

Bridging the Gap

Financing mechanisms for
municipal energy transitions
in South Africa

IISD REPORT



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Bridging the Gap: Financing mechanisms for municipal energy transitions in South Africa

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Executive Summary

Municipalities are pivotal in implementing South Africa’s just energy transition, given their statutory mandates for electricity distribution, urban development, local economic development, and community-level climate resilience. However, many municipalities face considerable barriers when accessing, mobilizing, and managing climate finance. Their budgets depend heavily on national transfers and constrained local revenues, while private sector partnerships remain underutilized. Moreover, project execution is often delayed by institutional misalignment between national policies and municipal action plans, and stringent donor compliance requirements paired with bureaucratic procedures for international funds. Municipalities’ ability to absorb climate funding is further constrained by technical capacity limitations, concerns over creditworthiness, and weak project-preparation capabilities.

According to the Climate Policy Initiative, between 2019 and 2021, South Africa recorded an annual average of ZAR 130.6 billion (USD 7.68 billion) in climate finance flows, which rose to approximately ZAR 188.3 billion (USD 11.08 billion) per year, during 2022–2023 and further to ZAR 239 billion (USD 14.06 billion) in 2024. Most of these funds were sourced through private debt financing, with approximately 64% allocated to clean energy investments, while less than 10% of the total reached local governments directly. These challenges reflect a global financing paradox, as only 10%–15% of total climate finance reaches subnational governments despite their critical role in delivering mitigation and adaptation outcomes. This imbalance reveals a persistent structural gap between national-level investment priorities and the financial realities of municipalities.

In response to these gaps, South Africa has introduced new policy and financial frameworks designed to strengthen local participation in climate finance. The Climate Change Act (2024) establishes legally binding obligations for all spheres of government, enhancing multi-level governance and municipal mandates for both mitigation and adaptation. Complementing this, the National Green Finance Taxonomy (2022)—developed jointly by the Department of Forestry, Fisheries and the Environment, National Treasury, and the South African Local Government Association (SALGA)—clarifies definitions of “green” investments and harmonizes eligibility criteria across funding instruments. Together, these frameworks support pooled-financing mechanisms, concessional-loan facilities, and improved access to international climate funds, thereby providing a more coherent basis for municipal engagement in transition finance.

Enhancing municipal absorption capacity and financial readiness is thus essential to support municipal electricity distributors in implementing energy transition projects. Strengthened fiscal governance and alignment between local development priorities and national climate goals are critical to unlocking larger and more sustainable climate finance flows.

As part of this study, a desk-based review of policies and literature was carried out, examining national frameworks, local government policies, and international best practices. This was complemented by a semi-structured survey, conducted in 2023, which gathered data from 20 municipalities (see Appendix A) across diverse geographic and fiscal contexts—including metropolitan areas, secondary cities, and small towns—to assess their experiences with energy



transition finance, supplemented by a small number of key informant interviews in 2024 and 2025. There are currently 257 municipalities in South Africa, and the findings from this small sample should not be considered to be statistically representative of all municipalities; nevertheless, they are still a valuable source of qualitative insights. Together, the methods applied in undertaking this study provide a strong understanding of the structural, institutional, and financial conditions shaping municipal access to climate finance in South Africa.



Key Findings

Municipalities have limited access to financing for the energy transition. South African municipalities continue to face significant technical and operational challenges in mobilizing adequate financial resources for energy transition projects. Most municipalities remain highly dependent on national government transfers and limited own-source revenues, which often fall short of the capital required for large-scale renewable energy or climate-resilience initiatives. In contrast, private sector participation in municipal climate finance remains minimal, creating a persistent funding gap that constrains project implementation and scalability. To address this limitation, municipal access to international climate funds must be strengthened, and incentives should be developed for blended public-private investment partnerships for municipalities so that they can play a more proactive and financially empowered role in South Africa's just energy transition.

Municipalities are experiencing significant institutional and structural barriers. Complex and rigid funding mechanisms—both globally and domestically—pose significant barriers for municipalities seeking to access international climate finance. In many cases, compliance and reporting requirements exceed the administrative and technical capacities of municipalities, especially those in under-resourced or rural areas. For instance, stringent fiduciary standards and environmental and social safeguards set by global climate funds often demand extensive documentation, monitoring, and verification systems that local governments are under-equipped to manage. Collectively, these structural barriers not only limit the volume of funds available to local governments but also cause significant delays in the design and implementation of energy transition projects—undermining progress toward a just and inclusive transition.

National and local policy misalignments are impeding municipal energy transition uptake. While municipalities are still organizing themselves to meet the requirements of the Climate Change Act, the Electricity Regulation Act (2024) amendment adds further complexity by offering only high-level guidance and requiring secondary legislation and detailed regulations before it can be fully operationalized. This gap between municipal capabilities, institutional capacity, and national policy expectations creates a clear disjuncture in how municipalities plan and implement local energy transition initiatives, ultimately undermining their ability to access climate finance. The misalignment is further intensified by insufficient coordination across governance levels, which limits the integration of local priorities into national strategies and weakens the overall coherence of the just energy transition.

Available and tracked climate finance reaches only about 10% of municipalities. Despite the potential of instruments like green bonds, public-private partnerships (PPPs), and credit enhancement mechanisms, municipalities rarely leverage these tools due to capacity and structural gaps. Many are not deemed creditworthy and lack the technical expertise required to design, implement, and manage these financial mechanisms. This underutilization not only limits access to diversified funding streams but also delays the adoption of sustainable energy projects.



Recommendations

National Treasury, Cooperative Governance and Traditional Affairs, SALGA, and the provincial government must collaboratively build municipal capacity for Just Energy Transition (JET) implementation. This should be done by collaboratively establishing a structured capacity-building program to equip municipalities with the technical, financial, and managerial skills needed to plan, finance, and implement JET projects. These trainings should specifically focus on project preparation, proposal development, financial management, and funding applications, alongside expanded access to project-preparation facilities and blended or concessional finance instruments. Through collaborations with proposal-focused consortia between provincial, district, and local municipalities, the municipalities would gain opportunities to access larger-scale funding or donor support for renewable energy and green economy-focused projects.

The JET Project Management Unit should support the coordination and standardization of reporting to ensure local climate investments are captured, ring-fenced, and subject to clear accountability mechanisms. Improved tracking of municipal climate finance flows is essential for identifying funding gaps, assessing how national grants can be better leveraged for energy transition programs, and ensuring more equitable resource allocation across municipalities. Such tracking systems could be supported and ring-fenced through institutions such as the Presidential Climate Commission, the Just Energy Transition Project Management Unit, SALGA, National Treasury, and CoGTA, all of which play critical roles in monitoring and coordinating transition finance. Given the persistent financial and infrastructural challenges facing municipalities, establishing a dedicated mechanism to track climate finance flows specifically directed toward local government should be strongly prioritized.

National Treasury, Development Bank of South Africa, and municipal councils must strengthen municipal financial systems to support local energy transition uptake. This should be done by supporting municipalities to strengthen their financial management systems and to develop cost-reflective tariff structures that will support local energy transition investment. This can be coupled with progressive tariff reforms—such as network charges for wheeling and Small Scale Embedded Generation integration—to enhance fiscal sustainability for municipalities. Financial instruments like the Division of Revenue Act should be maintained and tied to measurable outcomes in grid modernization, storage integration, and energy-efficiency improvements. Together, these measures will improve municipal creditworthiness and enable greater private co-investment in clean energy infrastructure.

Municipalities, SALGA, and the private sector should foster partnerships to promote localized renewable energy development uptake. Municipalities, supported by SALGA and provincial economic development departments, should implement existing guidelines on municipal PPPs to boost investments that support a just energy transition. Initial efforts can focus on simpler PPP models—such as management contracts or lease agreements—to build practical experience in engaging private partners and managing performance-based arrangements, thereby strengthening institutional confidence and capacity for more complex PPPs over time. To streamline implementation, provincial governments and National Treasury's PPP Unit should provide standardized templates, legal guidance, and model contracts that ensure consistency, reduce transaction costs, and accelerate approvals across municipalities.



Abbreviations and Acronyms

| | |
|--------------|--|
| CoGTA | Cooperative Governance and Traditional Affairs |
| ERA | Electricity Regulation Act |
| GTAC | Government Technical Advisory Centre |
| IDP | Integrated Development Plan |
| IMF | International Monetary Fund |
| JET | Just Energy Transition |
| PPA | power purchase agreement |
| PPP | public-private partnership |
| SALGA | South African Local Government Association |
| SSEG | small-scale embedded generation |
| TIPS | Trade & Industrial Policy Strategies |



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1.0 Introduction

South Africa faces the dual challenge of decarbonizing its coal-dependent economy while ensuring affordable, reliable energy access and continued socio-economic development. Approximately 80% of the country's primary energy supply is derived from coal, making South Africa one of the most carbon-intensive economies globally. In response, the Just Energy Transition Investment Plan (JET-IP), launched in 2023, provides a national framework for channelling investments into renewable energy generation, electric-vehicle deployment, green hydrogen development, and grid infrastructure upgrades (Presidential Climate Commission, 2024). Recently, the Just Energy Transition Project Management Unit has begun to operationalize JET municipal structures supported by the South African Local Government Association (SALGA); however, there is still limited tracking and availability of funding for municipalities.

Municipalities occupy a central position in South Africa's energy transition. While not all municipalities are electricity distributors, they still play a role in managing infrastructure development and act as the primary point of interface with communities. However, across municipalities of all sizes, a major challenge that persists is that most operate without adequate management systems in their electricity businesses, including a lack of cost-driver visibility, non-cost-reflective and non-unbundled tariffs, and persistent failures in revenue management, billing, and payment collection. For example, while metros such as Cape Town and eThekweni have piloted independent power procurement and rooftop solar programs, many smaller rural municipalities continue to struggle with basic grid maintenance and limited administrative and financial capacity. These disparities show that systemic inefficiencies and capacity constraints significantly undermine municipalities' ability to execute their pivotal role in the JET.

This study seeks to address existing gaps in understanding the financial mechanisms and institutional conditions that shape how South African municipalities participate in the energy transition. It explores the range of financial instruments and resources available to support municipalities in pursuing transition objectives, while identifying the barriers and challenges that limit their ability to access, manage, and deploy climate and energy transition finance effectively. The analysis focuses specifically on mitigation-oriented climate finance—targeting electricity-distributing municipalities—and does not extend to adaptation-related funding. In doing so, the study evaluates the effectiveness of current financing frameworks in promoting an inclusive, decentralized, and equitable transition at the local level. Ultimately, it aims to uncover practical solutions that bridge the gap between international commitments, national policy frameworks, and local implementation, thereby enhancing municipal readiness, improving policy alignment, and empowering municipalities to play a more active and transformative role in South Africa's just energy transition.

1.1 Methodology

This research drew from the results of a semi-structured survey that was undertaken in 2023 with 20 municipal respondents across diverse geographic and fiscal contexts (including metros, secondary cities, and small towns), whose findings are not inclusive and have



limited applicability. Respondents represented finance, infrastructure, and energy planning departments. The intention of the survey was to assess, at a higher level, municipal officials' experiences around funding, barriers to funding access, and institutional capacity for project development. This was followed up by key informant interviews with representatives from SALGA, National Treasury, and the Presidential Climate Commission, conducted in 2024 and 2025. This engagement was infused into a desk-based policy and literature review that examined national and international frameworks, including the Climate Change Act (2024), JET-IP (2023–2024), and National Green Finance Taxonomy (2025). Quantitative data from the Climate Policy Initiative (2023–2024), National Treasury, and JET-IP registers were analyzed to track financial flows (2019–2024) and identify the share reaching local governments. Together, these sources of data complemented each other to provide a structured lens for evaluating how efficiently financial flows are mobilized and utilized to advance just energy transition objectives at the municipal level.

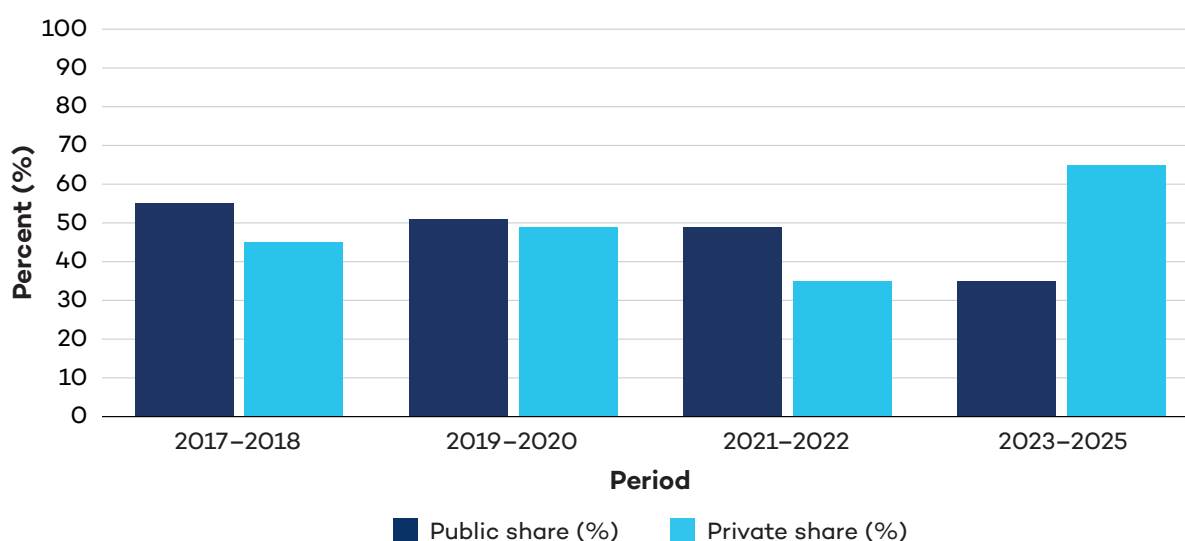


2.0 Climate Finance and Just Energy Transition

2.1 Global Climate Financial Flows

As the role of municipalities in the Just Energy Transition (JET) becomes increasingly important in the broader policy development and project implementation, so too does the urgency for municipalities to properly grasp the transition imperatives and prepare for it technically and financially—improving internal governance processes and capacity. While global financial flows have also increased over the past decade, including in South Africa, municipalities in the country have not received an equal amount of focus toward ensuring they receive a fair share of the financial flows to scale localized renewable energy and climate-resilience projects.

Figure 1. Global climate finance trends 2018–2025



Source: Author diagram using data from Climate Policy Initiative, 2025.

Approximately 60% of climate finance in 2024 was mobilized through debt instruments—of which 13% constituted concessional loans—followed by equity investments at 32% and grants at just 6% of total flows (Newell, 2025). Between 2019 and 2020, global climate finance averaged USD 320 billion (~ZAR 5.27 trillion) annually, with private entities contributing 49% of that total (Buchner et al., 2021).¹ During the same period, public finance remained predominant, providing an average of USD 321 billion (~ZAR 5.28 trillion) per year (Buchner et al., 2021). These patterns shifted significantly in subsequent years, as global public finance

¹ Exchange rate conversions were calculated using OECD data, with the historical yearly average exchange rates corresponding to the specific year of each monetary figure. This is for years 2019–2025, as they appear in the report. A table of yearly averages has been added in the annexes.



doubled to USD 1.27 trillion (~ZAR 20.90 trillion) in 2021/22, while public finance surpassed private for the first time, accounting for ~49% of flows (Figure 1). Between 2019 and 2021, South Africa recorded an annual average of ZAR 130.6 billion (~USD 7.93 billion) in climate finance flows, which rose to approximately ZAR 188.3 billion (~USD 13.04 billion) per year during 2022–2023 and further to ZAR 239 billion (~USD 14.61 billion) in 2024 (Climate Policy Initiative, 2024; Fernandes et al., 2023). By 2023, private finance accounted for 65% of total climate finance, significantly surpassing public contributions and pushing global flows to USD 1.9 trillion (ZAR 32.3 trillion). Most funding was directed toward mitigation, particularly in energy and transport (Climate Policy Initiative, 2025; UN-Habitat, 2024). In 2024, roughly 60% of climate finance was mobilized through debt instruments, including 13% concessional loans. Equity represented 32%, while grants comprised only 6% of total flows (Newell, 2025). Private debt financing remains the dominant source of funding, while renewable electricity generation continues to absorb more than three-quarters (~74%) of total flows, reflecting the central role of energy investments in the national transition (Climate Policy Initiative, 2024; Fernandes et al., 2025). Despite this growth, less than 10% of tracked climate finance reaches local governments—directly underscoring challenges such as limited municipal creditworthiness, weak climate-budget tagging, and high borrowing costs (Climate Policy Initiative, 2024; Fernandes et al., 2023, 2025).

This mirrors a broader global pattern in which municipal governments—despite being central implementing actors—remain marginal recipients of climate finance. As reported by the Organisation for Economic Co-operation and Development (OECD) (2023), municipalities continue to experience a shortage of the funding needed to implement climate policies, as only 10%–15% of tracked climate finance worldwide flows directly to cities and municipalities. UN-Habitat (2024) and the Green Climate Fund highlight persistent barriers, such as complex accreditation processes and limited project-preparation capacity.

Table 1. Global climate finance instruments

| Financial instrument | Sources | 2023 values (USD) billion | 2025 values (USD) billion | Type of finance source |
|----------------------------|--|-------------------------------------|---------------------------------------|----------------------------|
| Market-rate debt | Commercial banks, corporations, development finance institutions (national and multilateral), bilateral and multilateral climate funds, state-owned financial institutions | 700 (~ZAR 12.92 trillion) | 49.82 (~ZAR 891.28 billion) | Long-term instruments |
| Low-cost/concessional debt | National, bilateral, and multilateral development finance institutions, international climate funds, government-backed facilities | 76 (~ZAR 1.40 trillion) | 9.18 (~ZAR 164.26 billion) | Discounted financing terms |



| Financial instrument | Sources | 2023 values (USD) billion | 2025 values (USD) billion | Type of finance source |
|----------------------|--|------------------------------------|-------------------------------------|---------------------------|
| Equity investments | Corporations, household/individual | 369 (~ZAR 6.81 trillion) | 3.67 (~ZAR 65.67 billion) | Ownership—based financing |
| Grants | <ul style="list-style-type: none"> • State-owned finance institutions • Government • National development finance institutions (DFIs) • Multilateral DFI | 73 (~ZAR 1.35 trillion) | 0.69 (~ZAR 12.34 billion) | Non-repayable support |
| Budgets | National and provincial government, public sector allocations | 6.7 (~ZAR 123.6 billion) | 0.47 (~ZAR 8.41 billion) | |

Source: Climate Policy Initiative, 2024; Taylor, 2025.

Table 1 reveals that the dominant climate financing instrument globally was market-rate debt, at USD 700 billion (~ ZAR 12.92 trillion) in 2023 (including both government-backed sources and development finance institutions). Concessional debt amounted to ZAR 1.292 trillion (~ZAR 1.40 trillion) in 2023. Similarly, as seen in Figure 1, the global trends for climate finance show that private sources dominated climate finance landscape. These global trends mirror a similar trend in South Africa, where market-rate debt (ZAR 847 billion [~USD 47.35 billion]) and concessional debt (ZAR 156 billion [~USD 9.18 billion]) dominated its climate financing landscape in 2025.

These findings underscore a critical reality: if municipalities are to play a serious role in the just energy transition, they will need to actively access debt capital markets, including blended finance, concessional loans, and potentially green bonds. However, many South African municipalities currently lack the creditworthiness, governance systems, or financial track records required to secure such borrowing. While larger metros may have better prospects, significant institutional support, fiscal reforms, and capacity-building interventions will be required to improve municipal borrowing capabilities. Without addressing these gaps, municipalities will remain dependent on limited grants, despite the global financing environment being predominantly structured around debt. The challenge is not just about accessing finance but about creating the financial and regulatory readiness needed to engage with the prevailing climate investment architecture.

2.2 Municipal Access to Climate Finance

Globally, only a small share of tracked climate finance reaches local governments, with municipalities accessing merely 10%–15% of available funds (Climate Policy Initiative, 2023; OECD, 2023). This global pattern is mirrored in South Africa, where less than 10% of international public climate finance flows directly to local governments (Climate Policy



Initiative, 2023). South Africa has successfully mobilized increasing volumes of climate finance nationally, averaging ZAR 21.9 billion (~USD 1.64 billion) annually since 2017–2018, of which 35% originated from public sources and 65% was invested directly by the government (Cassim et al., 2020), however, the devolution of funds to municipalities remains weak and poorly tracked.

Between 2022 and 2023, the country attracted approximately ZAR 10 billion (~USD 611.0 million) in green finance grants across 160 projects from 90 implementing agencies (Presidency of South Africa, 2024), yet data on municipal beneficiaries remain opaque. Similarly, between 2019 and 2021, an annual average of ZAR 121 billion (~USD 7.35 billion) in climate finance was recorded, dominated by private debt instruments, with 64% supporting clean energy projects and only 12% directed to adaptation—while less than 10% reached local governments (CPI, 2023). This financing composition—heavily skewed toward debt and large-scale private projects—reinforces global patterns of concentration and exclusion. Municipalities generally have low creditworthiness, higher debt to Eskom ratio, corruption, irregular/wasteful expenditure, lack of cost optimization, and no cost-reflective tariffs, all of which hinder access to finance for renewable energy initiatives. Consequently, South Africa’s climate finance architecture remains weighted toward national and commercial actors, underscoring the need for localized, accessible, and flexible financing mechanisms to empower municipalities as key agents of the just energy transition.

Figure 2. Total funding received by funding portfolio



Source: Author figure using data from Presidential Climate Commission, 2024.

Figure 2 presents the distribution of total just transition funding by the JET-IP register for the financial year 2024, received by various project portfolios. Each portfolio corresponds to a specific area within South Africa’s energy transition and development initiatives. Over USD 630 million (~ZAR 11.55 billion) has been allocated, with the largest shares directed to electricity infrastructure, the Mpumalanga region, and green hydrogen projects. The municipal allocation was ~ZAR 1.71 billion (~USD 93.3 million) across South Africa for implementing



green projects at the local government level, including infrastructure upgrades and local renewable energy initiatives for communities.

Despite growing investment commitments, current allocations remain far below the financing required to support South Africa's just energy transition. The JET-IP estimates that ZAR 1.5 trillion (~USD 81.83 billion) will be needed between 2023 and 2027 to finance the country's transition priorities (Tatham, 2025). Of this amount, municipalities alone require an estimated ZAR 200 billion (~USD 10.91 billion) to address existing infrastructure maintenance backlogs, not including the additional investment necessary for climate adaptation and resilience-building projects (Tatham, 2025). These figures highlight the magnitude of the municipal financing gap and the scale of reform needed to align local infrastructure readiness with national transition goals.

South Africa's carbon-pricing framework, introduced through the Carbon Tax Act of 2019, was among the first in the Global South to establish a market-based mechanism for emissions reduction. In 2024, South Africa's headline carbon tax rate was ZAR 190 (~USD 10.30) per tonne, a 16% increase from the 2023 rate of ZAR 159 by 2026 (South African Reserve Bank, 2024). However, scholars argue that this remains well below the USD 50–100 per tonne threshold required to align with South Africa's nationally determined contributions and international decarbonization benchmarks (Newell, 2025). Additionally, the ability of the tax to generate revenue has been reduced by high tax-free thresholds, specific exemptions for certain sectors, and a lack of clear methods for allocating funds to climate adaptation or just transition efforts (Breitenbach, 2024). Together, these dynamics underscore a broader policy challenge: while carbon pricing represents a critical tool for mobilizing climate finance, its current structure and revenue use remain insufficient to bridge the substantial funding gap at both national and municipal levels.

2.3 Municipal Funding Model

South African municipalities depend on a limited mix of own-source revenues and intergovernmental transfers, shaping how local energy transition initiatives are financed. This fiscal structure places significant weight on property rates and service charges as the main sources of municipal income, with limited flexibility to expand revenue bases. For instance, property rates and service charges together account for 62.5% of municipal operating budgets, with electricity service charges alone contributing about 29.5% (Parliamentary Budget Office, 2021), while national transfers and subsidies make up roughly 25% of operating resources (National Treasury, 2024a). Similarly, national fiscal data for FY 2020/21 show that transfers and subsidies represented about 30.7% of total municipal revenue, followed by electricity sales (26.0%) and property rates (16.6%) (Statistics South Africa, 2021). These figures demonstrate that municipal financial sustainability remains highly dependent on stable customer bases, cost-reflective tariffs, and effective credit control—particularly within electricity distribution—while capital investment continues to rely heavily on intergovernmental grants (National Treasury, 2024a; Parliamentary Budget Office, 2021; Statistics South Africa, 2021).

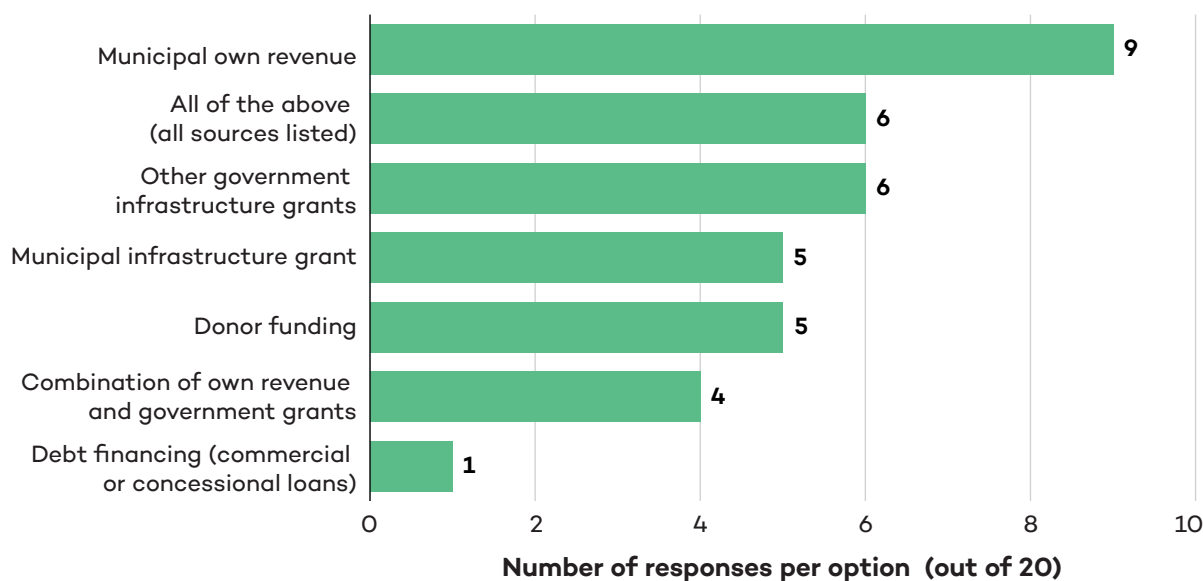
Figure 3 presents responses from 20 respondents who participated in a semi-structured survey commissioned by IISD in 2023. Municipal own revenue is the most frequently cited source,



but it’s often used in combination with others, indicating that self-funding alone is insufficient. Diverse funding sources are being accessed, yet no single dominant channel emerges, suggesting fragmentation or inconsistency in funding models. With only one mention of debt financing, this indicates limited borrowing, possibly due to legal, financial, or institutional constraints.

Most capital funding for municipal infrastructure in South Africa is channelled through the Division of Revenue framework as conditional grants. This framework is intended to promote equitable resource distribution and ensure accountability in how municipalities finance infrastructure development and service delivery. For example, in the 2021/22 financial year, the Auditor-General reported that ZAR 14.37 billion (~USD 972 million) from the Municipal Infrastructure Grant was allocated to 190 municipalities, demonstrating the central role of conditional grants in supporting capital expenditure (National Treasury, 2023). Similarly, the South African National Energy Development Institute (2024) spent ZAR 59.6 million (~USD 3.25 million) on municipal energy projects in 2024. Although conditional grants remain the backbone of municipal capital funding, municipalities have always needed to raise their own revenues to supplement them, which becomes the differentiating factor in ringfencing funds internally for energy transition projects—where large metros and secondary cities are able to do this, while smaller, rural municipalities are not.

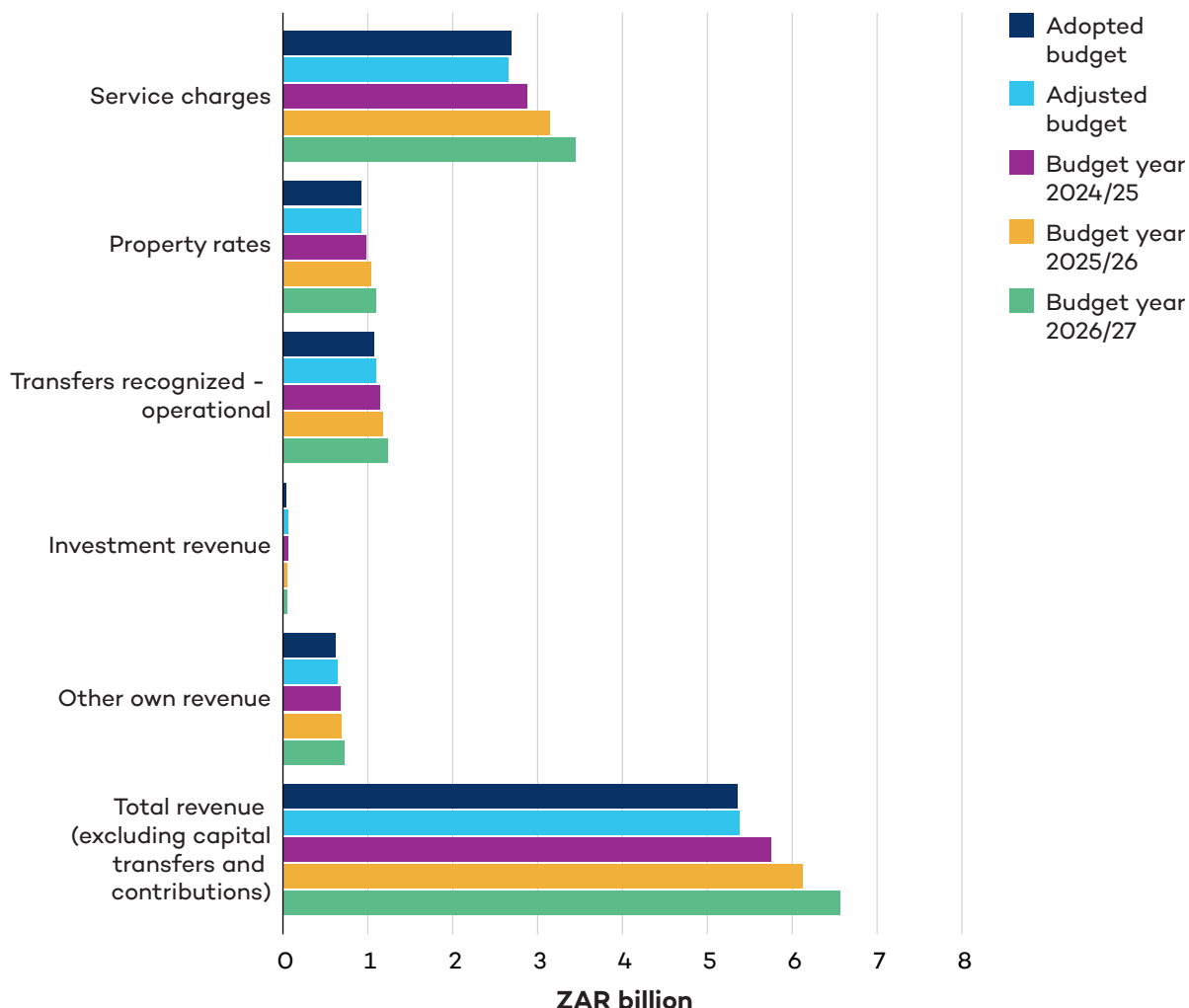
Figure 3. Municipal funding sources for energy transition development



Source: Author diagram based on survey responses.



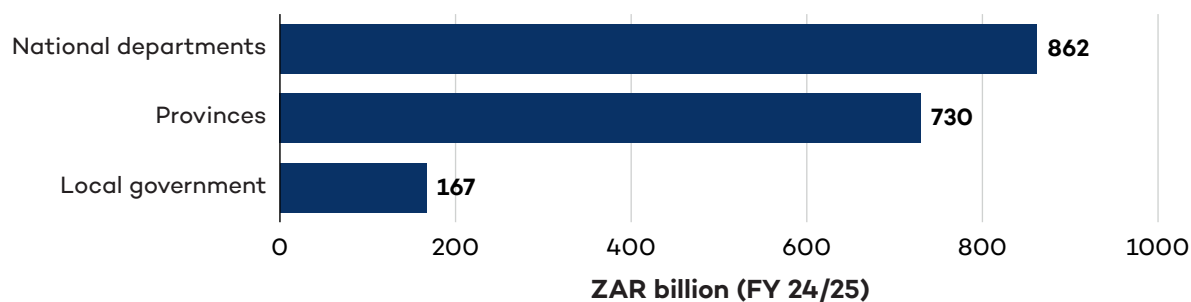
Figure 4. Consolidated budget summary for all municipalities for the 2024 Medium Term Revenue and Expenditure Framework



Source: Author diagram, based on National Treasury, 2024b.

2.3.1 Climate Financial Flow Compared to Municipal Source of Revenue

Figure 5. National Treasury allocations for FY 24/25



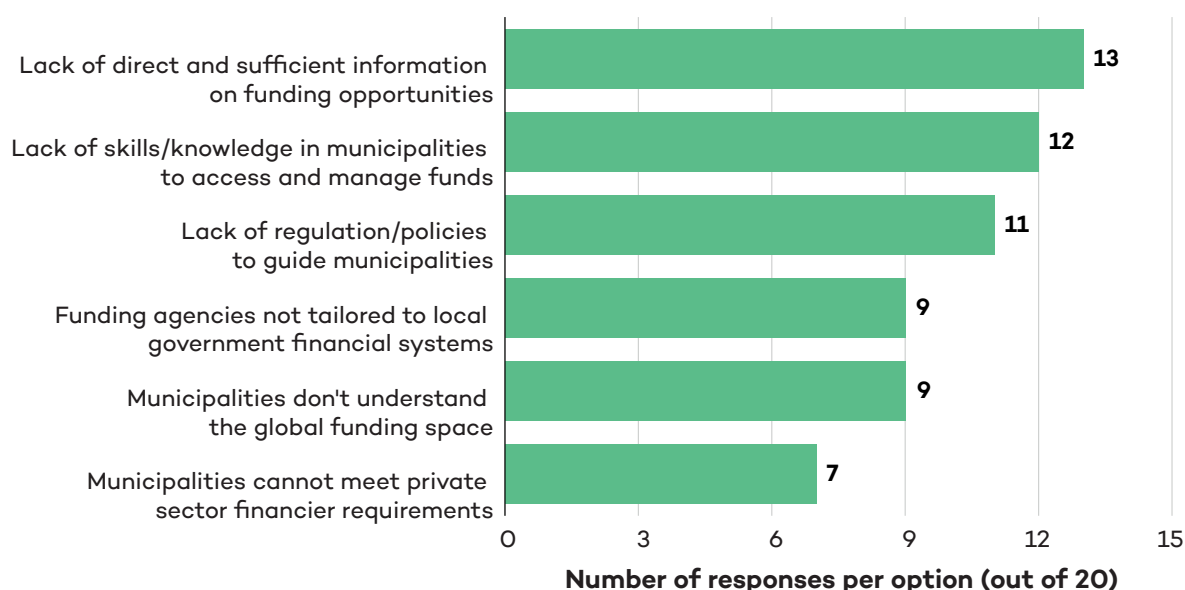
Source: Author diagram based on data from the 2025 Municipal Grants Monitoring and Analysis by National Treasury.



A similar disparity is evident when comparing these figures to JET-IP funding flows (Figure 2), where local government allocations constitute only a fraction of national-level disbursements. This under-allocation is further compounded by the regional focus imposed by many donor partners, who have concentrated funding primarily in the Mpumalanga region—the traditional heart of South Africa’s coal economy. While this focus is understandable given the socio-economic risks of decarbonization in coal-dependent communities, it inadvertently sidelines municipalities in other provinces that are also critical to advancing the just energy transition.

As such, there is a strong case for recommending that donor agencies and financing institutions broaden their geographic scope beyond Mpumalanga to support a more inclusive, nationally balanced municipal energy transition, particularly in areas where enabling conditions—such as grid capacity, urban density, and project readiness—may offer faster implementation gains. Overall, these patterns confirm that despite incremental increases in municipal budget allocations, local governments continue to receive disproportionately low funding relative to their growing functional responsibilities in delivering just energy transition outcomes. This points to persistent structural barriers and fragmentation in the intergovernmental finance and donor coordination system—issues that must be addressed to unlock more meaningful and widespread municipal participation in the energy transition.

Figure 6. Barriers to accessing energy/climate finance



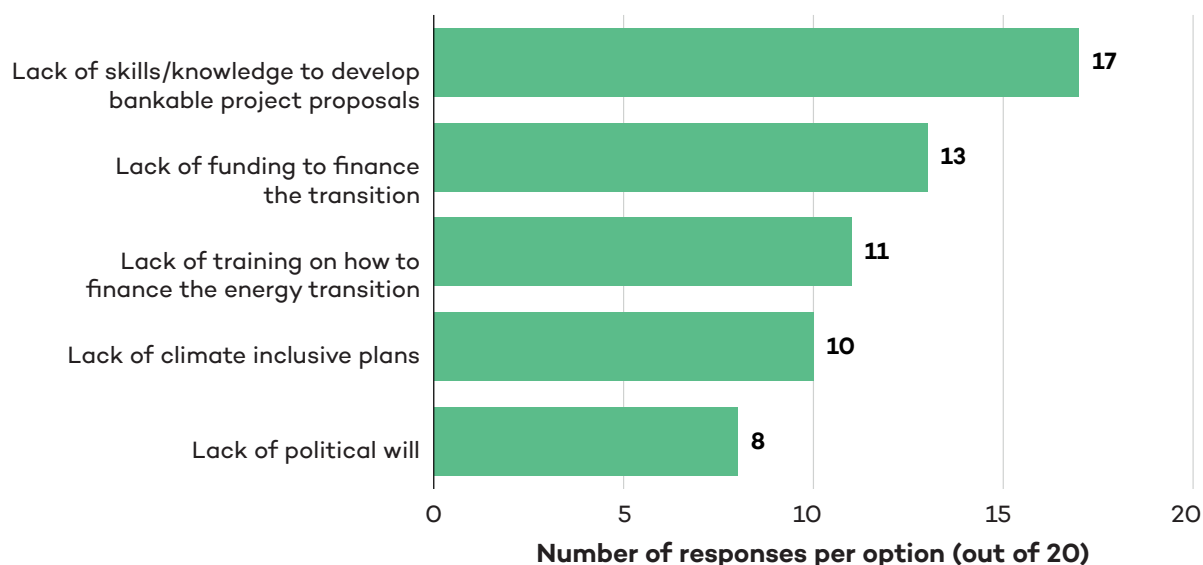
Source: Author diagram, based on survey responses.

Figure 6 illustrates that municipalities face several significant barriers in accessing climate finance, with limited access to information emerging as the most prominent obstacle. This challenge reflects a broader pattern in which municipalities often struggle to identify available funding sources or understand the application processes required to secure them. For example, there is a persistent mismatch between how financing—especially private capital—is structured and how municipalities typically operate, resulting in unrealistic expectations regarding risk allocation and project maturity. Similarly, many municipalities are still unable



to present mature or bankable projects, constraining their ability to attract investment or enable capital to flow effectively into local energy initiatives. Capacity constraints compound these issues, ranging from technical planning and financial governance to navigating complex regulatory frameworks. Overall, these interconnected barriers reinforce municipalities' dependence on national government funding and highlight the early, fragmented stage of climate finance in South Africa.

Figure 7. Energy transition challenges in municipalities



Source: Author diagram, based on survey responses.

Figure 7 highlights a key challenge hindering municipalities from developing bankable projects is a lack of skills and knowledge, indicating a critical need for capacity building and specialized technical expertise. Municipalities also cited the absence of appropriate regulations and policies, which underscores the importance of robust governance frameworks—particularly for navigating and directing climate finance within municipal operations. Municipalities currently face significant obstacles in conceptualizing, planning, and financing energy projects, revealing that the underlying issues extend beyond funding to encompass capacity, strategic planning, and governance. The recurring difficulty with project bankability further emphasizes the necessity for targeted technical assistance.

2.3.2 New Generation Regulations and Municipal Renewable Energy Uptake

Recent amendments to the Electricity Regulation Act (2024) provide reforms that enable municipalities to undertake independent power producer procurement, more flexible wheeling, and support for embedded generation, opening a pathway for decentralized renewables. These changes are intended to create a more decentralized and competitive electricity market by enabling municipalities to diversify supply and accelerate renewable energy uptake. For example, metros such as Cape Town, Johannesburg, and eThekweni are already developing procurement frameworks for rooftop solar, battery storage, and wheeling



or energy-trading arrangements under these new provisions (Development Bank of Southern Africa [DBSA], 2020). In contrast, the Electricity Regulation amendment Act of 2024 still provides only high-level guidance and requires secondary legislation and detailed regulations before these reforms can be fully operationalized, leaving early public sector adopters exposed to legal and financial uncertainty. Capacity gaps further complicate implementation, as many smaller municipalities lack the technical, financial, and commercial skills needed to originate, structure, procure, and operate such projects. Ultimately, these uneven conditions mean that well-resourced metros can experiment with innovative models while weaker municipalities remain reliant on legacy single-buyer arrangements, highlighting the urgent need for targeted capacity building, supportive regulation, and fit-for-purpose financing to enable meaningful municipal participation in the energy transition.



3.0 Conclusion

The financial flows necessary for municipalities to participate in the energy transition are central to achieving South Africa’s sustainability and development goals. As the government sphere closest to communities, municipalities play a pivotal role in facilitating energy projects that balance social equity, economic inclusion, and environmental resilience. However, current challenges—ranging from insufficient financial mechanisms and skills shortages to the absence of tailored funding solutions—underscore persistent gaps in municipal access to climate finance. Additionally, without the structural reforms needed at the municipal government level, the issue of a lack of bankable projects will persist. Globally, municipalities directly access only 10%–15% of total climate finance (OECD, 2023), and in South Africa, less than 10% of international public climate finance reaches local governments (Climate Policy Initiative [CPI] JET, 2023). This limited flow of resources constrains municipalities’ ability to plan, implement, and sustain renewable energy and climate-resilience projects, even when national frameworks such as the JET-IP exist to guide investment priorities.

Private capital, which could play a catalytic role in local energy transitions, remains underutilized. Evidence indicates that, globally, subnational governments lead significant public investments in climate-related infrastructure, but they face substantial barriers to directly accessing private and concessional finance. In South Africa, these challenges are compounded by policy misalignment between national and municipal levels, complex access criteria for international funding, and limited project-preparation capacity. Although recent regulatory developments—such as wheeling regulations and embedded generation procurement frameworks—aim to expand market participation, private investment in municipal-level projects remains constrained. Addressing these asymmetries requires a reconfiguration of South Africa’s municipal finance architecture to make climate funds more accessible, predictable, and responsive to local contexts and ensure that municipal finances are sustainable.

The 2025 Division of Revenue process and related circulars provide greater clarity on conditional- and unconditional-transfer schedules, roll-over conditions, and reallocation rules, offering short-term opportunities for municipalities to plan and finance energy projects. To maximize opportunities such as Integrated National Electrification Programme schedules, smart-meter initiatives, and energy efficiency and demand-side management programs, municipal finance teams should (a) align energy transition projects with relevant grant schedules and sector frameworks, (b) ensure bankability of projects and their financial feasibility, (c) coordinate project-preparation milestones to meet compliance and audit requirements, and (d) align tariff, contracting, operations and maintenance, and financing policies with blended-finance and cost-recovery models.

Ultimately, transforming South Africa’s municipal climate finance system is essential to ensure that the energy transition is not only technically feasible but also socially just and locally inclusive. Financial systems must reflect municipal realities by ensuring access to concessional funding, sustained capacity-building support, and investment-enabling policies. Aligning national financial structures with local priorities—through innovations like pooled financing, performance-based transfers, and integrated project-preparation support—will help unlock new investment pipelines. In doing so, municipalities can evolve from passive implementers to active leaders of a just and equitable energy transition, linking fiscal reform with climate resilience and local development outcomes.



4.0 Risks of Inaction on Climate Finance Reform

Municipalities risk experiencing financing shortfalls and fragmentation of their energy transition developments. If municipalities are unable to access and sequence capital at scale, the projected investment requirement of approximately ZAR 334–535 billion (~USD 23.1–37.0 billion) per year will continue to exceed actual tracked flows (around ZAR 131 billion per year for 2019–2021). This may result in delays to grid-readiness, embedded generation/storage enablement, and project preparation. Consequently, delivery timelines could be extended, overall life-cycle costs increased, concessional windows missed, and disparities between metropolitan areas that can attract private debt and smaller municipalities that cannot may arise.

Continued misalignment and weak monitoring and evaluation of climate finance flows risks placing municipalities at an ongoing disadvantage. Poor alignment between national frameworks (e.g., Climate Change Act obligations, Integrated Resource Plan pathways, Division of Revenue Act grant rules, South Africa Green Finance Taxonomy) and municipal plans produces duplications and gaps, undermines eligibility for grants and blended instruments, and degrades nationally determined contribution reporting. Persistent data/traceability gaps—e.g., limited visibility of municipal beneficiaries under carbon tax or green-bond programs—compound this risk and erode funder confidence.

Weak project-preparation capacity and uneven governance can stall or even derail municipal transition projects. Many municipalities lack the skills and tools to take concepts through the full bankability cycle, which affects their ability to attract funding, especially from private sources. This often leads to mis-scoping, unrealistic timetables, and costly re-tenders. Inconsistent competitive-bidding practice, weak Section 33/Municipal Finance Management Act compliance for multi-year commitments, and limited familiarity with PPP regulations raise legal and audit risks, invite challenges from bidders, and create uncertainty for financiers. Smaller municipalities are most exposed, struggling to originate bankable power purchase agreements (PPAs), standardize small-scale embedded generation (SSEG)/wheeling tariffs, and absorb conditional grants at pace.



5.0 Recommendations

National Treasury, CoGTA, SALGA, and provincial governments must collaboratively build municipal capacity for Just Energy Transition Implementation. This should be done by collaboratively establishing a structured capacity-building program to equip municipalities with the technical, financial, and managerial skills needed to plan, finance, and implement JET projects. These trainings should specifically focus on project preparation, proposal development, financial management, and funding applications, alongside expanded access to project-preparation facilities and blended or concessional finance instruments. Through collaborations in the form of proposal-focused consortia between provinces, districts, and local municipalities, the municipalities would gain opportunities to access larger-scale funding or donor support for renewable energy and green economy-focused projects.

The Just Energy Transition Project Management Unit should lead the coordination and standardization of reporting to ensure local climate investments are captured, ring-fenced, and subject to clear accountability mechanisms. Improved tracking of municipal climate finance flows is essential for identifying funding gaps, assessing how national grants can be better leveraged for energy transition programs, and ensuring more equitable resource allocation across municipalities. Such tracking systems could be supported and ring-fenced through institutions such as the Presidential Climate Commission, the Just Energy Transition Project Management Unit, SALGA, National Treasury, and CoGTA, all of which play critical roles in monitoring and coordinating transition finance. Given the persistent financial and infrastructural challenges facing municipalities, establishing a dedicated mechanism to track climate finance flows specifically directed toward local government should be strongly prioritized.

National Treasury, DBSA, and municipal councils must strengthen municipal financial systems to support local energy transition uptake. This should be done by supporting municipalities to strengthen their financial management systems and to develop cost-reflective tariff structures that will support local energy transition investment. This can be coupled with progressive tariff reforms—such as network charges for wheeling and SSEG integration—to enhance fiscal sustainability for municipalities. Financial instruments like the Division of Revenue Act should be maintained and tied to measurable outcomes in grid modernization, storage integration, and energy-efficiency improvements. Together, these measures will improve municipal creditworthiness and enable greater private co-investment in clean energy infrastructure.

Municipalities, SALGA, and the private sector should foster partnerships to promote localized renewable energy development uptake. Municipalities, supported by SALGA and provincial economic development departments, should implement existing guidelines on municipal PPPs to boost investments that support a JET. Initial efforts can focus on simpler PPP models—such as management contracts or lease agreements—to build practical experience in engaging private partners and managing performance-based arrangements, thereby strengthening institutional confidence and capacity for more complex PPPs over time. To streamline implementation, provincial governments and National Treasury's PPP Unit should provide standardized templates, legal guidance, and model contracts that ensure consistency, reduce transaction costs, and accelerate approvals across municipalities.



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Appendix A. Municipal Just Energy Transition Project Planning and Financing Practical Action Plan

This action plan provides short to medium-term, practical, and measurable steps municipalities can take within 12–36 months to accelerate South Africa’s Just Energy Transition (JET). Each action specifies clear responsibilities, implementation milestones, and measurable outcomes to guide effective delivery and accountability.

Objective 1: Strengthen municipal capacity for JET implementation

| Focus area | Lead actors | Key actions | Outcomes |
|---|--|--|--|
| Strengthen municipal project planning and packaging capacity for JET Implementation | National Treasury, Cooperative Governance and Traditional Affairs (CoGTA), South African Local Government Association (SALGA), Presidential Climate Commission (PCC), Development Bank of Southern Africa (DBSA) | Develop standardized JET project templates (PPAs, business cases, feasibility studies) | JET templates and toolkits disseminated to all municipalities |
| | National Treasury, CoGTA, SALGA, PCC, DBSA | Train municipal officials on the standardized JET project templates | Officials trained in JET project preparation and project financial readiness |
| | | Host provincial workshops connecting municipalities, DFIs, and private investors | |



Objective 2: Improve municipal access to climate finance

| Focus area | Lead actors | Key actions | Outcomes |
|---|---|--|---|
| Improve municipal access to climate finance | National Treasury, PCC, DBSA, SALGA, CoGTA | Develop and operationalize a Municipal Climate Finance Tracker to monitor and report all JET-related funds | Operational Municipal Climate Finance Tracker and dashboard |
| | National Treasury, PCC, DBSA, SALGA, CoGTA, international funders | Train 100 municipal finance officers in blended finance and concessional funding instruments by end-2026 | Improved financial access capacity for municipal officials |
| | | Secure funding in concessional or blended finance for municipal energy projects | JET-related funding mobilized for local projects |

Objective 3: Strengthen financial systems and revenue management

| Focus area | Lead actors | Key actions | Outcomes |
|--|--|---|--|
| Strengthening financial systems and revenue management | National Treasury, DBSA, provincial treasuries, municipal councils | Introducing incentives for municipalities meeting energy diversification and collection efficiency targets (within relevant legislative limitations, i.e., Municipal Finance Management Act or Division of Revenue Act) | Municipalities incentivized for driving and meeting energy diversification goals linked to National Policy objectives (i.e., nationally determined contributions, IRP 2025, Climate Tax, etc.) |
| | | Conduct annual financial health and creditworthiness assessments for all municipalities by DBSA and Treasury | Annual publication of a Municipal Financial Resilience Index starting 2026 |



Objective 4: Foster public–private partnerships and market readiness

| Focus area | Lead actors | Key actions (12–24 Months) | Outcomes |
|--|---|---|--|
| Foster public–private partnerships (PPPs) and market readiness | Municipalities, SALGA, National Treasury PPP Unit, private sector | Adopt and implement standardized toolkit on PPPs for renewable energy and local infrastructure projects | PPP toolkit distributed to all municipalities by SALGA by 2026 |
| | | Conduct training or workshops on management-contract PPPs combining different sized municipalities | Municipal officials trained in PPP structuring and contracting. |
| | | Hold annual investor forums; Provide ongoing legal, financial, and procurement advisory support | Bring together investors and municipalities to promote JET investments by private sector in various municipalities project |

Objective 5: Promote inter-municipal collaboration and consortium projects

| Focus area | Lead actors | Key actions (12–24 Months) | Outcomes |
|---|------------------------------------|---|--|
| Promote inter-municipal collaboration and consortium projects | SALGA, CoGTA, DBSA, municipalities | Pilot one to 2 municipal consortiums for joint Jet project implementation | Operational municipal consortiums |
| | | Explore pooled financing mechanisms and revolving funds for consortium-based JET projects | Joint JET municipal consortium projects prepared for financing by 2027 |
| | | Host semi-annual consortium development workshops led by SALGA and DBSA | Community benefit-sharing integrated in all consortium initiatives |



Appendix B. Additional data in relation to the report

Table B1. Exchange rates used

| Year | 1 USD = ZAR |
|------|-------------|
| 2017 | 13.32 |
| 2018 | 13.23 |
| 2019 | 14.45 |
| 2020 | 16.46 |
| 2021 | 14.78 |
| 2022 | 16.36 |
| 2023 | 18.45 |
| 2024 | 18.33 |
| 2025 | 17.89 |

Table B2. List of municipal respondents

| Municipal name | Respondent gender | Respondent designation | Department |
|-----------------------------------|-------------------|------------------------|--|
| City of Johannesburg Municipality | Male | Junior employee | Technical/ infrastructure services |
| Midvaal Local Municipality | Male | Senior Management | Technical/ infrastructure services |
| Ramotshere Moiloa Local | Female | Middle management | Finance/CFO's office |
| City of Cape Town | Male | Middle management | Technical/ infrastructure services |
| Alfred Duma Local Municipality | Male | Junior employee | Municipal managers office (Integrated Development Planning [IDP]), Spatial Planning, etc.) |
| Alfred Duma Local Municipality | Female | Middle management | Planning/human settlements |



| Municipal name | Respondent gender | Respondent designation | Department |
|---|--------------------------|-------------------------------|--|
| uMngeni Municipality | Male | Senior Management | Technical/ infrastructure services |
| Bergvriër Municipality | Female | Middle management | Planning/human settlements |
| Lephalale Municipality | Male | Middle management | Municipal managers office (IDP, planning, etc.) |
| Institute of Municipal Engineering of Southern Africa | Male | Senior management | Technical/ infrastructure services |
| Buffalo City | Male | Middle management | Technical/ infrastructure services |
| Inkosi Langalibalele Municipality | Male | Middle management | Technical/ infrastructure services |
| Umzimkhulu Municipality | Male | Junior employee | Technical/ infrastructure services |
| Matjhabeng Local Municipality | Male | Senior management | Technical/ infrastructure services |
| Buffalo City | Male | Senior management | Technical/ infrastructure services |
| City of Johannesburg | Female | Senior management | Technical/ infrastructure services |
| West Coast District Municipality | Male | Senior management | Municipal manager's office (IDP, planning, etc.) |
| City of Umhlathuze | Male | Senior management | Technical/ infrastructure services |
| Garden Route District Municipality | Male | Middle management | Planning/human settlements |
| Polokwane Local Municipality | Male | Junior employee | Technical/ infrastructure services |

**Table B3.** Frameworks guiding municipal transition financing

| Framework | Key aspects linked to local government climate finance | Source |
|---|--|--|
| Climate Change Act of 2024 | <p>The Act is an overarching legal framework for policy development, planning, and climate (and just energy transition [JET]) implementation. It mandates the creation of climate financing mechanisms (in consultation with the finance minister) to fund climate-response actions across all levels of government, providing municipalities with a framework to integrate just energy transition financing into municipal plans.</p> <p>Mandates climate finance mechanisms at all government levels, including explicit requirements for municipalities to integrate climate-response strategies into integrated development plans.</p> | Climate Change Act 22 of 2024. |
| Just Energy Transition Investment Plan (JET-IP) | <p>Includes a municipal JET portfolio for distribution infrastructure and capacity building, highlighting the role of local governments in grid modernization, electrification of public transport and local green job creation.</p> <p>The JET-IP includes a dedicated Municipal JET portfolio that provides details on local government projects pertaining to electricity distribution infrastructure, energy access and capacity building. These span across all provinces, but with a specific focus on Mpumalanga province</p> | Presidential Climate Commission (2024) |



| Framework | Key aspects linked to local government climate finance | Source |
|---|--|---|
| National Green Finance Taxonomy Initiative | <p>The South Africa Green Finance Taxonomy provides guidance on how to bridge the significant domestic climate finance gap that cannot be filled solely by local sources. This is essential for local government to understand in its quest to source financing from international sources.</p> <p>Credible taxonomy-based metrics are crucial to how local governments develop their energy transition plans and package projects to attract international finance.</p> | Gwebu et al. (2025) |
| Just Transition Transaction Industry Framework | <p>Many of the planned interventions under the Just Transition Transaction leverage existing local mandates—like Integrated Development Plans, energy planning, and spatial frameworks—allowing funding to plug into pre-existing channels rather than requiring new parallel structures.</p> | Lowitt et al. (2023) |
| Integrated Resource Plan (IRP 2019 under revision 2024) | <p>Frames long-term generation planning, indirectly shaping municipal procurement pathways by defining renewable procurement targets and distribution network expansion needs (Department of Mineral Resources and Energy, 2024).</p> | Department of Mineral Resources and Energy (2024) |
| Division of Revenue Act 5 of 2023 | <p>Provides conditional infrastructure grants to municipalities, increasingly earmarked for renewable energy, efficiency retrofits, and resilience projects, offering a potential lever for scaling local JET finance</p> | National Treasury (2023); SALGA (2023) |



| Framework | Key aspects linked to local government climate finance | Source |
|---------------------------------------|---|--------------------------------|
| Municipal Finance Management Act 2003 | <p>The Act is an overarching legal framework for policy development, planning, and climate (and JET) implementation. It mandates the creation of climate financing mechanisms (in consultation with the finance minister) to fund climate-response actions across all levels of government, providing municipalities with a framework to integrate just energy transition financing into municipal plans.</p> <p>Mandates climate finance mechanisms at all government levels, including explicit requirements for municipalities to integrate climate-response strategies into Integrated Development Plans.</p> | Climate Change Act 22 of 2024. |

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