangements among municipalities to reduce costs. They also suggested exploring blended finance options to support climate adaptation. Recognizing the diversity of municipal challenges, George stressed the importance of tailored responses that account for variations in municipal capacity, infrastructure conditions, and exposure to disaster risks.

A detailed breakdown of the timelines is captured below:

21-22 Nov 2021

Severe storm causes significant damage to infrastructure, especially water, and displaced hundreds of families.

30 Dec 2021

Application submitted for recovery grant given scale of damage. Applied for R237.5 million over 36 months to implement recovery projects.

Oct 2022

Municipality receives an email from the PDMC regarding the status of their disaster grant application, the only significant communication received.

March 2023

R237,5m disaster recovery grant received, 15 months after submission, with a required implementation period of 24 months.

April 2023

Municipality prepares an adjustment budget for council approval to incorporate the grant funding, delaying project expenditure commencement.

June 2023

First roll over application made.

November 2023

Roll over approved.

31 August 2024

Second rollover application submitted for R130.5 million to National Treasury, supported by PDMC and NDMC (within 24-month spending timeframe condition of the grant). George decided to fund the costs at risk while they await the result of the application.

22 October 2024

Roll over declined and Goerge is requested to return the R135m unspent funds. This is a challenge as the funds are committed to projects in implementation and George still has till March 2025 to spend the funds under the original grant conditions.

28 October 2024

Municipality submits an appeal to National Treasury, which is also declined.

13 November 2024

Provincial Treasury submits a further appeal to National Treasury on behalf of the municipality.

4 December 2024

National Treasury revises its decision, approving the rollover amount of R130.5 million for the 2024/25 financial year.

Source: Interview and documentation submitted by George Municipality

F. KwaDukuza Municipality Case Study: Detailed breakdown of the KwaDukuza Municipality insurance claim process

The below timeline sets out the insurance claim process as provided by the KwaDukuza municipality:

12th April 2022

Blanket claim registered with KwaDukuza Municipality's (KDM) insurer.

13th April 2022

Insurers requested the asset register information of those assets damaged by the storm.

9th May 2022

Interactive sessions were set up by the insurer and KwaDukuza's Assets Section to identify the assets on the asset register and provide relevant information.

25th May 2022

A listing of storm-damaged assets extracted from the assets register was provided to insurers.

2nd June 2022

The insurance assessor began the assessment of the flood-damaged assets. KwaDukuza was requested by the assessor to obtain quotations for the costs of repairing the damages. These quotations were to be evaluated by the assessor for reasonableness, and if all was in order, approval to commence repairs would be given.

25th August 2022

A meeting was convened between the Finance Business Unit and the assessor, to obtain guidance from the insurer and the underwriter regarding the information required and the process for submission.

It was agreed that the municipality could submit BOQs, internal and external quotations, or request the insurers to determine the cost of repair work. It was also noted that the municipality could perform the repair work (and claim from insurance) to expedite the process.

9th September 2022

The following BOQs and quotations were provided to the assessors for verification and finalization:

- Zinkwazi Main Beach repairs
- Ballito Promenade rehabilitation
- Salt Rock Beach rehabilitation
- Willard Beach rehabilitation
- Clark's Bay rehabilitation
- Repairs to Salt Rock offices
- KwaDukuza Municipality (KDM) Civic Building Roofs Replacement

26th September 2022

The assessor reviewed the claims and advised the insurers that the estimates were high. He recommended the appointment of a quantity surveyor to determine a more realistic cost.

11th October 2022

A meeting was held with KDM, insurers, and the assessor. KDM expressed concerns about the insurers not finalizing the claim in a timely manner. The assessor explained that the claim from KwaDukuza was substantial and would require time to finalize. The process would be ongoing, with piecemeal claims addressed as information was received from the municipality.

6th February 2023

Meeting with insurers to discuss and identify the various damaged assets on the asset register.

20th February 2023

The quantity surveyor/loss adjuster was on-site to meet with KDM user departments for a briefing on municipal buildings, civil, and community sites claims.

1st March 2023

Further meeting with the quantity surveyor and Community Services BU to provide an updated listing of sites.

24th May 2023

First interim agreement of loss reached with a settlement value of R181,908.27 for 22 sites.

1st June 2023

Meeting held with KDM, assessors, and insurers. KDM managers expressed dissatisfaction with the outcomes and requested time to scrutinize the report before a follow-up meeting.

7th June 2023

The first interim report was discussed with KDM, insurers, and the assessor. The assessor explained the methodology and how the quantity surveyor conducted a risk assessment. KDM raised concerns, particularly about approximately 20 unverified sites. The assessor was tasked with reviewing the report.

12th June 2023

Further meeting held with KDM, insurers, and the assessor to discuss the first interim report.

25th July 2023

Follow-up meeting with KDM, insurers, and assessors. A revised settlement of R282,947.16 was proposed, which the municipality did not accept. Further evidence of repairs and maintenance was submitted, highlighting that 11 affected sites were excluded. Further verification of these sites was agreed upon.

31st October 2023

The assessor confirmed the finalization of the reports, which were provided to the insurers for review and claim finalization. A settlement value was expected soon.

15th January 2024

Interim settlement received:

- R563,301.43 for community assets
- R2,502,548.17 for electrical assets

The reports were forwarded to the relevant business units for review.

26th January 2024

Engagement meeting between KDM, insurers, and the assessor to discuss the draft report and settlement. KDM was tasked with reviewing the report and raising any concerns or clarifications with the assessor.

23rd February 2024

KDM provided input on the final draft report to the assessors.

25th April 2024

Final settlement and agreement of loss received from the insurers – breakdown as detailed below.

Breakdown of the settlement to KwaDukuza Municipality:

	Community Infrastructure	Buildings	Electrical Infrastructure
Claim value	294,959.95	249,292.65	4,891,589.9
Less: Excess (10%)	29,496.00	24,929.27	489,158.9
	265,463.96	**224,363.39**	**4,402,430.9**
Add: 15% Vat	39,819.59	33,654.51	660,364.64
Total payable to KDM	**305,283.55**	**258,017.89**	**5,062,795.5**
			5,626,097

Source: Timeline provided by KwaDukuza Municipality

G. NDMF thresholds

Table 14: NDMF Municipal Thresholds to Access Funding	
Organ of state	Threshold percentage
Metropolitan municipalities	0.5
Municipality with own revenue over R150m (excluding metros)	0.6
Municipality with own revenue of R50-150m	0.8
Municipality with own revenue of R1-50m	1.0

Source: NDMC (2005)

H. Disaster support from Sectoral departments

The table below sets out the disaster response mandate for each organ of state as noted in an overview by the National Disaster Management Centre (2023).

Table 15: Disaster Mandate of Select Sectoral Departments	
Organ of state	Mandate
Department of Social Development (DSD) – SASSA	• Humanitarian support provided in terms of meals, blankets, mattresses, vanity packs, baby packs, etc. • Relief is provided whether the disaster is declared or not • Cash or voucher equivalent to an Older Person's grant amount is provided to affected persons upon departure from shelters. • Support provided in collaboration with other stakeholders, since the Agency is part of the Disaster coordinating forums across the spheres. • Coordination of social partners and mobilisation of resources • Psychosocial support to the affected communities.
Department of Human Settlements	• Technical support to conduct verification and assessments • Provision of the building materials in the informal settlements • Construction of emergency housing within affected communities

Table 15: Disaster Mandate of Select Sectoral Departments	
Organ of state	Mandate
Department of Water and Sanitation:	• Continuous monitoring of dam and river levels via their Near Real Time Monitoring System to enable the Centre to alert Municipalities on possible high-risk areas to support and concentrate their resources. • Projection of water flows to be used to evacuate communities based on the incoming volumes. • Deployment of technical staff to confirm river and dam levels and replace damaged equipment where necessary. • Continuous drought/ flood surveys
Department of Basic Education (DBE)	• Damage assessments • Repairs of damaged school infrastructure through the school Infrastructure budgets, Equitable Share allocations and Education Infrastructure Grants in schools affected by disasters/Floods. • Relocation of excess mobile classrooms to the most affected schools in cases where classrooms have been damaged to ensure teaching and learning is not compromised. • Support and guidance to Provincial Education Departments with regard to line function related matters in assessments
Department of Transport (DOT)	• Emergency repairs to road infrastructure to enable access by communities • Construction of emergency bridges (Welisizwe Programme)

Source: (National Disaster Management Centre, 2023)

I. Recommendations overview

Table 16: Breakdown of the Recommendations by Implementing Institution

Primary owner	Secondary owner	Challenge	Recommendation	Linked priority action
COGTA	NDMC	Some municipalities under fiscal distress or dysfunctional	Risk rate municipalities and provide additional support to high exposure municipalities.	1. Risk rate municipalities and provide additional revenue and infrastructure grant support to high climate risk municipalities for disaster risk reduction, accumulation of contingency reserves and asset maintenance practices.
	NDMC	Disaster management functions often do not have sufficient access to senior decision-making structures.	Disaster risk coordination at municipal director level needed, including related KPAs.	6. Disaster risk coordination at municipal director level needed.
	NDMC	Land allocation and construction in high-risk areas	Spatial planning and traditional leader engagement are critical, but enforcement remains challenging despite some awareness successes.	Out of scope as not finance related.
	NDMC, PDMC, MISA	Lack of local skills and specialist equipment impacts assessment and implementation timeframes	Make provincial resources in terms of specialist equipment and skills (project managers and engineers) available to municipalities for assessment and to implement response and recovery projects.	1. Risk rate municipalities and provide additional revenue and infrastructure grant support to high climate risk municipalities for disaster risk reduction, accumulation of contingency reserves and asset maintenance practices.

Table 16: Breakdown of the Recommendations by Implementing Institution

Primary owner	Secondary owner	Challenge	Recommendation	Linked priority action
NDMC		Lack of certainty related to grant allocation process and amounts	Simpler, faster and more transparent verification and assessment process (system) needed.	5. Improve grant clarity and administration
	NT		Clarity on what municipalities should plan for and where they can expect national support, ideally based on objective, transparent criteria related to impact and capacity.	5. Improve grant clarity and administration
		Spending challenges related to finance conditions creates uncertainty and impacts quality	Pay out the recovery grant in tranches in line with business plans rather than upfront	3. Pay out the recovery grants over the MTEF in line with grant business plans rather than as a lumpsum upfront.
			Waive or simplify roll-overs in line with grant timeframes and conditions	3. Pay out the recovery grants over the MTEF in line with grant business plans rather than as a lumpsum upfront.
	DFFE	Environmental assessment processes delay disaster response and recovery	Expedite EIA timelines for disaster responses	Out of scope for this assignment as not finance related.
	NT	Ringfencing disaster contingency reserves difficult given other competing priorities and a lack of regulatory clarity.	Ring-fenced contingency reserves to be implemented for high-risk municipalities for immediate response in line with the proposed NDMF budgetary thresholds (additional funding may be needed).	1. Risk rate municipalities and provide additional revenue and infrastructure grant support to high climate risk municipalities for disaster risk reduction, accumulation of contingency reserves and asset maintenance practices.

Table 16: Breakdown of the Recommendations by Implementing Institution

Primary owner	Secondary owner	Challenge	Recommendation	Linked priority action
	NT	Budget reprioritisation risks future disasters, effectively "robbing Peter to pay Paul."	Budgets for critical maintenance and infrastructure needed for disaster risk reduction should be ring-fenced and excluded from disaster response funds.	1. Risk rate municipalities and provide additional revenue and infrastructure grant support to high climate risk municipalities for disaster risk reduction, accumulation of contingency reserves and asset maintenance practices.
	NT	Disaster management responsibilities often overlap, lack clarity, or are misaligned between the national, provincial, municipal and sector level	Clearer delineation and devolution of DRP roles and budgets across government levels are required – with accountability mechanisms	8. Reduce fragmentation of disaster funding and clarification of the roles of the sectoral departments.
	NT	The response grant often covers emergency housing and social relief costs, despite alternative, dedicated instruments	Reduce fragmentation of disaster funding through reform or clarification of disaster grant landscape.	8. Reduce fragmentation of disaster funding and clarification of the roles of the sectoral departments.
	NT	Delayed grant receipt impact response and recovery	Improve speed of access to response funds by splitting out the response grant to include a rapid grant for severe events for municipalities that plan ahead	2. Adjust the response grant to provide immediate relief and rehabilitation.
			Establish a mechanism to permit reimbursement of predetermined expenses before grant allocation for severe events.	Not prioritised as it was attempted previously without success.

Table 16: Breakdown of the Recommendations by Implementing Institution

Primary owner	Secondary owner	Challenge	Recommendation	Linked priority action
		The lack of formal agreements for intermunicipal support during disasters leads to hesitancy to share resources.	In line with the NDMF (2005), formalise intermunicipal support for disaster response, for instance, through mutual assistance agreements, or SALGA	6. Disaster risk accountability to sit at the level of municipal director or mayor's office
		Limited technical expertise within municipalities for disaster risk assessments and management	Coordinate support from universities to better leverage local expertise.	Out of scope as not finance related.
		Lack of data on total cost of disasters and opportunity cost	Research and reporting are needed to track disaster impacts and guide DRM, start by tracking municipal grant applications	5. Improve grant clarity and administration
National Treasury		Budget re-allocation and use of other grants complex and slow	Approach needs to be simplified with fast tracking measures or dispensations for application use during disasters.	5. Improve grant clarity and administration
	NT	National grant expenditure data not reliable	Review reporting process on disaster expenditure to generate more reliable data (including cash vs accrual accounting)	5. Improve grant clarity and administration
	SARB	Limited viable options – most are slow and expensive with exclusions	Improve the speed of receipt for large risks through parametric insurance for metro, provinces or nationally.	7. Revisit the role of insurance in municipal disaster management for effective risk layering
	SARB		Formalise self-insurance as a reserve mechanism.	7. Revisit the role of insurance in municipal disaster management for effective risk layering

Table 16: Breakdown of the Recommendations by Implementing Institution

Primary owner	Secondary owner	Challenge	Recommendation	Linked priority action
			Deepen partnership and technical capacity to implement effective insurance practices.	7. Revisit the role of insurance in municipal disaster management for effective risk layering
		Limited borrowing options	Blended finance options to be considered for larger municipalities/districts/provinces	1. Risk rate municipalities and provide additional revenue and infrastructure grant support to high climate risk municipalities for disaster risk reduction, accumulation of contingency reserves and asset maintenance practices.
OCPO	NDMC, NT	Spending challenges related to finance conditions creates uncertainty and impacts quality	Develop disaster-appropriate supply chain guidelines and allow as condition of grant	4. Develop effective disaster-appropriate supply chain guidelines and build municipal capacity for implementation

J. Survey: municipal disaster risk finance

The below questionnaire was completed by municipalities as part of the data collected for this report:

Please complete the following survey and share it with us before the interview so we can focus on key areas in the interview. If you've experienced multiple disasters, please focus your response on the one related to the most recent disaster response or recovery grant received.
We kindly request that you share any documents you consider relevant for the questions below, e.g. the disaster grant application submitted to the NDMC or PDMC and the allocation letter received from the NDMC detailing approved funds.
Questions:

1. What did it cost the municipality to respond and recover from the disaster? (Please discuss: Disaster that occurred, date of event, total amount and type of costs)
2. Which financial instruments did you use to fund these costs (amounts per instrument)? (Please consider in your response: 1) Reserves; 2) Reprioritisation of operational budgets; 3) Budget reallocation; 4) Debt; 5) Insurance; 6) Disaster related grants; 7) In-kind support by other organs of state; 8) Donor support; 9) Other, please describe?)
3. What changes need to be made to help you better use these instruments?
4. For disaster response or recovery grants used:

a) How much did you apply for?
b) How much did you receive?
c) What was rejected and why?
d) How long after the event did you submit the application for funding and what took the most time?
e) How long after the event did you receive the funding?
f) Did you spend the funds received to respond or recover for its intended purpose and in the prescribed timeframe and if not why?
g) In the year in question did you have any of your disaster related grants stopped/or rollover and if yes, why?

5. For budget reallocation and reprioritisation:

a) How much of your budget was reallocated or reprioritised to cover disaster related costs (amount)?
b) What were some of the examples of spending items that were forgone due to reprioritisation or reallocation? (Please discuss examples and impact on long term maintenance plans and disaster reduction.)
c) Did you reprioritise any existing grants (e.g. MIG, IUDG and USDG) – if not why, if yes, what impact did that have?

6. For insurance:

a) How much did you claim for the disaster event (amount)?
b) How much did you receive (amount)?

c) How long after the event did you receive the claim payment?

d) Were there any challenges experienced in processing your claim? Please indicate any part of the claim that was rejected, or part paid and reasons provided?

e) Were any assets not insured or not fully insured and why?

f) What type of infrastructure is insured by the municipality, and what influenced the choice of insurance?

g) Does the insurance market offer products that meet your needs, and what it would take to improve current insurance provision?

7. Do you have an asset management policy and/ or register in place? If yes, what does this cover, how frequently do you value your assets? (Please also consider infrastructure)
8. Reducing disaster risk is important as per the Disaster Management Act

a) Does your IDP include a disaster risk reduction component? To which extent is the plan funded? How is the IDP disaster risk reduction translated into a plan and how is it implemented and monitored.

b) Have you included risk reduction in your disaster recovery plan or in your infrastructure plans? If not, why not?

c) How much do you budget for your disaster risk management function and to which extent do you spend it? If not spent why? If not budgeted for, how is the function funded?

d) Do you maintain a reserve/contingency for disasters? If yes, please describe.

9. Which support do you receive from the private sector, charities, universities or others to prepare or respond to disasters?
10. Do you have any recommendations for National Treasury or the NDMC to help you manage the financial impact of disasters on your municipality within existing fiscal constraints?
11.

Data requested: Please complete the below table

Please specify the disaster (date and type) to which the data below applies:

Description	Amount (ZAR)/ Time period (months)	Any notes for our attention
Total cost of the disaster		
Grant application amount		
Budget reprioritised or reallocated		
District/Provincial funding received		

Insurance claim received		
Donor support received		
Time from event to grant application		
Time from event to grant receipt		
Disaster management budget allocated for the year		
Asset maintenance plan &register in place?	Yes/No?	