December 2024

A Climate Change Response Fund for South Africa

A Presidential Climate Commission Recommendations Report

About the Presidential Climate Commission

The Presidential Climate Commission (PCC) is a multi-stakeholder body established by the President of the Republic of South Africa. The PCC advises on the country's climate change response and supports a just transition to a low-carbon climate-resilient economy and society.

The PCC produces recommendations to the government based on research and evidence and facilitates dialogue between social partners – aiming to define the type of economy and society we want to achieve and detailed pathways for how to get there.

About this report

In the February 2024 State of the Nation Address the President announced the establishment of a Climate Change Response Fund. In this report the Presidential Climate Commission makes recommendations on the design and establishment of the fund.

Acknowledgments

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Foreword

The world is entering an era of accelerating climate crises, where extreme weather events, biodiversity loss, and ecosystem collapse are no longer distant threats but present realities. The scientific consensus is clear: we are not doing enough to curb greenhouse gas emissions, and the consequences of inaction are becoming increasingly dire. The risks posed by climate change to our economies, societies, and natural systems are escalating at an alarming rate, demanding urgent and transformative action.

As a nation acutely vulnerable to climate shocks, South Africa faces mounting risks to its infrastructure, food and water security, and economic stability. The effects of climate change disproportionately impact our most vulnerable communities, exacerbating existing inequalities and threatening long-term development goals. While mitigation efforts remain critical, there is now an urgent imperative to strengthen adaptation and resilience measures at scale. Our response must be bold, innovative, and coordinated, leveraging all available resources to secure our collective future.

In his 2024 State of the Nation Address, President Cyril Ramaphosa recognized this urgency and announced the establishment of a Climate Change Response Fund (CCRF). This forward-thinking initiative is designed to mobilize and direct financial resources toward enhancing South Africa's climate resilience, addressing the critical financing gaps that hinder effective adaptation. The Presidential Climate Commission (PCC) has undertaken a rigorous process of research, consultation, and analysis to develop recommendations on the fund's scope, governance, and financing strategies.

This report outlines the foundational principles and design considerations for the CCRF, emphasizing the need for a multi-stakeholder approach that engages public, private, and international partners. In a world of constrained public finances, no single funding source can bear the weight of this challenge alone. South Africa must explore novel mechanisms for resource mobilization, blending domestic and international finance, leveraging public-private partnerships, and tapping into innovative financial instruments, including carbon markets and the Loss and Damage Fund.

Importantly, the CCRF must be catalytic—it should not duplicate existing efforts but rather enhance, integrate, and scale up adaptation investments. It must also be accountable, transparent, and aligned with national and global climate commitments. Furthermore, it must ensure that its resources reach those most at risk, particularly historically disadvantaged communities that lack the means to withstand climate shocks.

South Africa has an opportunity to lead by example, demonstrating to the world how a developing country can take decisive action on climate adaptation while fostering economic inclusion and sustainable development. The recommendations contained in this report provide a blueprint for a CCRF that is ambitious, strategic, and fit for purpose.

The road ahead will require commitment, collaboration, and political will. Let us seize this moment to establish a Climate Change Response Fund that not only safeguards our people and ecosystems but also positions South Africa as a global leader in climate resilience and just transition financing.

Crispian Olver
Deputy Chairperson
Presidential Climate Commission

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List of Acronyms

CCRF	Climate Change Response Fund
CoGTA	Department of Cooperative Governance and Traditional Affairs
CSO	Civil Society Organisation
DBSA	Development Bank of Southern Africa
DFFE	Department of Forestry, Fisheries and the Environment
DFI	Development Finance Institutions
GHG	Greenhouse Gas Emissions
MDB	Multilateral Development Bank
M&E	Monitoring and Evaluation
MEL	Monitoring, Evaluation and Learning
IMF	International Monetary Fund
NCCAS	National Climate Change Adaptation Strategy
NDC	Nationally Determined Contribution
NGO	Non-governmental Organisation
No.	Number
NT	National Treasury
PCC	Presidential Climate Commission
PFMA	Public Finance Management Act, 1999 (Act No. 1 of 1999)
PPP	Public-Private Partnerships
R	Rands
SA	South Africa
SALGA	South African Local Government Association
SMME	Small, Medium and Micro Enterprises
TA	Technical Assistance

Executive Summary

Introduction

South Africa is increasingly experiencing the severe impacts of climate change, including prolonged droughts, extreme heatwaves, destructive floods, and wildfires, all of which threaten human health, ecosystems, infrastructure, livelihoods, and economic stability.

The country's limited adaptive capacity, fragmented financing mechanisms, and over-reliance on public sector disaster relief funding have left it highly vulnerable to climate shocks. Without a dedicated, well- adaptation finance mechanism, South Africa risks rising economic costs, deepening inequalities, and diminished resilience against future climate risks.

To address these challenges, in the February 2024 State of the Nation Address, President Ramaphosa announced the establishment of a Climate Change Response Fund (CCRF). This report responds to this announcement by outlining recommendations for the design of the CCRF.

The fund is intended to close adaptation financing gaps, catalyse investment into resilience-building initiatives, and improve coordination in climate finance deployment. It will be instrumental in implementing the newly signed Climate Change Act (Act 22 of 2024) by enhancing anticipatory capacity, strengthening resilience, and improving disaster response systems.

The CCRF will also improve access to global climate finance mechanisms, such as the Loss and Damage Fund, while aligning with fiscal reform processes led by the National Treasury to streamline public finance flows through innovative, transparent, and accountable disbursement mechanisms.

The CCRF is designed to complement and integrate with existing climate finance initiatives, including the Just Transition Funding Mechanism (JTFM), the Just Energy Transition Investment Plan (JET-IP), and disaster risk financing arrangements.

Together, these instruments form part of South Africa's broader climate finance architecture, ensuring systematic and scalable climate finance mobilization and deployment.

Strategic Goal and Outcomes

The goal of the CCRF is to strengthen South Africa's climate resilience by mobilizing and deploying adaptation finance that enhances anticipatory capacity, safeguards communities and ecosystems, and accelerates disaster preparedness and recovery.

The fund will drive systemic, high-impact investments that integrate adaptation into development, reduce climate vulnerabilities, and create equitable, sustainable pathways for resilience.

The CCRF will deliver on this goal through three primary outcome areas:

1) **Strengthening Climate Risk Preparedness and Anticipatory Capacity** by improving early warning systems, climate risk forecasting, and institutional readiness to mitigate climate-related disasters.
2) **Enhancing Climate Resilience Across Ecosystems, Infrastructure, and Livelihoods** by supporting ecosystem-based adaptation, climate-smart agriculture, and resilient infrastructure development, ensuring that investments protect both natural and built environments.
3) **Strengthening Disaster Response and Recovery Systems** by improving disaster response mechanisms, emergency planning, and post-disaster recovery capacity, ensuring faster recovery and better resilience against climate-induced shocks.

Strategic Approach and Key Features

The CCRF will adopt a phased approach to ensure timely and effective interventions, allowing for progressive scaling and institutional development. This approach includes:

1) **Early-Stage Implementation**, prioritizing high-impact, investment-ready projects that deliver immediate adaptation benefits, particularly in water security, agriculture, disaster preparedness, and urban resilience.
2) **Gradual Expansion of Thematic Areas**, ensuring that the fund evolves into a comprehensive adaptation financing mechanism, addressing disaster risk management, early warning systems, resilient infrastructure, and nature-based solutions.
3) **Innovative Financing Mechanisms**, leveraging blended finance models, concessional loans, and outcomes-based funding to attract both public and private investment through transparent and efficient resource allocations.

Financing Strategy

The CCRF's financing strategy is built on a core commitment of **seed capital** from the South African government, which will establish the fund's credibility, signal national commitment, and provide stability in its early phases. This public funding will be supplemented by grant resources from **bilateral donors** and **vertical climate finance** mechanisms, including the Green Climate Fund (GCF), Adaptation Fund, and Loss and Damage Fund, ensuring that adaptation projects—particularly those with high social impact but limited revenue potential—receive adequate financial support.

To expand its financing capacity, the CCRF will leverage concessional finance from **development finance institutions** (DFIs), including the World Bank, African Development Bank (AfDB), and Development Bank of Southern Africa (DBSA). This concessional financing will provide affordable, long-term capital for large-scale resilience-building initiatives, such as climate-resilient infrastructure, water security programs, and disaster preparedness investments.

To encourage **private sector participation**, the fund will employ blended finance instruments, credit guarantees, and impact-linked financing models, ensuring that adaptation investments become more attractive and viable for commercial investors. The CCRF will also explore **carbon market revenues** under Article 6 of the Paris Agreement, using proceeds from internationally traded mitigation outcomes (ITMOs) to support adaptation efforts.

Beyond financial resources, **technical expertise and capacity-building** initiatives will play a crucial role in the fund's success. Collaborations with the Santiago Network for Loss and Damage and other knowledge-sharing platforms will improve stakeholder coordination, institutional capacity, and project design quality.

The CCRF must also minimize maladaptation risks and potential conflicts between adaptation and mitigation goals, ensuring that investments are effective, sustainable, and aligned with long-term climate resilience strategies.

To ensure financial stability, the CCRF will adopt a **diversified investment strategy**, moving away from isolated interventions toward a comprehensive portfolio and **programmatic financing** model. This approach will enable the fund to sustain its impact over time while scaling up successful adaptation interventions across multiple sectors and regions.

Governance, Compliance and Institutional Structures

The CCRF's governance framework will be designed for efficiency, transparency, and accountability, ensuring that decision-making processes are inclusive, evidence-based, and aligned with South Africa's climate goals. The fund's governance structure will include:

1) A **Board of Directors**, responsible for strategic oversight, ensuring that the fund aligns with national adaptation priorities and fiduciary best practices.
2) An **Investment Committee**, tasked with evaluating project proposals, overseeing financial allocations, and ensuring alignment with adaptation goals.
3) A **Technical Advisory Committee**, providing expertise in climate science, disaster risk management, water security, and resilient infrastructure, ensuring that funded projects are technically sound and high impact.
4) A **Funders' Committee**, composed of public and private sector funders, to enhance investor confidence and ensure financial accountability.

To ensure accountability, transparency and impactful performance with measurable outcomes, the CCRF will implement a rigorous **monitoring, evaluation, and learning** (MEL) system, tracking financial performance and adaptation impact metrices aligned with best practices in climate finance governance.

Conclusion and Implementation Processes

The establishment of the CCRF presents a **transformational opportunity** for South Africa to scale up adaptation investments, enhance financial resilience, and align climate finance with national and global priorities.

By combining public and private sector resources, the fund is structured to maximize investment potential while ensuring adaptation financing reaches vulnerable communities and underfunded sectors.

The next steps in the fund's establishment will include:

1) Obtaining *in principle* **Cabinet approval** to trigger the next stage of the design process.
2) Completing a **feasibility study** and **business case**, including detailed financial modelling and governance structuring.
3) Obtaining National Treasury and other **regulatory approvals** prior to a final Cabinet decision.
4) Finalizing **funding mechanisms and engagement strategies** to mobilise resources from donors, multilateral climate funds, development finance institutions, private sector investors, and government allocations.
5) Launching an **initial portfolio of high-impact adaptation projects**, ensuring that early investments demonstrate effectiveness and scalability.

The fund will initially be housed within an existing Development Finance Institution (DFI), leveraging its administrative and financial expertise, with a phased transition to a standalone climate adaptation financing entity as it matures.

The CCRF is not just a financial mechanism but a **transformative instrument for climate resilience**, offering a pragmatic, results-driven approach to adaptation finance. With strategic planning, strong governance, and effective financial mobilization, the CCRF can position South Africa as a leader in climate adaptation, safeguarding communities, strengthening infrastructure, and ensuring long-term economic stability in the face of climate change.

1 Introduction

1.1 Purpose of the report

In response to the increasing frequency and severity of climate disasters, **President Ramaphosa** announced in the **February 2024 State of the Nation Address**: "*To address the persistent effects of global warming, which manifest themselves through persistent floods, fires, and droughts, we have decided to establish a Climate Change Response Fund. This will bring together all spheres of government and the private sector in a collaborative effort to build our resilience and respond to the impacts of climate change*."

This report by the Presidential Climate Commission (PCC) provides recommendations for the establishment of the Climate Change Response Fund (CCRF). It identifies key considerations for designing the CCRF to enable a coordinated and effective response to South Africa's climate challenges.

1.2 Background

South Africa is grappling with a long-term climate crisis that is profoundly reshaping its environment, economy, and society. The nation is highly vulnerable to both slow-onset and rapid-onset climate events, each contributing to socio-economic and environmental challenges.

Slow-onset climate impacts include hotter and drier conditions in the interior, changes in microclimates, soil moisture content, viability of agricultural crops, biodiversity loss and ecosystem degradation. Longer and more severe droughts undermine water security in a country already classified as water scarce.

Reduced precipitation, combined with rising temperatures, diminishes river flows and aquifer recharge, impacting agriculture, industry, and municipal water supplies. The contamination of water systems further exacerbates this crisis, limiting access to clean water for human consumption and agricultural use.

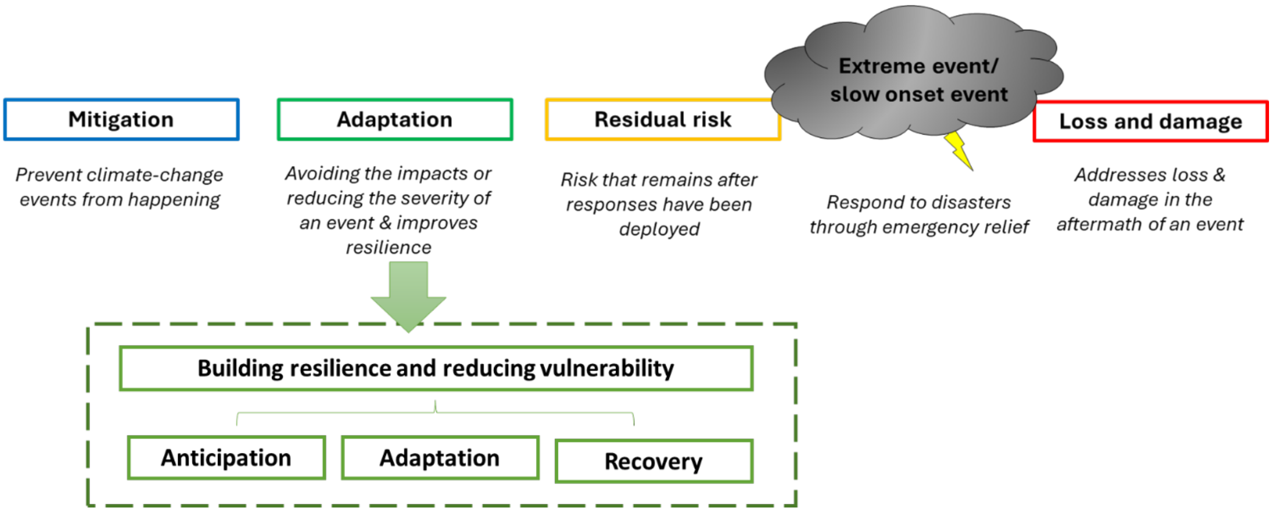
Rapid-onset events, such as storms, floods, heatwaves, and wildfires, have increased in frequency and intensity, placing immense pressure on South Africa's infrastructure and communities. Intense flooding, often exacerbated by poor urban planning and inadequate maintenance of drainage systems, has devastating effects on densely populated areas.

The macroeconomic cost of climate impacts on South Africa is projected to be substantial. And estimated to be 0,8% of GDP on average, but will increase over time, reaching up to 1,2% of GDP in the period 2040 to 2050. Over the next 25 years, the overall damages to the economy could amount to R1,5 trillion in net present value, mainly due to crop and livestock losses, heat impact on labour productivity and floods (World Bank, 2022).

These impacts, compounded by South Africa's geographic and socio-economic context, disproportionately affect marginalized communities, exacerbating inequalities and hindering sustainable development.

As illustrated in **Figure 1**, South Africa's response to climate change encompasses both mitigation and adaptation measures, which are complementary in addressing climate risks. Mitigation focuses on reducing greenhouse gas emissions and addressing the root causes of climate change. This is particularly significant for South Africa, which contributes 40% of Africa's total emissions and has substantial opportunities to transition to a low-carbon economy.

Figure 1: Climate change interventions and response themes



Source: Adapted from Watkiss, De Bruin, Dasgupta et al. (2023) and NBI (2015)

Adaptation, on the other hand, aims to manage the unavoidable impacts of climate change. This includes building resilience to higher temperatures, reduced water availability, and more frequent disasters. Despite the potential benefits, South Africa faces significant gaps in adaptation planning, financing, and implementation. Many municipalities lack the resources and technical capacity to roll out effective adaptation measures, while private sector involvement remains limited.

Despite robust policy frameworks like the National Climate Change Adaptation Strategy (NCCAS), South Africa's adaptation efforts lag the scale and urgency of climate challenges. Of the 95 actions outlined in the NCCAS, fewer than a third are actively being implemented, with most focused-on planning rather than execution. Governance weaknesses, including unclear mandates and insufficient municipal capacity, hinder progress (PCC, 2024).

Financing is a major limitation. South Africa's annual adaptation needs are estimated at USD 8–15 billion by 2030, but current finance flows fall far short. Adaptation accounts for only 12% of climate finance, with most resources concentrated in a few provinces (Meatle et al, 2023). Municipalities, crucial for implementing local projects, face fiscal deficits, corruption, and limited technical expertise.

Private sector engagement in adaptation remains underdeveloped due to perceived risks, lack of bankable projects, and challenges in quantifying returns. Addressing these barriers requires targeted interventions, including streamlined regulatory processes, blended finance models, and enhanced institutional capacities.

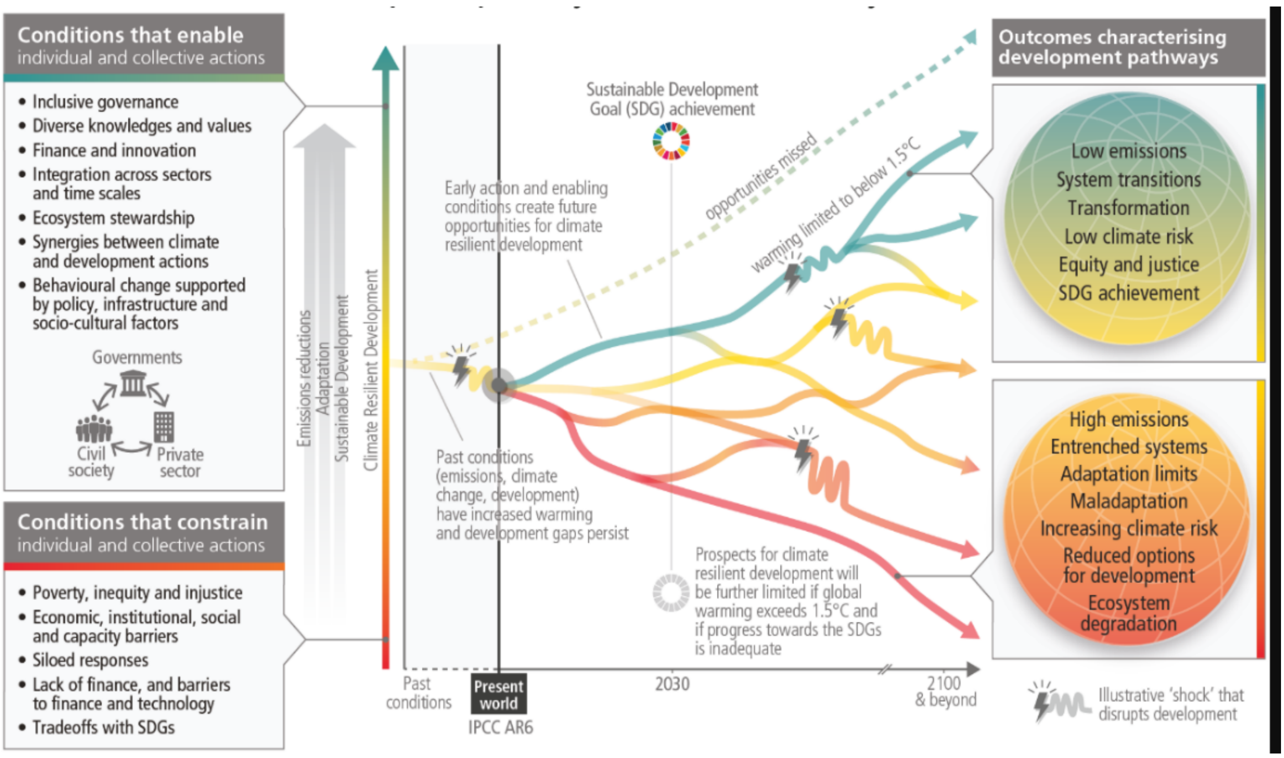
The narrowing window of opportunity for achieving climate-resilience, as illustrated in **Figure 2**, underscores the urgency of scaling up adaptation efforts. Delaying action not only increases future costs but also reduces the range of feasible interventions, as escalating climate risks constrain adaptive capacity.

Immediate investment in resilience measures—such as water-saving technologies, climate-smart agriculture, and disaster preparedness—can mitigate damages, lower long-term costs, and unlock economic opportunities in sectors critical to South Africa's development.

South Africa's climate crisis demands a comprehensive response that integrates mitigation and adaptation efforts. By prioritizing climate resilience, South Africa can safeguard its communities, ecosystems, and economy while positioning itself for sustainable growth in the face of an increasingly volatile climate.

Establishing mechanisms like the Climate Change Response Fund is essential to mobilise resources, foster collaboration across sectors, and ensure that climate actions are both effective and equitable.

Figure 2: The narrowing window of Opportunity – How multiple interacting actions can shift development pathways



Source: IPCC AR6, 2022

1.3 Regulatory Context

The **Climate Change Act 2024**, Act 22 of 2024 serves as the cornerstone of South Africa's climate adaptation framework, providing the legal basis for the Climate Change Response Fund (CCRF).

The Fund's structure and implementation must directly support and catalyse the objectives of the Act. Central to this is enabling an effective national climate change response that fosters a "long-term just transition to a low-carbon and climate-resilient economy and society in the context of sustainable development."

The Act outlines clear objectives aimed at enhancing adaptive capacity, building resilience, and reducing vulnerabilities across society, the environment, and the economy. It mandates that South Africa's climate change responses address both mitigation and adaptation imperatives while fulfilling international commitments.

Section 18 of the Climate Change Act obligates the Minister of Forestry, Fisheries, and the Environment to establish a mechanism to **support and finance the country's climate change response**, in consultation with the Minister of Finance. Such a mechanism must support planning and implementation by national, provincial and local government. The CCRF will be a core instrument to fulfil this mandate, ensuring the coordination of funding and resources across all levels of government to implement climate-resilient measures.

In alignment with the principles set out in the Climate Change Act, interventions funded through the CCRF should:

1) Pursue a dual approach of preventative (mitigation) and resilience-building (adaptation) actions to address climate risks comprehensively.
2) Foster the creation of decent work opportunities and contribute to poverty eradication through climate-responsive investments.
3) Prioritize the needs and circumstances of localities and vulnerable groups, ensuring equitable outcomes.
4) Employ a risk-based approach grounded in the latest scientific evidence and climate knowledge.
5) Integrate climate action across sectors, fostering collaboration between public and private stakeholders and across all tiers of government.
6) Strengthen the public sector's capacity for climate action, while ensuring inclusive engagement and consideration of local contexts. Local government plays a crucial role in this context, serving as the frontline responder to climate disasters and its mandate to foster resilience and long-term adaptation.

To maximize impact, the CCRF must be strategically designed to complement other key funding and policy instruments, such as the National Treasury's **Disaster Risk Financing** arrangements. The Disaster Risk Financing policy measures include diversifying funding sources, implementing risk-layering strategies, and streamlining grant mechanisms to improve fund distribution and efficiency.

Together, these components form South Africa's climate adaptation finance suite, which serves as the foundation of the country's evolving climate finance architecture.

1.4 The business case for adaptation

Adaptation is not only a climate necessity but also a strategic and economic imperative for South Africa. As climate impacts intensify, the cost of inaction far outweighs the investments required for resilience-building today. Failure to invest in adaptation leads to rising economic losses, diminished development opportunities, and escalating social vulnerabilities including injuries and loss of life.

Investing in climate resilience today lowers future costs, protects economic stability, and ensures that critical infrastructure, ecosystems, and livelihoods are safeguarded against climate risks. Every adaptation project—whether revenue-generating or not—creates value by reducing long-term economic disruptions and minimizing disaster recovery costs.

Not all adaptation projects are commercially viable, but they all generate measurable economic benefits by avoiding future damages and ensuring continued economic and social activity. Public investments in flood defences, resilient housing, and early warning systems, for example, do not generate direct financial returns but prevent massive future costs from climate-related disasters.

Similarly, investments in ecosystem-based adaptation, such as wetland restoration or soil conservation, reduce long-term vulnerability and enhance natural resilience, even though they may not offer immediate market-based returns. These projects require public and grant-based financing but are crucial for national stability and sustainability.

At the other end of the spectrum, certain adaptation projects are financially self-sustaining and can go to market for funding. The water sector, for instance, offers revenue-generating opportunities through investments in climate-resilient solutions like wastewater recycling, desalination, and upgraded distribution systems, which generate returns through user fees, tariffs, and public-private partnerships.

Similarly, in climate-smart agriculture, precision farming, drought-resistant crops, and solar-powered irrigation attract agribusiness investment, venture capital, and export market opportunities. Urban adaptation projects—such as flood-resilient infrastructure, energy-efficient buildings, and smart stormwater management. These financially viable adaptation investments can secure commercial financing, ensuring that the private sector plays a significant role in South Africa's resilience-building efforts.

Between these two extremes, are projects that have some ability to generate revenue but require concessional financing or blended capital to be viable. These projects—such as climate-resilient roads, urban drainage systems, and sustainable land management programs—may have partially recoverable costs through tariffs, service charges, or economic co-benefits, but still require grant support, concessional loans, or risk-sharing instruments to be financially feasible.

To unlock private sector participation in these adaptation investments, financing models must incorporate blended finance mechanisms, guarantees, or first-loss capital, ensuring that projects become investable while maintaining their climate and social impact.

The challenge in mobilizing adaptation finance, particularly from the private sector, lies in de-risking investments, enhancing project bankability, and addressing perceived financial uncertainties. Blended finance models—combining concessional public funding with private capital—can de-risk high-impact adaptation projects and improve investor confidence, particularly in climate-sensitive sectors like agriculture and water management.

Green and sustainability-linked bonds provide scalable funding mechanisms for infrastructure and resilience-focused projects, while risk insurance mechanisms and guarantees, supported by public and multilateral institutions, can further mitigate financial risks and ensure long-term project viability.

Public-Private Partnerships (PPPs) can leverage private capital for large-scale infrastructure projects, bringing in private sector efficiency and innovation alongside public funding objectives. Meanwhile, technical assistance and capacity-building efforts must ensure a strong pipeline of bankable projects, with robust data systems and standardized investment metrics creating transparency and trust for investors.

1.5 Potential for scaling finance for adaptation

At the same time there are significant opportunities to scale funding from diverse sources, which remain underutilized due to various barriers and challenges. These funding sources can be grouped into own resources (government budgets), bilateral and multilateral funds, vertical climate funds, philanthropy, concessional finance, and private sector finance.

(1) Government Budget Allocations

The South African government allocates a portion of its national, provincial and municipal budgets to climate adaptation projects, but these resources are far from sufficient. The reliance on domestic resources is further limited by structural inefficiencies in public sector.

Municipal budgets are critical for local adaptation actions, yet many municipalities face fiscal and capacity deficits, limiting their ability to implement projects. There is some potential for earmarking or ring-fencing revenues from the steadily increasing carbon tax into adaptation priorities. Government seed capital will be critical to build confidence in the establishment of the CCRF.

(2) Bilateral and Multilateral Donors

Bilateral donors, such as developed countries under international agreements, do provide some funding for adaptation, aligned with South Africa's climate strategies. Multilateral development banks (MDBs) like the World Bank and African Development Bank also support adaptation projects through loans and grants.

Concessional finance from international institutions helps bridge funding gaps by offering low-interest loans and grants for adaptation. However, these funds are often prioritised toward mitigation efforts, with adaptation receiving a lesser fraction. Accessing these funds is often administratively complex, which can delay or deter their utilization.

(3) Vertical Climate Funds

Vertical climate funds, including the Green Climate Fund (GCF), Adaptation Fund, the Climate Investment Funds (CIF) and the Loss and Damage Fund, are specifically designed to support climate action. These funds variously emphasize adaptation, but access is constrained by eligibility, project conditionality and co-financing requirements (G20, 2024).

South Africa has benefitted from these funds, but bureaucratic complexities and slow disbursement rates hinder their full potential. Recently established under international climate negotiations, the Loss and Damage Fund aims to address climate-induced losses in vulnerable countries. Although its mechanisms are still under development, it presents an opportunity for South Africa to secure additional resources for adaptation, especially in disaster-prone regions.

(4) Philanthropic Contributions

Philanthropy plays a smaller role in adaptation financing but offers flexible and innovative funding, especially in areas with substantial co-benefits linked to biodiversity and health. Foundations often prioritize locally driven projects, making them a valuable complement to more rigid international funds. However, the scale of philanthropic contributions is insufficient to address the vast adaptation financing gap.

(5) Private Sector Investment

The private sector, comprising of corporations, commercial financial institutions, and venture capital, has untapped potential to support adaptation projects. Investments in climate-resilient infrastructure, agriculture, and water systems could yield substantial returns while addressing climate vulnerabilities. However, private sector involvement is hindered by perceived risks, lack of bankable projects, and the difficulty with quantifying adaptation benefits (NBI, 2015; WRI 2023).

Despite these diverse sources, **significant untapped opportunities** remain. Optimising public spending and preventing underspending is aligned to this and can be achieved through enhanced governance, streamlined operations, and greater efficiency within the public sector.

Additionally, enhancing access to vertical climate funds by simplifying application processes and building local capacities could unlock additional resources. Blending public and private finance can mitigate risks and attract more private investments. Instruments like green bonds, sustainability-linked loans, and guarantees have shown promise globally but are underutilized in South Africa.

Moreover, addressing barriers to private sector investment, such as weak regulatory frameworks and lack of standardized metrics, can catalyse larger financial flows (AfDB, 2023).

In conclusion, while the existing sources of adaptation finance provide a foundation, scaling up requires addressing systemic barriers, enhancing collaboration across sectors, and leveraging innovative financial instruments.

2 Positioning, principles and priorities

This chapter outlines the strategic considerations, governance framework, financing approach, and operational principles that should guide the design and implementation of the Climate Change Response Fund (CCRF).

The CCRF must be structured to address South Africa's climate adaptation financing gap, mobilise diverse resources, and ensure long-term climate resilience. To do so, it must align with national priorities and international commitments, adopt a robust governance structure, integrate innovative financing mechanisms, and foster multi-sectoral partnerships.

Additionally, the CCRF's operations must be guided by clear principles, ensuring that it is transparent, inclusive, and accountable. The fund should support equitable adaptation efforts, particularly in vulnerable communities and high-risk sectors, while leveraging both public and private capital to expand investment opportunities.

Through a combination of direct financing, technical assistance, and policy integration, the CCRF should serve as a catalyst for transformative adaptation outcomes across South Africa.

2.1 Strategic alignment and positioning

The CCRF must be closely aligned with South Africa's **national climate adaptation goals**, ensuring that financing is directed toward priority sectors, vulnerable communities, and underfunded adaptation projects. As a catalytic financing tool, the CCRF should drive the implementation of the **Climate Change Act** (2024) and serve as a key financial mechanism for transitioning to a climate-resilient economy.

The fund's design should also complement and integrate with existing adaptation and resilience initiatives, including the Just Transition Framework, the Just Adaptation and Resilience Investment Plan (JAR-IP), and the National Adaptation Strategy.

In defining its investment priorities, the CCRF must ensure that adaptation financing is **equitable** and rationally allocated. Investments should be targeted toward the **most vulnerable** sectors and communities, ensuring that climate adaptation efforts address both immediate risks and long-term resilience-building.

The fund should support projects which support both proactive and reactive responses which enhance water security, climate-smart agriculture, resilient urban infrastructure, and disaster preparedness, while also ensuring that adaptation financing delivers **co-benefits** for human health, economic development, and emissions reductions where possible.

Beyond direct financing, the CCRF should play a broader role in **mainstreaming climate resilience** into national development policies. By embedding climate considerations into municipal regulations, infrastructure planning, and sectoral policies, the fund can help create an enabling environment for climate-responsive investment.

Capacity-building initiatives must also be a key component, ensuring that local governments, businesses, and communities have the knowledge and technical expertise needed to implement and sustain adaptation initiatives.

As a multi-stakeholder financing platform, the CCRF must also facilitate **investment coordination, knowledge exchange, and institutional partnerships**. By providing technical assistance, investment planning support, and financing structuring expertise, the CCRF can bridge the gap between adaptation needs and available resources, ensuring that climate resilience projects are bankable, scalable, and aligned with national priorities.

2.2 Governance and institutional mechanism

A strong and **transparent governance structure** is essential for ensuring that the CCRF operates efficiently, maintains credibility, and effectively mobilises and allocates resources. The fund's governance model must balance public oversight, private sector engagement, and independent fiduciary management, ensuring that it remains accountable while also being flexible and responsive to evolving climate adaptation needs.

The CCRF's governance will be structured around a multi-tiered framework, ensuring **clear decision-making, risk management, and performance tracking**.

1) A governing board will provide strategic oversight, ensuring that the fund remains aligned with national adaptation priorities and international climate finance frameworks.
2) An Investment Committee will be responsible for evaluating financial viability, approving funding allocations, and ensuring that projects meet adaptation criteria.
3) A Technical Advisory Committee will provide expert guidance on sectoral best practices, climate resilience strategies, and emerging adaptation technologies.

Institutional coordination will be key to the CCRF's success. The fund must work closely with National Treasury, the Department of Forestry, Fisheries, and the Environment (DFFE), and the Department of Cooperative Governance and Traditional Affairs (CoGTA) to ensure that adaptation financing is integrated into broader fiscal and development planning.

The CCRF must also be structured to facilitate private sector participation, using blended finance instruments and risk-sharing mechanisms to unlock investment from commercial banks, development finance institutions, and impact investors.

A robust **monitoring, evaluation, and learning (MEL) framework** will be embedded into the fund's operations, ensuring that investments are tracked, financial performance is measured, and adaptation outcomes are transparently reported.

2.3 Resource mobilization and financial strategy

To be effective, the CCRF must be structured to mobilise and deploy **diverse financial resources**, ensuring that adaptation projects receive adequate and sustainable funding. A core government **seed capital contribution** will be required to establish the fund's credibility and ensure stability in its early phases.

However, adaptation finance cannot rely solely on public funding and must integrate grants from bilateral donors and vertical climate funds, concessional loans from multilateral institutions, and private sector investment.

The fund will leverage grant financing from **bilateral partners** and **multilateral climate funds**, ensuring that adaptation projects—particularly those with limited commercial potential—receive adequate financial support.

Concessional finance from development finance institutions such as the World Bank, African Development Bank (AfDB), and Development Bank of Southern Africa (DBSA) will provide affordable long-term capital for large-scale adaptation infrastructure, while blended finance mechanisms, guarantees, and risk-sharing facilities will encourage private sector participation in climate resilience investments.

To ensure financial stability and effective resource allocation, the CCRF should adopt a **diversified investment strategy** that moves away from funding isolated interventions toward a more comprehensive portfolio and **programmatic financing model**.

1. The CCRF must also actively engage with **global climate finance mechanisms**, particularly Article 6 of the Paris Agreement, to generate adaptation financing through carbon markets and internationally transferred mitigation outcomes (ITMOs).
2. Beyond financial resources, **non-financial contributions** such as technical expertise and capacity-building initiatives will be equally vital in ensuring the success of adaptation investments.
3. Collaborations with initiatives like the Santiago Network for Loss and Damage can enhance the investment ecosystem and improve coordination among stakeholders, ensuring that knowledge, best practices, and technical support are available to those implementing adaptation projects.
4. The CCRF must also focus on minimizing maladaptation risks and potential conflicts between adaptation and mitigation goals, ensuring that interventions are well-designed, effective, and sustainable in the long term.

By applying risk diversification principles, the fund will be able to sustain its impact over time while scaling up successful adaptation interventions. This approach will allow the CCRF to build resilience across multiple sectors and geographies, ensuring that investments are strategic, coordinated, and capable of delivering long-term climate resilience outcomes.

By integrating best practices in **governance**, **financial innovation**, and **multi-sectoral coordination**, the CCRF will serve as a transformational climate finance mechanism, ensuring that South Africa builds long-term resilience, protects vulnerable communities, and strengthens economic stability in the face of climate change.

2.4 Principles for design of the CCRF

Based on the above considerations, the following guiding principles of the CCRF establish a decision-making framework, ensuring transparency, efficiency, and sustainability while fostering collaboration among stakeholders.

Developed through foundational research and stakeholder engagement, these principles are designed to attract a diverse range of investors, address the needs of vulnerable communities, and enhance national resilience to climate change. These principles provide a foundation for aligned practices, directing resources toward climate adaptation efforts that deliver the highest impact.

Principle 1: Promote Equity and Justice in Adaptation Investments- *Ensuring a Just Transition by prioritizing vulnerable communities, sectors, and regions*

1) Direct investments toward communities, sectors, and regions most affected by climate change, ensuring equitable adaptation outcomes that address social inequalities and promote inclusive development.

2) Support capacity-building, social innovation, and climate-resilient technologies to expand economic opportunities and reduce risks of maladaptation.

3) Establish participatory governance mechanisms that empower affected communities in decision-making and project implementation.

Principle 2: Maintain Transparency and Accountability: *Building trust and confidence through clear reporting and evaluation*

1) Implement rigorous and transparent reporting practices on capital allocations, project outcomes, and the effectiveness of adaptation interventions.

2) Establish regular monitoring and evaluation frameworks, ensuring all investments are publicly tracked, assessed, and aligned with long-term adaptation objectives.

3) Foster stakeholder trust through open access to financial and impact assessments.

Principle 3: Prioritize High-Impact, Sustainable Adaptation Projects - *Enhancing long-term resilience in ecosystems, communities, and economies*

1) Invest in projects that enhance adaptive capacity and long-term sustainability in vulnerable regions, prioritizing resilience-building across social and economic systems.
2) Expand adaptation measures that integrate across sectors and levels of government, ensuring interventions have systemic and compounding benefits.
3) Support climate-resilient infrastructure, production systems, and critical services to minimize future climate risks and economic losses including both nature based and engineering design solutions.
4) Strengthen climate information systems, early warning mechanisms, and disaster preparedness strategies to reduce exposure and enhance coordinated responses.

Principle 4: Align with International and Local Climate Commitments - *Supporting national and global adaptation goals through coordinated action*

1) Ensure investments align with South Africa's commitments under the Paris Agreement and national climate policies, fostering synergies between adaptation and mitigation efforts.
2) Coordinate adaptation responses across government, private sector, and civil society to ensure cohesive action and enhanced climate resilience.
3) Facilitate policy development and regulatory improvements that advance sustainable climate finance and adaptation initiatives.

Principle 5: Leverage Appropriate Financing for Maximum Impact - *Mobilizing private and public sector investment through financial innovation*

1) Maximize available financial resources by securing sustainable funding from domestic and international sources, reducing reliance on public finance alone.
2) Close the adaptation financing gap by unlocking access to vertical climate funds, concessional finance, and innovative funding mechanisms.
3) Expand blended finance models, public-private partnerships, and impact investment approaches to increase funding flows for adaptation.
4) Attract private sector investment by using de-risking strategies such as outcome-based funding, green bonds, and concessionary financing.

Principle 6: Strengthen Monitoring, Evaluation, and Learning - *Ensuring measurable outcomes and fostering continuous improvement*

1) Implement robust monitoring and evaluation systems that provide clear, evidence-based insights on adaptation investments.
2) Foster continuous learning by documenting lessons from adaptation projects and sharing best practices across sectors and regions.
3) Enhance collaboration among stakeholders through transparent knowledge-sharing platforms.

Principle 7: Use Climate Science and Data to Inform Investments - *Enhancing decision-making with robust climate information systems*

1) Prioritize investments that are informed by the latest climate science, ensuring that responses are based on accurate risk assessments and future climate projections.
2) Strengthen data collection, dissemination, and application to enhance evidence-based policymaking and project development.
3) Ensure that investments are adaptable and responsive to emerging climate risks through continuous data analysis and scenario planning.

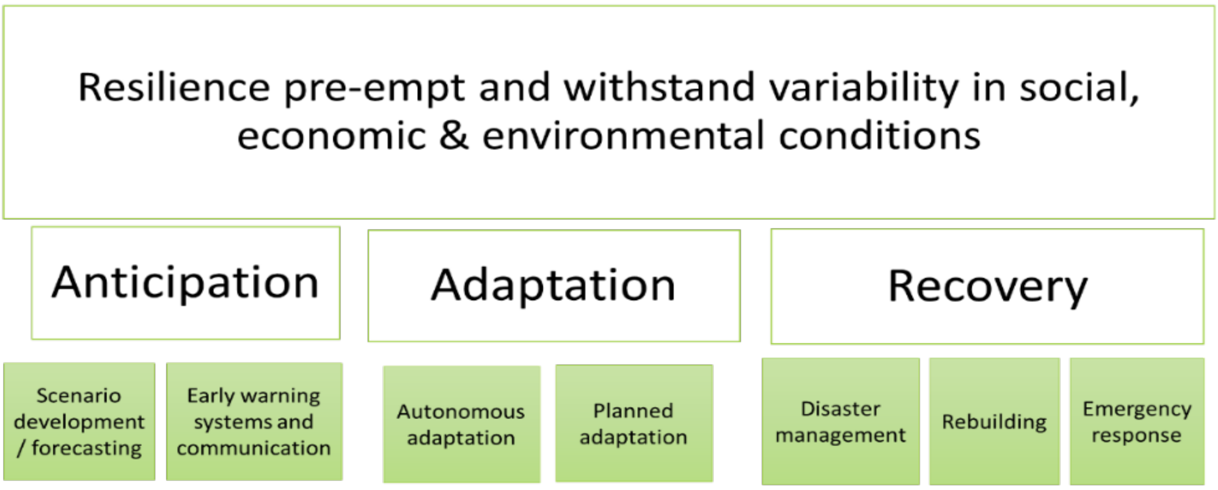
2.5 Goals and Outcomes

The fund's role is not to duplicate ongoing adaptation initiatives but to accelerate and expand South Africa's capacity to implement systemic, cost-effective, and high-impact adaptation measures.

The CCRF's outcomes are designed to strengthen South Africa's ability to anticipate, adapt to, and recover from the impacts of climate change. These three thematic areas—**anticipation, resilience, and disaster response**—form the foundation of the CCRF's intervention framework. By financing high-impact adaptation initiatives, the fund seeks to build national and local capacity to reduce climate risks, protect vulnerable communities, and promote long-term sustainability.

Given the scale and complexity of climate-related challenges, the CCRF cannot address all adaptation needs. Adaptation efforts are most effective when they are proactive rather than reactive. Early investments in resilient infrastructure, ecosystem restoration, and community preparedness are significantly more cost-effective than delayed responses, which often require expensive emergency interventions with limited long-term benefits. Conversely, inaction increases the risk of irreversible damage—such as biodiversity loss, ecosystem collapse, and economic displacement—and narrows the range of feasible adaptation options.

Figure 3: Overview of resilience building efforts *Source: NBI, 2015*



Recognizing the need for phased implementation, the CCRF will prioritize anticipation and early warning systems in its initial stages while simultaneously supporting adaptation initiatives and strengthening recovery mechanisms. The principles of futureproofing and build-back-better, as identified in adaptation best practices, will be embedded into the fund's approach.

The outcomes outlined below are preliminary and will be further refined in alignment with the National Adaptation Objectives and the National Adaptation Strategy and Plan, which will be developed under the Climate Change Act, 2024. As the fund evolves, it will incorporate outcomes-based financing models, ensuring that resources are allocated efficiently and that adaptation projects deliver measurable, transformative impacts.

2.5.1 Overarching Goal and Outcomes

The goal of the CCRF is to strengthen South Africa's climate resilience by mobilizing and deploying adaptation finance that enhances anticipatory capacity, safeguards communities and ecosystems, and accelerates disaster preparedness and recovery.

The CCRF will drive systemic, high-impact investments that integrate adaptation into development, reduce climate vulnerabilities, and create equitable, sustainable pathways for economic and social resilience in the face of a changing climate.

Outcome 1: strengthening climate risk preparedness and anticipatory capacity

The CCRF will enhance early warning systems, climate risk forecasting, and institutional readiness to mitigate climate-related disasters. This includes integrating climate risk assessments into local, regional, and national planning, establishing climate adaptation policies, and expanding multi-hazard early warning systems with real-time data.

Strengthening evacuation protocols, disaster risk education, and technical capacity-building will improve institutional and community preparedness, ensuring that government, businesses, and vulnerable populations can respond effectively to climate threats.

Outcome 2: enhancing climate resilience across ecosystems, infrastructure, and livelihoods

The CCRF will support ecosystem-based adaptation, climate-smart agriculture, and resilient infrastructure development, reducing vulnerability across sectors. Investments in watershed restoration, reforestation, and land rehabilitation will enhance natural climate buffers, while sustainable farming techniques and catchment management programs will improve food security and water resilience.

The fund will also support urban resilience initiatives, including flood control infrastructure, climate-resilient housing, and heat mitigation strategies. Economic resilience will be strengthened through climate-resilient job creation, microfinance initiatives, and expanded participation of women and marginalized groups in adaptation programs.

Outcome 3: strengthening disaster response and recovery systems

The CCRF will enhance disaster response mechanisms, emergency planning, and post-disaster recovery capacity to minimize climate-related losses. Investments will improve early warning networks, real-time monitoring, and emergency communication systems, ensuring faster disaster response.

Strengthened evacuation planning, localized disaster response teams, and community preparedness programs will build adaptive capacity at the grassroots level. Post-disaster recovery will focus on rapid infrastructure rebuilding, emergency financial assistance for affected communities, and resilient reconstruction to reduce future climate risks.

A more detailed description of the outcome areas is included in Appendix 1.

By focusing on these specific outcomes, the CCRF will help South Africa build **long-term climate resilience**, **reduce vulnerabilities**, and **enhance national preparedness for climate disasters**. The fund will enable a proactive response to climate risks while leveraging finance from public and private sources to drive sustainable adaptation solutions at scale.

These outcome areas will be developed further into a more detailed assessment methodology, together with a prioritisation framework against which projects will be evaluated. A critical aspect of the CCRF's design is the need for an integrated, crosssectoral approach that prioritizes investments based on vulnerability, risk, and potential impact.

To maximize resilience, the fund should support projects that concurrently address anticipation, adaptation, and recovery rather than focusing on isolated interventions. Given the scale of climate-related challenges, adaptation efforts should not be confined to specific sectors, regions, or stakeholder groups.

Instead, the fund should be structured to attract a diverse range of investment-ready projects that contribute to South Africa's broader climate resilience objectives. By supporting initiatives that both reduce the risks of climate disasters and strengthen existing response mechanisms, the CCRF can play a vital role in enhancing long-term systemic resilience.

3 Design Options for Climate Change Response Fund

The chapter makes recommendations regarding the fund's design, operation and structure, ensuring alignment with national priorities and global commitments. These proposals cover the foundational elements of the fund, with the aim of establishing a clear strategy to guide the development of more detailed design to follow the completion of this study.

Table 1: Elements to consider in designing a fund Adapted from: Presentation Workstream 2 - Mpumalanga SMME Just Transition Fund

1. Proponent and stakeholders	2. Fund mandate	3. Fund strategy	4. Investment thesis	5. Fund structure	6. Governance & compliance
What is the landscape of players that the CCRF could partner with?	*What is the purpose of the fund?*	*How will the fund achieve its objectives?*	*What is the rationale behind the fund's investments?*	*What is the most appropriate operational and legal framework ?*	*What structures are required to ensure good governance?*
• Who are the main actors in the fund ? • Who are the investors/ funders and the value and types of capital they can provide?	• Purpose, mission & objectives of the fund. • What the fund aims to achieve & seeks to address? • Guiding framework for subsequent decisions.	• Details how the fund will achieve its mandate. • Determine the funding focus areas. • Intended impact.	• Articulates the rationale, target areas & value proposition for investments, aligning them with the fund's strategy & mandate.	• Operational & financial framework of the fund, including legal entity type, funding mechanisms, and financial instruments.	• Governance frameworks, policies & compliance mechanisms • Ensures accountability, transparency, & alignment with legal and regulatory requirements.

3.1 Proponents and Stakeholders

The success of the Climate Change Response Fund (CCRF) depends on a well-coordinated ecosystem of proponents, beneficiaries, and funders, alongside broader stakeholders who contribute expertise, implementation capacity, and financial resources.

The CCRF is not intended to function in isolation but to integrate into and strengthen South Africa's existing climate finance ecosystem. This section outlines the key actors involved in the fund's establishment, governance, and implementation.

3.1.1 Proponents: Champions of the Fund

The establishment of the CCRF was formally announced in the 2024 State of the Nation Address (SONA) by President Cyril Ramaphosa, signalling the South African government's commitment to developing a dedicated climate response fund. The Presidency will continue to play an important role in championing the establishment of the fund.

Key national departments leading the fund's development include the Department of Forestry, Fisheries, and the Environment (DFFE), which acts as the fund's originator, and the National Treasury (NT), which provides financial oversight, facilitates international climate finance flows, and ensures alignment with national fiscal priorities.

3.1.2 Beneficiaries: implementers and impacted communities

The CCRF will serve as a funding intermediary, channelling resources to those most affected by climate change and those responsible for implementing adaptation projects. Beneficiaries could include local governments, provincial departments, private enterprises, and communities, with funding priorities aligned to South Africa's adaptation needs.

1) **Municipalities** are responsible for planning, infrastructure adaptation, flood and drought resilience, and disaster preparedness programs. Given their mandate in local service delivery, municipalities require funding to strengthen urban drainage systems, water security infrastructure, and resilient housing projects.
2) **Provincial departments** will also play a key role in implementing adaptation strategies at a regional level, particularly where coordinated adaptation efforts span multiple municipalities.
3) **Households and communities** in vulnerable regions will benefit from funding for e.g. flood prevention, adaptive housing upgrades, and clean water access. Rural communities, including **subsistence farmers** and **forest-dependent populations**, require financial support to sustain traditional livelihoods through sustainable land management, reforestation, and improved grazing practices.
4) **Non-governmental organizations** (NGOs) and **civil society organizations** (CSOs) are important partners in implementing locally led adaptation projects. These groups can support grassroots adaptation initiatives, community advocacy, and capacity-building programs that complement government-led interventions. **Research institutions** also play a critical role in exploring innovative adaptation solutions, testing climate resilience strategies, and providing training programs for local adaptation implementers.
5) The private sector, including **small, micro, and medium enterprises** (SMMEs), represents a significant but often underfunded segment in climate adaptation financing. The CCRF aims to support climate-focused SMMEs in sectors such as agriculture, ecotourism, and sustainable manufacturing, ensuring that small businesses can access financing for adaptation innovations.
6) **Public and private utility companies**, particularly those involved in water and sanitation infrastructure, will also require investment to enhance climate resilience, reduce waterborne disease risks, and improve drought preparedness.
7) Larger-scale adaptation projects in **transport and infrastructure development** may also benefit from CCRF funding, particularly when integrated with mitigation objectives, such as climate-resilient roads, bridges, and public transit systems.
8) **Disaster risk management entities** at community, provincial, and national levels will need resources to implement early warning systems, disaster preparedness training, and emergency response initiatives.
9) Finally, **medium to large enterprises** can leverage the fund to implement supply chain adaptation projects, ensuring climate resilience across industries.

Given the scale of adaptation needs, the CCRF will adopt a phased funding approach, starting with high-priority sectors and a smaller pool of initial beneficiaries, and gradually expanding as the fund matures. This approach aligns with the National

Climate Change Adaptation Strategy (NCCAS) and focuses on mobilizing resources for traditionally underfunded adaptation areas, particularly early-stage projects and community-based interventions.

3.1.3 Public and private financial actors

Private sector participation is critical, not only because businesses face climate risks but also because adaptation presents opportunities for sustainable growth and market resilience.

A key differentiator of the CCRF is its active role in mobilizing private sector investment for climate adaptation. Government funding alone is insufficient to meet the scale of South Africa's adaptation needs, making it essential to attract domestic and international investment partners.

The fund will engage a diverse range of financial contributors, including development finance institutions (DFIs), multilateral and bilateral climate funds, commercial banks, institutional investors, and philanthropic organizations.

By integrating blended finance mechanisms, such as concessional funding, green bonds, and de-risking instruments, the CCRF can enhance private sector confidence and facilitate co-investment in adaptation projects.

Strategic engagement with international climate finance mechanisms, including the Green Climate Fund (GCF), Adaptation Fund, and the Loss and Damage Fund, will be crucial to securing long-term adaptation finance. In addition, Article 6 mechanisms under the Paris Agreement present further opportunities for leveraging international carbon markets to support co-benefits linked to adaptation projects.

To ensure financial sustainability, the CCRF must maintain high efficiency in fund management and rapid fund deployment mechanisms, ensuring that resources flow efficiently to the right projects. The fund will also prioritize innovative financing models, such as results-based financing, performance-linked incentives, and private sector partnerships, to optimize impact and attract additional investment.

3.1.4 Knowledge institutions, business networks, and civil society

In addition to direct funders and beneficiaries, a range of secondary stakeholders will support the CCRF's broader ecosystem. Academic and research institutions will provide climate modelling, adaptation research, and capacity-building support, ensuring that investments are based on the latest scientific insights.

Business organizations and industry networks can facilitate private sector engagement, helping companies understand the business case for adaptation and integrating resilience into supply chains. NGOs and advocacy groups will play a role in promoting inclusive, community-led adaptation efforts, ensuring that climate finance reaches the most vulnerable populations.

The CCRF must foster strong partnerships with local communities, businesses, and sectoral organizations to build a domestic climate investment ecosystem rather than relying solely on external funding. This approach enhances local ownership, knowledge sharing, and sustainability, embedding climate resilience within South Africa's long-term development trajectory.

Strategic engagement with key proponents will also help position the CCRF within the broader climate finance ecosystem, ensuring integration rather than duplication. A detailed policy and institutional assessment will be necessary during the fund's design phase to align it with existing financing solutions and regulatory frameworks.

The CCRF must work to enhance the ability of local institutions and enterprises to manage climate risks, ensuring that adaptation financing strengthens South Africa's resilience in a way that is both locally relevant and globally integrated.

3.2 Fund Mandate

The Climate Change Response Fund (CCRF) is established to mobilise, structure, and deploy climate finance in a manner that strengthens South Africa's long-term resilience to climate change.

The fund aims to address critical adaptation and disaster response needs, ensuring that investments drive systemic, inclusive, and sustainable solutions for high-risk areas and vulnerable communities. By adopting a programmatic and portfolio-based approach, the CCRF will strategically allocate resources across a diverse set of interventions, leveraging blended finance models and innovative funding mechanisms to maximize impact.

3.2.1 Vision

To transform South Africa into a climate-resilient nation, where adaptation is embedded in development, vulnerable communities are safeguarded, and climate challenges serve as catalysts for sustainable and equitable growth.

3.2.2 Mission

To channel investments into high-impact adaptation and disaster response projects, equipping South Africa with the financial tools, technical resources, and governance structures needed to withstand climate risks, foster long-term resilience, and enhance adaptive capacity at all levels of society.

3.2.3 Empowering mandates

The CCRF requires a clear legal and financial mandate to mobilise, blend, and deploy resources effectively. Its core functions will include:

(1) Mobilizing and Raising Funds

1) Secure funding from domestic and international sources, including national budget allocations, development finance institutions, private sector contributions, and vertical climate funds such as the Green Climate Fund (GCF), Adaptation Fund, and Loss and Damage Fund.
2) Establish mechanisms to tap into carbon markets and Article 6 financing under the Paris Agreement, ensuring innovative revenue streams for adaptation.

3) Foster private sector participation by de-risking adaptation investments and unlocking commercial finance for resilience projects.

(2) Blending and Structuring Finance

1) Design blended finance instruments, including concessional funding, guarantees, green bonds, and impact-linked financing, to crowd in private capital for adaptation initiatives.
2) Provide early-stage grant funding to de-risk high-impact projects, particularly in underserved adaptation sectors such as local government infrastructure, SMME adaptation, and community-based resilience programs.
3) Implement innovative financing mechanisms, such as outcomes-based funding and climate resilience-linked incentives, to ensure financial sustainability.

(3) Determining Strategic Focus Areas and Investment Criteria

1) Prioritize investments based on climate risk, vulnerability, and potential long-term impact, ensuring that funds reach high-risk communities, municipalities, and climate-sensitive sectors.
2) Align funding priorities with national climate policies, the Just Transition Framework, and the National Adaptation Strategy and Plan to ensure coherence with South Africa's broader climate finance architecture.
3) Ensure a balanced portfolio that includes urgent short-term responses, systemic long-term resilience measures, and ecosystem-based adaptation strategies.

(4) Establishing Institutional and Financial Mechanisms

1) Develop governance and operational frameworks that allow for efficient, transparent, and accountable fund management.
2) Build capacity for fund recipients, including municipalities, small enterprises, and civil society organizations, to enhance project design, execution, and financial management.
3) Ensure robust monitoring, evaluation, and learning (MEL) systems to track adaptation outcomes, measure impact, and refine funding strategies based on evidence.

(5) Disbursing Funds for Maximum Impact

1) Provide financing to national, provincial, and local governments, businesses, and civil society organizations engaged in climate adaptation and resilience-building initiatives.
2) Facilitate rapid-response bridge financing for communities affected by climate disasters, ensuring timely deployment of resources for emergency relief and recovery.
3) Promote scalable, replicable models that drive climate adaptation innovation and create sustained economic and social benefits.

By fulfilling this mandate, the CCRF will mobilise and direct financial resources where they are needed most, ensuring that South Africa effectively prepares for, adapts to, and recovers from climate-related shocks while building a strong, equitable, and climate-resilient economy.

3.3 Fund strategy

The Climate Change Response Fund (CCRF) is designed to mobilise, structure, and deploy climate finance in a way that maximizes impact in priority areas, ensuring sustainable and long-term resilience to climate change.

Its strategy is built on three key pillars:

1) Supply-side financing, focused on raising funds from diverse sources.
2) Demand-side structuring, aimed at optimizing investment mechanisms for high-impact projects; and
3) Defining the role and functions of the CCRF to facilitate adaptation and disaster response effectively.

3.3.1 Supply-side: mobilizing resources for climate adaptation

The CCRF will pursue a diverse and strategic resource mobilization approach, engaging multiple funding sources to ensure a sustainable, long-term flow of capital for adaptation investments. The fund will tailor its approach to each funding category, recognizing that different funders have distinct priorities, risk appetites, and return expectations.

To attract financing at scale, the CCRF will prioritize strong governance, transparency, and accountability mechanisms, ensuring that funders have confidence in the effective use of resources.

(1) Public Sector Contributions

Government funding will serve as a foundational resource for the CCRF, with the National Treasury (NT) playing a key role in budget allocations.

Given South Africa's constrained fiscal space, the fund will not rely solely on direct government appropriations but will align with climate-responsive budgeting to integrate adaptation funding into sectoral expenditures, particularly in infrastructure, water management, and disaster response.

To increase public sector contributions, the CCRF will:

1) Engage the National Treasury and provincial treasuries to integrate adaptation finance within multi-year budget frameworks.
2) Align with the Disaster Risk Financing Strategy, ensuring that adaptation projects complement municipal insurance pools and contingency funding mechanisms.
3) Develop climate-linked public finance instruments, such as sovereign green bonds and budgetary tracking mechanisms, to allocate public spending more effectively toward adaptation priorities.

(2) Multilateral and Bilateral Climate Finance

The CCRF will actively engage multilateral funds such as the Green Climate Fund (GCF), Adaptation Fund, and Global Environment Facility (GEF), as well as bilateral donors and development finance institutions (DFIs). To encourage participation from international climate funds, the CCRF will:

1) Develop pooled funding mechanisms that allow bilateral donors to contribute to a structured and well-governed financing vehicle. This approach will enhance predictability and flexibility in fund disbursements.
2) Ensure alignment with global climate commitments, including South Africa's Nationally Determined Contributions (NDCs) and adaptation priorities, making it easier for donors to justify financial commitments.
3) Strengthen transparency and reporting mechanisms, with independent audits, a funders' committee, and rigorous monitoring and evaluation (M&E) systems, giving funders confidence in how resources are used.
4) Establish co-financing agreements with DFIs, ensuring that every public or concessional dollar mobilises additional private capital for adaptation investments.

(3) Private Sector Investment

Private capital will play a crucial role in scaling adaptation finance. However, unlike mitigation, adaptation projects often lack direct financial returns, making private sector engagement more challenging. The CCRF will address this by structuring commercially viable projects, particularly in sectors with sustainable revenue streams, such as:

1) Water infrastructure (e.g., desalination plants, wastewater treatment, and irrigation systems with user fee models).
2) Energy efficiency and resilient infrastructure (e.g., green buildings, climate-proofed roads, and flood defences).
3) Climate-smart agriculture (e.g., commercial drought-resistant crops, regenerative farming practices with market access).
4) Eco-tourism and sustainable land use projects that generate revenue through conservation-based business models.

To attract private sector investment, the CCRF will:

1) Use blended finance mechanisms, such as concessional capital, guarantees, and first-loss funding, to de-risk private sector investments.
2) Develop green bonds, sustainability-linked loans, and climate resilience bonds to provide scalable funding vehicles with clear financial and impact returns.
3) Establish a pipeline of bankable adaptation projects, working with project developers, municipalities, and businesses to structure commercially viable investments.
4) Engage institutional investors, such as pension funds and insurance companies, by demonstrating how adaptation investments contribute to long-term portfolio stability.

(4) Carbon Market Mechanisms (Article 6 of the Paris Agreement)

Because of the adaptation co-benefits associated with some mitigation projects, the CCRF will actively explore carbon market financing under Article 6 of the Paris Agreement, particularly through Internationally Transferred Mitigation Outcomes (ITMOs), establishing carbon credit revenue-sharing agreements where adaptation projects generate carbon offset credits that can be sold to international markets.

1) Private sector carbon credit buyers: Encouraging corporate climate finance contributions, where companies invest in adaptation projects as part of their sustainability and offsetting strategies.
2) Leveraging adaptation funding from carbon pricing instruments, such as directing a share of carbon tax revenues toward climate resilience investments.

(5) Philanthropy and Impact Investment

Foundations and impact investors can provide patient capital and grant-based financing for high-risk adaptation interventions, particularly in community-led projects, ecosystem restoration, and disaster preparedness.

The CCRF will work with philanthropic organizations, corporate social responsibility (CSR) initiatives, and climate-aligned endowments to channel funds into projects that align with their missions.

To attract philanthropic and impact investors, the CCRF will:

1) Develop outcomes-based financing models, where funders commit capital tied to measurable adaptation impact metrics.
2) Offer co-financing arrangements, where philanthropic contributions leverage additional funding from multilateral and public sector sources.
3) Ensure strong social and environmental safeguards, making the CCRF an attractive partner for foundations focused on equity, justice, and sustainable development.

(6) Encouraging Participation Across Funding Sources

To build funder confidence and ensure long-term engagement, the CCRF will establish a structured governance and oversight framework, including:

1) A Funders' Committee, providing key stakeholders with oversight of fund operations, resource allocation, and impact tracking.
2) Independent audits and reporting mechanisms, ensuring transparency and accountability in fund management.
3) Rigorous M&E frameworks, tracking the effectiveness of funded projects and providing real-time data on adaptation outcomes.
4) Regular engagement with funders, including investment summits, impact briefings, and collaborative decision-making platforms.

By ensuring a robust enabling environment, the CCRF will attract and sustain financial commitments from multiple sources, ensuring that adaptation finance is sufficient, scalable, and effectively deployed.

3.3.2 Demand-side: structuring investment mechanisms for maximum impact

The CCRF's demand-side strategy is designed to ensure that funding reaches priority adaptation sectors while also mobilizing co-investment for large-scale resilience-building efforts. The fund will take an outcomes-driven, programmatic approach, ensuring that resources are deployed effectively and generate measurable improvements in climate resilience. To achieve this, the CCRF will utilize three primary funding mechanisms:

1) **Outcomes-Based Financing** – where funds are disbursed based on the achievement of measurable adaptation outcomes.
2) **Grant-Based Financing** – providing direct funding for non-commercial adaptation projects, including a small-grants program for community-led initiatives.
3) **Blended, Concessional, and Co-Financing Models** – structuring investment vehicles for commercially viable projects, with the degree of concessionality varying based on the project's financial sustainability and risk profile.

(1) Outcomes-Based Financing

The CCRF will adopt an outcomes-based approach, ensuring that funds are disbursed only when predefined adaptation milestones are achieved. This model enhances accountability, efficiency, and impact measurement, making adaptation investments more attractive to both public and private funders.

How It Works:

1) Project proponents (municipalities, businesses, or NGOs) submit proposals that outline specific climate resilience outcomes, such as improving flood defences, increasing water security, or implementing climate-smart agriculture.
2) The CCRF commits funding but disburses in tranches based on measurable progress indicators, such as number of hectares reforested, reduction in municipal water loss, or increased disaster preparedness training participation.
3) Independent verification mechanisms will assess progress, ensuring that financing is performance-linked rather than input-driven.
4) The fund may also collaborate with third-party investors, such as impact funds, to structure pay-for-results models, where private investors finance projects upfront and are repaid by the CCRF upon achieving resilience outcomes.

Examples of Application Areas:

1) Public-private partnerships (PPPs) for climate adaptation infrastructure, such as urban flood control and resilient transport systems.
2) Large-scale ecosystem restoration projects, where measurable improvements in biodiversity and carbon sequestration can be tracked.
3) Disaster preparedness programs, where funds are released based on improved evacuation efficiency or early warning system coverage.

(2) Grant-Based Financing (Including Small-Grants Component)

Many adaptation projects, particularly those focused on local resilience, ecosystem protection, and disaster risk reduction, require grant-based financing because they do not generate direct financial returns. The CCRF will provide direct grants to support public good adaptation initiatives and community-led resilience-building projects.

How It Works:

1) Direct grants will be awarded to municipalities, CSOs, research institutions, and community-based organizations implementing adaptation interventions.
2) Co-funding models will be encouraged, where local governments or philanthropic partners match CCRF grants to increase project scale and impact.
3) A small-grants program will be established to provide simplified access to funding for grassroots adaptation efforts, reducing administrative burdens for small-scale projects.

Examples of Application Areas:

1. Disaster preparedness and emergency response initiatives, such as training for local response teams.
2. Community-led adaptation efforts, such as food gardens, rainwater harvesting, small-scale irrigation, and Indigenous climate knowledge integration.
3. Ecosystem-based adaptation projects, including wetland restoration, soil conservation, and urban greening.

The small-grants component will target local adaptation champions, particularly rural communities and marginalized groups, ensuring that funding reaches the most climate-vulnerable populations.

(3) Blended, Concessional, and Co-Financing Models

To mobilise private capital for adaptation investments, the CCRF will structure blended finance solutions, where public and concessional finance de-risks adaptation projects and attracts commercial investment. The level of concessionality will be tailored based on the project's revenue potential, risk profile, and impact scope.

How It Works:

1. Projects with sustainable revenue streams (e.g., climate-resilient infrastructure, water conservation utilities, sustainable agriculture) will receive low-interest loans, partial credit guarantees, or co-financing arrangements.
2. More commercially viable projects (e.g., green buildings, renewable energy solutions, and resilient value chains) will receive market-rate loans or equity investments, while high-risk components may be covered through concessional capital.
3. The CCRF will provide risk-mitigation instruments, such as first-loss capital, guarantees, and subordinated debt, to encourage private sector participation in adaptation projects.
4. Public-private partnerships (PPPs) will be structured to bring together government, businesses, and DFIs in financing large-scale resilience infrastructure.

Examples of Application Areas:

1) Climate-resilient water infrastructure, such as desalination plants or wastewater recycling systems with user fee models.
2) Climate-smart agriculture value chains, supporting post-harvest storage, irrigation systems, and drought-resistant seed production.
3) Disaster-resilient urban development, integrating flood-resistant housing, sustainable drainage, and green infrastructure.

This mechanism will ensure that private capital plays a greater role in adaptation finance, scaling investments while ensuring that projects remain accessible and affordable.

(4) Areas for Future Exploration: Risk Insurance and Credit Guarantees

As the fund matures, the CCRF will explore more financial instruments, such as:

1. Municipal and community-level climate risk insurance to enhance financial protection for local governments and farmers.
2. Sovereign risk pooling mechanisms, providing national financial buffers against extreme weather events.
3. Credit guarantees for adaptation-focused SMEs, ensuring financial inclusion for small businesses investing in climate resilience.

These mechanisms will require further development and feasibility assessments but represent long-term opportunities to enhance financial security and risk management in adaptation finance.

To maximize impact and build funder confidence, the CCRF will establish clear, transparent, and efficient disbursement processes:

1. **Rapid Deployment for Emergency Adaptation Needs:** A streamlined approval process will be implemented for urgent adaptation responses, particularly in disaster-prone areas.
2. **Multi-Year Funding Commitments:** Where necessary, the CCRF will commit funding over multiple years to support long-term adaptation strategies rather than one-off interventions.
3. **Independent Project Review and Auditing:** A robust monitoring, evaluation, and learning (MEL) framework will track project effectiveness, ensuring that adaptation outcomes are measurable, scalable, and replicable.

The CCRF's demand-side strategy is structured to ensure that resources reach the most vulnerable communities and priority adaptation sectors while leveraging innovative financing mechanisms to attract co-investment.

By balancing large-scale infrastructure investments with community-driven resilience efforts and embedding outcomes-based financing and risk-sharing instruments, the fund will achieve maximum impact in strengthening South Africa's climate resilience.

3.3.3 Functions of the CCRF

The CCRF is more than a financing mechanism; it is designed to be a coordinator, enabler, and catalyst for adaptation finance in South Africa. Its role extends beyond simply mobilizing and distributing resources—it will actively support project development, risk mitigation, technical capacity-building, policy integration, and knowledge-sharing to ensure a systemic, high-impact approach to climate adaptation.

By fulfilling a comprehensive set of functions, the CCRF will ensure that funding reaches the right projects, aligns with national priorities, and delivers measurable adaptation outcomes.

These functions can be categorized into financial structuring and investment deployment, technical assistance and capacity building, project screening and due diligence, knowledge management and data-driven decision-making, and policy and ecosystem alignment.

(1) Financial Structuring and Investment Deployment

At its core, the CCRF will serve as a mobiliser and allocator of adaptation finance, ensuring that funding is deployed efficiently and strategically. As described above, it will structure and administer three primary investment mechanisms:

1. **Outcomes-Based Financing,** where funding is disbursed based on the achievement of measurable adaptation outcomes.
2. **Grant-Based Financing,** supporting public-good adaptation initiatives, including a small-grants program for community-led projects.
3. **Blended, Concessional, and Co-Financing Mechanisms**, designed to attract private investment and facilitate large-scale adaptation projects.

By structuring finance through these tailored mechanisms, the CCRF will ensure that projects receive the right type of support based on their commercial viability, impact potential, and risk profile.

Additionally, the fund will explore innovative financial instruments such as green bonds, sustainability-linked loans, and concessional credit lines to unlock private sector participation in adaptation investments.

(2) Technical Assistance and Capacity Building

A major barrier to adaptation finance is the limited capacity of many municipalities, businesses, and local organizations to develop bankable, investment-ready projects. The CCRF will provide technical assistance (TA) and capacity-building support to strengthen project design, improve financial structuring, and enhance climate risk management capabilities.

The fund will offer advisory services, feasibility studies, and financial modelling support to help project developers navigate complex adaptation financing landscapes. Additionally, it will work with municipalities, provincial governments, and the private sector to build technical expertise in climate-resilient planning, investment appraisal, and risk assessment.

A dedicated capacity-building program will be launched to train adaptation stakeholders on best practices in project implementation, impact measurement, and financial management.

By investing in technical assistance, the CCRF will increase the pipeline of viable projects, ensuring that more adaptation initiatives meet funding criteria and can attract co-financing from development finance institutions, international donors, and commercial investors.

The small-grants program will include mentorship and project preparation support, ensuring that grassroots adaptation projects can access finance and scale their impact.

Project Screening, Due Diligence, and Performance Tracking

The CCRF will establish a robust project screening and due diligence framework to ensure that funded initiatives align with adaptation priorities, demonstrate financial viability, and deliver tangible resilience outcomes. All projects submitted for financing will undergo a multi-stage evaluation process, assessing:

1) Alignment with adaptation priorities, ensuring projects contribute to water security, climate-smart agriculture, resilient infrastructure, and ecosystem-based adaptation.
2) Feasibility and sustainability, evaluating the technical, operational, and financial capacity of project proponents.
3) Risk exposure and mitigation measures, ensuring that adaptation investments are designed to withstand climate shocks and financial uncertainties.

The CCRF will also integrate performance-based funding models, linking financing to measurable adaptation impacts such as improved water availability, enhanced food security, increased disaster preparedness, or strengthened urban resilience.

A comprehensive monitoring, evaluation, and learning (MEL) system will be deployed to track project performance, measure fund impact, and refine investment strategies based on real-time data.

Regular impact assessments will be conducted to ensure that financing is achieving its intended outcomes and that lessons learned are incorporated into future funding cycles.

(3) Research, Data Development, and Information Dissemination

To support data-driven decision-making, the CCRF will act as a hub for climate risk assessments, adaptation research, and financial modelling. It will facilitate the development of climate vulnerability indices, scenario modelling tools, and investment impact tracking frameworks, enabling stakeholders to better understand climate risks and adaptation finance opportunities.

The fund will produce regular reports, case studies, and policy briefs, sharing insights on successful adaptation interventions, financing best practices, and lessons learned from implementation. By ensuring that data and knowledge are widely accessible, the CCRF will help stakeholders make informed, evidence-based investment decisions.

In addition to knowledge dissemination, the fund will support research institutions and think tanks in developing new climate adaptation solutions, financial instruments, and policy recommendations.

This research will contribute to continuous innovation in adaptation finance, ensuring that South Africa remains at the forefront of global best practices in climate resilience investment.

(4) Policy Alignment and Ecosystem Coordination

A well-functioning climate finance ecosystem requires strong alignment between funding mechanisms, policy frameworks, and institutional mandates.

The CCRF will work closely with National Treasury, the Department of Forestry, Fisheries and the Environment (DFFE), the Department of Cooperative Governance and Traditional Affairs (CoGTA), and private sector actors to ensure that funding flows align with South Africa's national climate policies and international commitments.

The fund will actively engage in regulatory advocacy and policy harmonization, ensuring that adaptation financing mechanisms integrate smoothly into existing legislative and institutional frameworks. It will also coordinate with development finance institutions, donor agencies, and the private sector to reduce duplication, enhance co-financing opportunities, and ensure strategic resource allocation.

A key role of the CCRF will be to convene stakeholders across government, business, and civil society, fostering collaborative partnerships that drive systemic change in adaptation finance. By acting as a facilitator of public-private dialogue, the fund will help shape policies that incentivize investment in adaptation, streamline regulatory processes, and create an enabling environment for climate resilience financing.

The fund will also integrate with the Just Transition Financing Mechanism (JTFM) and the National Adaptation Strategy and Plan, ensuring that its activities contribute to South Africa's broader climate resilience goals while maintaining fiscal sustainability and economic inclusion.

The CCRF's role extends far beyond that of a conventional fund. By mobilizing and structuring finance, strengthening technical capacity, ensuring rigorous project evaluation, facilitating knowledge-sharing, and driving policy alignment, the CCRF will reshape South Africa's adaptation finance landscape.

Through a systemic and impact-driven approach, it will ensure that climate finance is deployed where it is needed most, delivering sustainable and scalable resilience outcomes for communities, businesses, and ecosystems across the country.

3.4 Investment thesis

The investment thesis of the CCRF articulates the rationale behind the fund's investment approach, ensuring that financing decisions align with climate resilience priorities, economic sustainability, and social impact. The fund's investments will be strategically targeted to close adaptation financing gaps, leveraging blended finance mechanisms to attract co-investment and scaling high-impact solutions that build long-term resilience for communities, ecosystems, and economies.

At its core, the CCRF is designed to generate sustainable social, environmental, and financial returns by investing in climate adaptation projects that reduce risk, enhance systemic resilience, and create opportunities for inclusive growth. Given the diversity of adaptation needs, the fund will deploy a range of financing instruments—including grants, concessional financing, and outcomes-based funding—with varying investment horizons tailored to the specific requirements per project and stakeholders.

The CCRF's investment strategy is built on four key pillars:

1) Targeting **scalable, high-impact adaptation solutions** that enhance resilience at the community, sectoral, and national levels.
2) **Mobilizing private sector participation** through blended finance, ensuring that adaptation is not solely dependent on public or donor funding.
3) Bridging the adaptation finance gap by prioritizing **underfunded resilience projects**, particularly those that benefit vulnerable populations and high-risk sectors.
4) Ensuring that investments align with **financial and impact metrics**, allowing for data-driven decision-making and measurable adaptation outcomes.

3.4.1 Market Opportunity and Value Proposition

Climate change presents both risks and opportunities, and adaptation finance remains an underdeveloped investment frontier in South Africa. The current climate finance landscape is overwhelmingly tilted toward mitigation, which creates a significant market opportunity for a dedicated adaptation fund that can address the pressing need for climate resilience financing.

Investing in adaptation is not only a climate imperative but also a strong economic value proposition.

Every investment in climate adaptation can prevent multiple rands in future losses, particularly in sectors such as water security, agriculture, urban resilience. By channelling investment into high-impact adaptation interventions, the CCRF will reduce the financial and economic costs of climate disasters, safeguard livelihoods, and create new market opportunities for climate-resilient business models.

The fund's ability to blend public, private, and donor capital allows it to de-risk adaptation investments, making climate resilience a more attractive asset class for commercial investors. It will actively leverage co-financing arrangements, ensuring that for every public dollar invested, additional private capital is mobilised, thereby multiplying the fund's impact.

Investment Approach: Balancing Risk and Opportunity

Adaptation investments vary widely in financial return potential, and the CCRF's approach must match funding mechanisms to the nature of each project. The fund will segment its portfolio into three key categories:

1) **Public Good Adaptation Investments:** These projects—such as disaster preparedness, early warning systems, and ecosystem-based adaptation—deliver high social and environmental benefits but lack direct revenue streams. They will be funded through grants or outcomes-based mechanisms.
2) **Commercially Viable Resilience Projects:** Adaptation investments with clear financial sustainability, such as climate-smart agriculture, water conservation infrastructure, and energy-efficient urban developments, will receive concessional and blended finance to attract private sector participation.
3) **Transformative Infrastructure and Large-Scale Adaptation:** Critical infrastructure projects—such as climate-resilient transport systems, flood defences, and municipal water security programs—will require co-financing, public-private partnerships (PPPs), and long-term concessional loans.

By tailoring financial structures to project needs, the CCRF will balance financial risk with long-term climate resilience objectives, ensuring that adaptation finance is sustainable, effective, and scalable.

3.4.2 Impact-Driven Investment Strategy

The CCRF will adopt a rigorous impact measurement framework, ensuring that all investments contribute to quantifiable adaptation outcomes (see Section 2.5. above for detailed outcomes) The fund will track progress using a combination of financial performance indicators, resilience metrics, and socio-economic impact assessments.

By embedding impact-linked financing models, the CCRF will ensure that funds are allocated efficiently and deliver maximum long-term value for both investors and beneficiaries.

The CCRF's investment thesis is built on a compelling rationale that integrates climate resilience, economic sustainability, and financial innovation. By structuring a diversified and outcomes-driven portfolio, the fund will close the adaptation finance gap, mobilise cross-sector investment, and create a resilient economy capable of withstanding climate shocks.

3.5 Fund structure

The structure of the Climate Change Response Fund (CCRF) is a critical determinant of its effectiveness, legitimacy, and ability to attract investment. A well-designed structure will ensure operational efficiency, strong governance, financial sustainability, and the ability to coordinate adaptation finance across multiple stakeholders. Given South Africa's complex climate adaptation needs, the CCRF must be positioned to maximize capital mobilization, integrate both public and private sector resources, and ensure transparent, outcome-driven investment decisions.

3.5.1 Operating Legal Framework and Executive Authority

The CCRF requires a legal framework that enables it to mobilise, manage, and deploy climate finance effectively, while ensuring alignment with national priorities, investor confidence, and regulatory compliance. Several potential legal structures have been considered, each with advantages and limitations.

One option is to establish the CCRF as a new public entity under the Public Finance Management Act, 1999 (PFMA). This would provide strong government oversight and ensure alignment with national climate adaptation policies but could introduce bureaucratic inefficiencies and slow responsiveness in fund operations.

Another option is to house the CCRF within an existing Development Finance Institution (DFI), such as the Development Bank of Southern Africa (DBSA) or Industrial Development Corporation (IDC). This would allow the fund to leverage existing governance frameworks, operational resources, and financial expertise, ensuring robust fiduciary oversight and access to a mix of public and private capital. However, DFIs often have rigid structures and long decision-making timelines, which may pose challenges for adaptation investments requiring rapid deployment.

A hybrid model integrating public and private sector elements could offer the best balance between efficiency, accountability, and investment flexibility. One such structure is a Special Purpose Vehicle (SPV) or Public-Private Partnership (PPP), which would enable risk-sharing between government and private investors, improve financial agility, and allow for greater innovation in fund design and execution. However, SPVs often have a narrow operational scope, and their temporary nature may not provide the long-term continuity needed for adaptation financing.

Given these considerations, it is recommended that the CCRF be established within an existing DFI, while incorporating elements of private sector investment and flexibility through a blended governance model.

This hybrid structure would allow the fund to benefit from the financial credibility of a public institution, while still leveraging private sector efficiencies and investment opportunities. Further exploration into governance models will be required to define the best mechanisms for fund management, accountability, and investment decision-making.

To accelerate establishment and implementation, it is proposed that the CCRF begin as a dedicated fund within an existing institution, such as DBSA or IDC, while maintaining operational independence and the flexibility to evolve into a standalone climate adaptation financing entity in the future.

3.5.2 Operational Capacity and Personnel

For the CCRF to function effectively, it must have the right mix of technical, financial, and administrative expertise. The fund will require a lean but highly skilled team capable of managing financial transactions, assessing adaptation project viability, coordinating with public and private investors, and overseeing monitoring and evaluation processes.

The fund should be structured with core operational units, including:

1) **Investment and Fund Management:** Responsible for structuring financing mechanisms, evaluating project proposals, conducting due diligence, and managing disbursements.
2) **Technical Assistance and Capacity Building:** Providing advisory support to project developers, municipalities, and businesses to enhance the pipeline of investment-ready adaptation projects.
3) **Risk Management and Compliance:** Ensuring that all investments adhere to fiduciary and environmental safeguards, managing financial risks, and maintaining alignment with national adaptation strategies.
4) **Monitoring, Evaluation, and Learning (MEL):** Tracking project performance, assessing impact outcomes, and refining investment strategies based on real-time data.
5) **Stakeholder Engagement and Policy Coordination:** Managing relationships with funders, government entities, private sector investors, and civil society organizations to ensure strategic alignment and collaboration.

Given the complexity of adaptation financing, a mix of public sector experience, private sector innovation, and international climate finance knowledge will be necessary to position the fund for success.

> The CCRF should also establish a Funders' Committee, comprised of representatives from government, international donors, and private sector investors, to oversee governance, guide investment priorities, and ensure financial accountability.

3.5.3 Phased implementation and growth strategy

Given the complexities of adaptation finance, the CCRF should be implemented in phases, allowing for gradual scaling and continuous learning.

Phase 1: Establishment and Initial Capitalization

1) Secure seed funding from government and international donors.
2) Begin operations within an existing DFI, leveraging its financial infrastructure and governance frameworks.
3) Launch a small-scale portfolio of adaptation investments, focusing on low-risk, high-impact projects.

Phase 2: Expansion and Diversification of Investment Mechanisms

1) Introduce blended finance models, concessional funding, and public-private partnerships.
2) Scale up technical assistance programs to build capacity among project implementers.
3) Strengthen outcomes-based funding to enhance project accountability and impact measurement.

Phase 3: Transition to a Standalone Climate Finance Institution

1) Explore the possibility of transitioning the CCRF into an independent climate adaptation financing entity, with specialized governance structures and expanded investment capacity.
2) Establish risk-sharing facilities, insurance mechanisms, and sovereign climate risk pools to enhance financial resilience.
3) Build long-term financial sustainability strategies, ensuring the fund remains viable beyond donor contributions.

The CCRF's structure must be designed for financial sustainability, governance integrity, and operational efficiency. The recommended approach is to house the fund within an existing DFI, leveraging established financial and governance frameworks, while incorporating flexibility to evolve into a more independent climate finance entity over time.

By ensuring strong fiduciary oversight, strategic public-private collaboration, and a results-driven investment approach, the CCRF will be well-positioned to mobilise adaptation finance at scale, deliver measurable resilience outcomes, and support South Africa's long-term climate resilience goals.

3.6 Governance, Compliance and Diligence

Effective governance is fundamental to ensuring that the CCRF operates transparently, efficiently, and in alignment with South Africa's national climate priorities.

Given the scale and complexity of adaptation financing, the fund must be governed by a robust institutional framework that ensures sound financial management, inclusive decision-making, and accountability to funders and beneficiaries alike.

The governance architecture of the CCRF will balance technical, financial, and political considerations, ensuring that it remains credible, responsive, and capable of mobilizing and deploying resources effectively.

The governance framework will be designed to build investor confidence, streamline decision-making, and integrate diverse stakeholder perspectives, ensuring that the fund delivers on its mission of enhancing South Africa's climate resilience.

3.6.1 Governance and Management structures

The CCRF's governance structure will consist of a multi-tiered framework, ensuring clear roles, strong oversight, and strategic guidance. The core governance components will include:

(1) Governing Board

The CCRF Board will provide strategic direction, fiduciary oversight, and institutional leadership. It will be composed of a diverse cohort of directors, ensuring representativity from government, private sector, civil society, and climate finance experts. The board's responsibilities will include:

1) Approving strategic plans, funding priorities, and investment guidelines.
2) Ensuring alignment with national climate policies, the Climate Change Act, and international commitments.
3) Overseeing governance structures, ensuring adherence to fiduciary and risk management protocols.
4) Reviewing fund performance, approving major investments, and maintaining high-level accountability.
5) The board will meet regularly to evaluate progress, approve funding mechanisms, and ensure that the fund remains financially sustainable and aligned with adaptation objectives.

(2) Investment Committee (IC)

The Investment Committee will be responsible for evaluating project proposals, assessing financial viability, and approving funding allocations. This body will ensure that funds are deployed strategically, balancing risk, impact, and scalability.

Key functions of the IC will include:

1) Screening and approving investment proposals based on financial and impact criteria.
2) Overseeing blended finance structures, ensuring co-investment from private and public sources.
3) Ensuring that all financing mechanisms align with the fund's outcomes-based approach.

A differentiated approval process based on project size and risk profile will ensure that high-impact investments are fast-tracked, while larger, more complex projects undergo enhanced due diligence and risk assessment.

(3) Technical Advisory Committee (TAC)

To ensure that projects are technically sound, scalable, and aligned with adaptation needs, the CCRF will establish a Technical Advisory Committee (TAC), composed of sectoral experts in climate resilience, infrastructure, water security, disaster management, and ecosystem restoration.

Key functions of the TAC will include:

1) Provide technical guidance on project design, risk assessments, and climate resilience strategies.
2) Ensure that funded initiatives align with the latest climate science and best practices.
3) Evaluate projects based on their potential to deliver long-term resilience and economic co-benefits.

By integrating expert technical advice into the decision-making process, the CCRF will ensure that all funded projects are scientifically robust, scalable, and impactful.

3.6.2 Compliance, Monitoring and Evaluation

To maintain accountability, transparency, and financial integrity, the CCRF will implement a comprehensive compliance and monitoring framework.

Rigorous monitoring and evaluation (M&E) protocols will be a core function of the fund, ensuring that investments are tracked, performance is measured, and outcomes are verified.

The CCRF's M&E framework will include:

1) Internal and external audits, conducted regularly to ensure financial integrity and operational efficiency.
2) Independent impact evaluations, ensuring that adaptation investments deliver measurable resilience benefits.
3) Periodic institutional reviews, assessing governance effectiveness and recommending improvements.
4) Transparent reporting practices, ensuring that funders, stakeholders, and the public have access to detailed financial and impact reports.

Additionally, the CCRF will establish a centralized data management system, integrating real-time tracking of adaptation investments, financial flows, and project outcome, to enable evidence-based decision-making, adaptive learning, and performance improvement.

3.6.3 Policy alignment and Coordination

A well-functioning adaptation fund must be deeply integrated into national climate finance frameworks and policy mechanisms. The CCRF will ensure alignment with South Africa's national climate strategies, including the Climate Change Act, the National Adaptation Strategy (NAS), and the Disaster Risk Financing Strategy.

By working closely with National Treasury, the Department of Forestry, Fisheries and the Environment (DFFE), and the Department of Cooperative Governance and Traditional Affairs (CoGTA), the CCRF will:

1) Ensure coherence between adaptation financing and national development priorities.
2) Facilitate regulatory streamlining, ensuring that climate finance mechanisms are well-integrated into public and private sector financial systems.
3) Coordinate with municipalities and provincial governments to ensure localized adaptation financing.

The CCRF will also play a convening role, bringing together government agencies, international climate funds, private investors, and development finance institutions to ensure that adaptation finance is strategically deployed, leveraged, and scaled for long-term impact.

3.6.4 Stakeholder engagement and transparency

To build trust and ensure broad stakeholder participation, the CCRF will establish inclusive decision-making processes, participatory governance structures, and regular engagement forums.

Key engagement mechanisms will include:

1) **A Funders' Committee**, composed of public and private investors, ensuring that fund design and execution align with investor priorities.
2) **Community and civil society representation**, ensuring that climate adaptation investments reflect the needs of vulnerable populations.
3) **Regular stakeholder dialogues and consultations**, facilitating knowledge exchange, project feedback, and policy alignment.

Transparent communication and open-access reporting platforms will ensure that the CCRF remains accountable to funders, beneficiaries, and the public.

The governance structure of the CCRF will be designed to maximize efficiency, ensure accountability, and foster investor confidence. By establishing a strong governing board, dedicated investment and technical advisory committees, and robust compliance mechanisms, the fund will be well-positioned to deploy climate finance effectively.

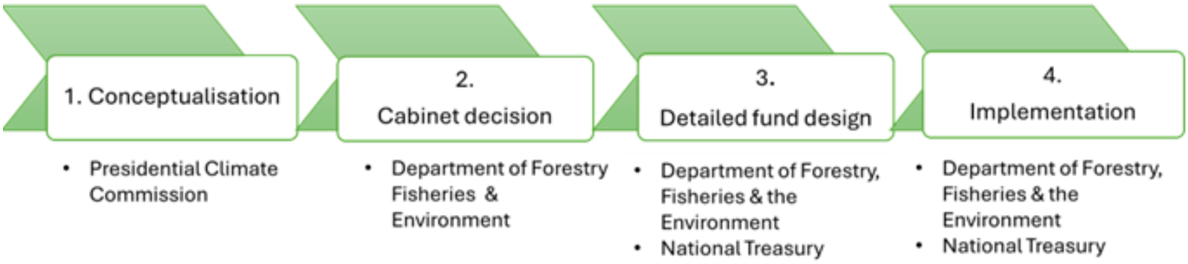
4. Conclusion

This report outlines the foundational framework for the Climate Change Response Fund (CCRF), a dedicated financing mechanism aimed at closing the country's adaptation financing gap while strengthening long-term climate resilience.

The CCRF is designed to leverage the strengths of both public and private sector financing, ensuring that adaptation investments are both impact-driven and financially sustainable.

The fund's blended governance and investment approach will allow public sector contributions to provide stability, oversight, and strategic alignment with national priorities, while private sector participation will unlock efficiency, innovation, and scalability in financing climate resilience projects.

Figure 4: Summary Workflow of Way Forward and Implementation Steps



To bring the fund to full operationalization, several key steps must be undertaken. Once a cabinet decision has been taken on the establishment of the fund, a comprehensive feasibility study and business case will be required .

This will involve assessing the most appropriate institutional home for the fund, defining governance and operational modalities, and outlining the most effective mechanisms for capital mobilization and resource allocation.

(1) Legal and institutional agreements, including a Memorandum of Agreement (MoA) between the fund's proponents and its host institution, must be established to clarify roles, responsibilities, and governance oversight.
(2) A Board Charter must also be developed to define the structure and decision-making processes of the governing board, alongside the establishment of key governance committees, including an Investment Committee and a Technical Advisory Committee, to ensure financial and technical soundness of funded projects.
(3) On the financing side, formal agreements with bilateral donors, multilateral climate funds, and private sector partners must be negotiated to secure long-term, predictable funding flows.
(4) The development of financial instruments such as blended finance mechanisms, credit enhancement tools, and impact-linked financing models will be critical in ensuring that the fund can attract and deploy resources effectively.
(5) A Project Prioritization Framework will be developed to ensure that financing decisions are strategic, and aligned with South Africa's climate adaptation priorities, while a Monitoring, Evaluation, and Learning (MEL) system will be essential for tracking fund performance, project outcomes, and financial accountability.

Given the complexity of adaptation financing, a phased approach to the CCRF's establishment is necessary. In its initial phase, the fund should be housed within an existing Development Finance Institution (DFI), leveraging its financial management capacity and governance infrastructure while allowing for early implementation and testing of financing models.

By committing to a well-structured, well-governed adaptation finance facility, South Africa can unlock new sources of climate finance, drive systemic resilience-building efforts, and protect its most vulnerable populations from the increasing impacts of climate change.

By fostering innovative financing models, strengthening institutional capacities, and ensuring that resources are allocated efficiently and equitably, the CCRF can scale adaptation investments across sectors, positioning South Africa as a leader in climate resilience.

As the fund matures, it can expand its financial instruments, deepen private sector engagement, and develop more complex risk-sharing mechanisms, such as climate insurance facilities, sovereign risk pooling, and carbon market linkages under Article 6 of the Paris Agreement.

The CCRF is not just a financial instrument but a transformative initiative that will redefine the country's adaptation landscape, ensuring that climate finance is accessible, sustainable, and effective in driving long-term resilience.

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Appendix 1: Outcome areas for CCRF

1. Strengthening Anticipatory Capacity - **Enhancing knowledge, preparedness, and risk assessment to mitigate future climate impacts**

Improved climate risk forecasting and preparedness	1. Development and **integration of climate risk assessments** into local, regional, and national planning processes. 2. Establishment of **climate adaptation policies and action plans across** government and private sectors.
Advanced early warning systems	1. Expansion of **multi-hazard early warning systems** with real-time data integration. 2. Strengthened **evacuation protocols** and response mechanisms leading to reduced casualties and property loss during extreme weather events.
Capacity building and public awareness	1. Increased **community preparedness** through climate awareness campaigns and disaster risk education programs. 2. Improved access to **climate information and learning resources** for schools, municipalities, and businesses.
Institutional capacity for adaptation implementation	1. Strengthened **government, community and private sector capacity** to design, finance, and implement climate adaptation projects effectively. 2. Establishment of **technical training programs** to enhance institutional climate governance.

2. Enhancing Resilience to Climate Impacts - **Reducing vulnerability and strengthening adaptive capacity across ecosystems, economies, and communities**

Ecosystem-based adaptation and natural resource resilience	1. **Restoration of watersheds, wetlands,** and **mangroves** to enhance flood and drought resilience. 2. Expansion of **afforestation and reforestation programs**, leading to measurable increases in carbon sequestration and biodiversity. 3. **Reduction in soil erosion and desertification** through land rehabilitation efforts.
Climate-smart agriculture and food security	1. Adoption of **drought-resistant crops** and climate-resilient farming techniques, improving food production stability. 2. Expansion of **sustainable water harvesting, irrigation, and soil management** to increase agricultural productivity. 3. Increased **diversified income opportunities** for farming communities to reduce dependency on climate-sensitive crops.

Water security and resilient infrastructure	1. Increased access to **clean and reliable water supply** for climate-vulnerable communities. 2. Implementation of **water conservation programs** to reduce municipal water loss 3. Improved **drainage systems** and urban flood control infrastructure to reduce flood risks in high-exposure areas
Resilient urban planning and housing	1. Integration of **climate-resilient design** into housing and infrastructure for vulnerable populations. 2. Expansion of **green spaces in cities** to mitigate heat island effects and improve urban climate resilience. 3. Enhanced **energy efficiency** in buildings to reduce vulnerability to extreme temperatures.
Economic resilience and social inclusion	1. Creation of **climate-resilient jobs and businesses** in renewable energy, ecotourism, and sustainable agriculture. 2. Expansion of **microfinance and insurance programs** to protect vulnerable communities from climate shocks. 3. Increased **participation of women and marginalized groups** in climate adaptation programs, ensuring equitable distribution of resources.

3. Strengthening Disaster Response Capacity- **Enhancing rapid response mechanisms to minimize loss and accelerate recovery**

Advanced early warning and rapid response systems	1. Strengthened **early warning networks**, integrating meteorological, hydrological, and geospatial data for more precise forecasting. 2. Increased **investment in real-time monitoring and emergency communication systems** to facilitate faster response to climate disasters.
Preparedness and emergency response planning	1. Improved **evacuation planning, infrastructure, and coordination** to minimize casualties and economic disruptions. 2. Establishment of **local disaster risk response teams**, ensuring rapid mobilization in high-risk areas. 3. Expansion of **community-based disaster preparedness programs**, ensuring all residents understand response procedures.
Resilient recovery and reconstruction	1. Strengthened **post-disaster recovery frameworks** ensuring faster rebuilding of infrastructure and services. 2. Expansion of **emergency financial assistance** for affected households and businesses. 3. Development of **resilient rebuilding strategies** to ensure post-disaster reconstruction aligns with climate adaptation standards.