Understanding the Allocation of
Climate Finance in the Global South

Collaboratively Mapping Knowledge Frontiers and Identifying Pathways for Action in Climate Finance in South Africa

Workshop Report

15 June 2026

Table of Contents

Abbreviations

ACDI	African Climate and Development Initiative
CPI	Climate Policy Initiative
NCQG	New Collective Quantified Goal
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
SIDAFF	Sustainable Infrastructure Development and Finance Facility
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States Dollar
ZAR	South African Rand

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About this report

This report synthesises insights from a climate finance workshop co-hosted by ClimateFiGS (University of Amsterdam) and the African Climate and Development Initiative (University of Cape Town) in Cape Town on 17 February 2026. The workshop brought together 15 participants, including practitioners, policymakers, and researchers, to reflect on persistent gaps, emerging challenges, and promising approaches to address them.

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The interpretations presented in this report remain those of the authors alone and should not be read as representing the views of any participant, organisation, or co-hosting institution.

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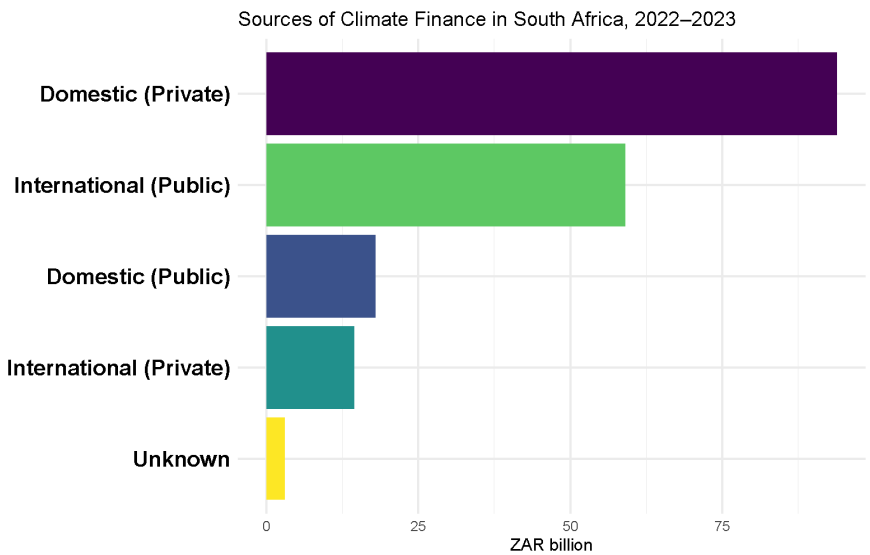
1. Introduction

South Africa offers a valuable case for examining climate finance. Compared to many countries in the region, South Africa has relatively strong financial markets and institutional capacity, and attracts substantial volumes of climate finance, including from domestic private actors (Figure 1). At the same time, the country faces many of the structural challenges characteristic of countries in the Global South, including deep inequality, energy transition pressures, and high climate vulnerability. This combination makes the insights presented in this report relevant not only to South Africa but also to wider debates on climate finance in the Global South.

Workshop discussions emphasized that climate finance challenges are not only technical, but also political and institutional. As one participant noted, "climate change is a market failure, but it has become a system failure," highlighting how barriers to accessing climate finance extend beyond individual instruments or actors to broader governance and institutional challenges. The workshop also reinforced the value of continued exchange across sectors and stakeholder groups.

The remainder of this report is structured as follows. Section 2 synthesizes workshop discussions on challenges in climate finance tracking, Section 3 on barriers facing municipalities and other subnational actors, and Section 4 on alternatives to project-based approaches. Section 5 discusses the implications of different climate finance instruments, while Section 6 explores insights into private climate finance. Finally, Section 7 highlights key research gaps and policy insights that emerged from the discussions.

Figure 1. Climate finance in South Africa by origin in 2022-2023. Based on data from the Climate Policy Initiative (CPI) and the Presidential Climate Commission 2025[1].



[1] Figure created with data reported in: de Aragão Fernandes, P., Gwebu, L., Johansson, L., Koopman, S., Meattle, C., Munkombwe, L., Price, M., Taylor, M. (2025). South African Climate Finance Landscape 2025. Presidential Climate Commission, South Africa.

2. Challenges in climate finance tracking

Tracking climate finance from initial commitments to final beneficiaries is essential for evaluating whether resources are allocated effectively and ultimately achieve their intended impact. However, doing so remains difficult. Challenges include inconsistent reporting standards, limited transparency, difficulties tracing funds across multiple implementing actors and governance levels, and subnational data availability.[2]

Two issues were discussed in detail. The first concerns the criteria used to classify and quantify climate-related projects across datasets. At the international level, climate finance reporting frameworks, including those under the United Nations Framework Convention on Climate Change (UNFCCC) and the Organisation for Economic Co-operation and Development (OECD), have long faced debates over what should qualify as climate finance. These debates include disagreements over the use of the Rio Markers[3], differences between OECD and UNFCCC reporting methodologies, and the classification of "cross-cutting" activities that may only partially contribute to climate objectives.[2] These challenges arise across countries and in the South African context, where a recent analysis of nearly 1,500 projects registered in the National Climate Change Information System found that many projects classified as climate-related were not clearly climate-focused (ACDI 2026).[4]

The second challenge relates to understanding the geographic distribution of climate finance at the subnational level. Research presented at the workshop, based on evidence from Central America,[5] found that gaps in subnational data can obscure misalignment between climate finance allocation and nationally determined climate priorities, and may also facilitate clientelist patterns in the distribution of funds.

Lack of standardized, granular data constrains the ability to track funds across governance levels and assess whether climate finance is aligned with local needs. Accordingly, participants identified both persistent data gaps and

[2] For a broader discussion of tracking challenges and potential solutions, please see the ClimateFiGS Report "Mapping the Climate Finance Tracking Knowledge Frontier" 2025.

[3] The Rio Markers are qualitative policy markers used in the OECD Creditor Reporting System (CRS) to identify development finance activities that target the objectives of the Rio Conventions on climate change mitigation, climate change adaptation, biodiversity, and desertification. Activities are scored according to their stated objectives as principal (2), significant (1), or not targeted (0). From: OECD DAC Working Party on Development Finance Statistics, Reporting Rio Markers and Environmental-Related Development Finance in the OECD Creditor Reporting System (CRS): Handbook for Reporters (Paris: OECD, 2025).

[4] New, M., Sibanda, D., Mutegi, R., Odoom, E., and Methner, N. (2026), Climate Projects in South Africa, unpublished presentation.

[5] Alberola (2024), Politics Biases the Allocation of International Funds for Climate Change Adaptation, unpublished.

the limited analysis of subnational climate finance allocation as important areas for future research.

3. Challenges for subnational actors

The state of climate finance at the subnational level, especially for municipalities, was a central focus of workshop discussions. Participants emphasised that limited technical, financial, and governance capacity constrain municipalities' ability to design, finance, and implement bankable projects. Project preparation was described as costly and resource-intensive and emerged as a key area where technical and funding support is needed.

More broadly, discussions highlighted tensions between funder priorities and local needs. Funders tend to prioritise measurability, predictability, and risk reduction, which can favour standardised and short-term interventions over more adaptive or locally responsive approaches. Limited access to funding information further compounds these barriers, as many actors struggle to navigate fragmented bilateral, multilateral, and private funding requirements.

Approaches discussed to increase municipalities' access to climate finance spanned actions by governmental and non-governmental actors, as well as strategies municipalities can pursue individually and through coordination with other jurisdictions. Areas where governments, inter-governmental organisations, and NGOs can support municipalities include reducing investment risk for private investors (e.g., through blended finance instruments), creating spaces for dialogue between municipalities and funders, and building technical capacity through hands-on support to help municipalities compete more effectively for climate finance. Other strategies discussed included improving coordination across municipalities to leverage resources, such as through project aggregation where feasible. Another suggestion involved municipalities borrowing against future revenue streams to access upfront financing; however, participants expressed differing views regarding the feasibility and contextual appropriateness of this approach.

Workshop discussions also pointed to existing mechanisms that could be scaled to channel climate finance to subnational actors. One example is the Sustainable Infrastructure Development and Finance Facility (SIDAFF), a programme led by the Western Cape Government in partnership with GreenCape. SIDAFF supports municipalities through project preparation support, technical assistance, and blended finance mechanisms designed to help develop bankable infrastructure projects and attract private investment.

4. Alternatives to project-based approaches

Participants discussed the challenges associated with project-based approaches, sometimes referred to as "projectification," whereby climate action is implemented

through stand-alone, time-bound interventions with predefined outputs and financing tied to individual projects.

The fact that many project-based initiatives are externally funded creates further challenges for long-term sustainability. Participants noted that climate finance is often accessed through specialised funding mechanisms that operate separately from domestic development processes, reinforcing project-based approaches. As a result, climate activities may be more difficult to institutionalise and sustain once external funding ends.

Throughout the workshop, participants acknowledged some advantages of project-based approaches, particularly their clarity, measurability, and attractiveness to investors. However, discussions focused more heavily on their limitations, including fragmentation, short time horizons, and difficulties addressing systemic or cross-sectoral challenges. At least three different alternatives to the project-based approach emerged, reflecting distinct objectives:

- Environmental and social-outcome-based approaches. These include "transformational," "ecosystem-based," and "whole-of-system" models, which emphasise long-term change, resilience, and systems thinking.
- Financial- and operational-efficiency-based approaches. These include "portfolio-based", "programmatic", and aggregation models, which focus on scaling finance and reducing transaction costs.
- A third perspective emphasises governance, focusing on moving beyond project-based approaches toward institutional change and addressing long-term structural barriers, including socioeconomic inequality, unemployment, longstanding grievances, and capacity gaps, in order to enable sustained investment flows.

5. Implications of climate finance instruments

Participants discussed the appropriateness of different climate finance instruments and their implications for long-term outcomes, particularly the use of loans, and especially market-based loans.[6] In a recent analysis of climate finance instruments in South Africa, 53.3% of total climate finance was provided in the form of debt, of which only 15.6% was concessional.[7] Participants raised concerns that market-based loans increase the debt burdens of countries already vulnerable to climate impacts. These discussions were frequently linked to broader environmental justice considerations and to the justice foundations of climate finance within the UNFCCC. Within this framing, climate finance

[6] A climate finance report by Oxfam (2025) found that in the years 2021-2022, loans made up two thirds of public climate finance and that most of them were offered on non-concessional terms. *Kowalzig et al. 2025 Climate finance shadow report 2025 analysing progress on climate finance under the Paris Agreement - Oxfam and Care*

[7] de Aragão Fernandes, P., Gwebu, L., Johansson, L., Koopman, S., Meattle, C., Munkombwe, L., Price, M., Taylor, M. (2025). South African Climate Finance Landscape 2025. Presidential Climate Commission, South Africa.

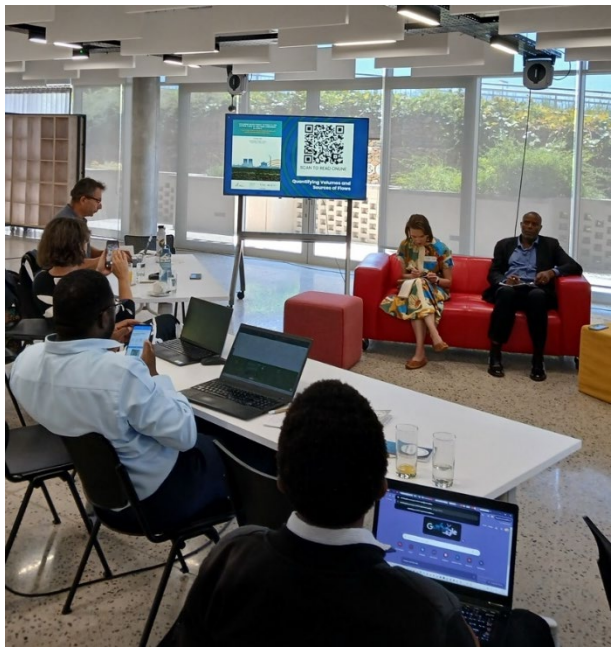
should be provided on favourable terms rather than through instruments that resemble standard commercial lending.

Despite broad consensus on the need for more affordable finance, discussions also reflected the perspectives of financial institutions, which emphasize the importance of developing more bankable projects capable of attracting private capital, including through conventional lending instruments. As such, no shared position emerged on how climate finance should be defined or operationalised in practice. Rather, discussions reflected the diversity of priorities and institutional perspectives that must be considered in climate finance approaches.

6. Insights into private climate finance

At the global level, private climate finance accounts for over half of total tracked climate finance flows.[8] This reflects the increasingly significant role of the private sector in mobilising climate investment, a position that is expected to expand further under the New Collective Quantified Goal (NCQG) agreed at the 2024 meeting of the UNFCCC Conference of the Parties (COP29). The NCQG establishes a target of at least USD 300 billion annually by 2035 and calls for scaling total global climate finance to at least USD 1.3 trillion per year from both public and private sources.[9]

South Africa stands out within this context, with private finance accounting for around 42% of total tracked climate finance flows, equivalent to approximately ZAR 80 billion.[10] This share is significantly higher than the continental average, as private climate finance accounts for only around 18% of total flows across Africa, the lowest proportion of any region globally.[11]



Workshop discussions highlighted structural features shaping private sector engagement in climate finance in South Africa. Mitigation projects, especially in domestic renewable energy, were consistently seen as easier to finance than

[8] Based on estimates from 2018 to 2023 reported in: Climate Policy Initiative. 2025. Global Landscape of Climate Finance 2025.
[9] UNFCCC (2024), Decision -/CMA.6: New collective quantified goal on climate finance, adopted at CMA.6.
[10] Based on 2022–2023 estimates presented in report: de Aragão Fernandes, P., Gwebu, L., Johansson, L., Koopman, S., Meattle, C., Munkombwe, L., Price, M., Taylor, M. (2025). South African Climate Finance Landscape 2025. Presidential Climate Commission, South Africa.
[11] Based on 2021–2022 estimates reported in: Climate Policy Initiative. 2024. Landscape of Climate Finance in Africa 2024.

adaptation projects, reflecting private investors' preference for commercially viable opportunities with clear revenue streams and manageable risk. As a result, investment tends to flow toward conventional, quickly deliverable projects rather than more complex or systemic interventions.

In addition to discussing obstacles, participants also identified pathways through which private climate finance could be scaled up to support projects and regions that are not currently attracting this type of finance. This included strengthening project preparation and involving private actors earlier in project design to improve commercial viability, as well as the use of fiscal incentives and regulatory measures to shift investment and consumption patterns. For adaptation, participants discussed an alternative framing of private interest in terms of the costs of inaction, whereby investments may be motivated by the need to avoid future losses rather than generate immediate returns.

7. Research gaps & policy insights

Beyond highlighting the current state of climate finance and its challenges, a key outcome of the workshop was the collective identification of urgent areas for research and broader policy insights. We discuss these in turn below.

Research gaps

The workshop identified several knowledge gaps to which researchers can contribute meaningfully, highlighting climate finance access, delivery, and impact. In this regard, participants also emphasised the need to strengthen the translation of research into policy and practice, noting that evidence is often underutilised due to fragmented interfaces between research, finance, and policy, as well as limited capacity to absorb and apply findings. The following questions emerged as promising directions for future research:

1. **Clean energy transition risk:** Who holds financial risk across public, domestic, private, and international actors, and how does this distribution shape the political feasibility of reform?
2. **From knowledge generation to implementation:** Where and why does the chain break, and what mechanisms can improve uptake of research into decision-making and implementation?
3. **Where projects fail in the pipeline:** Where and why do projects stall, fail, or do not reach completion across the preparation and implementation chain?
4. **Comparing climate finance approaches and outcomes:** How do different financing structures (e.g., blended finance), governance models (e.g., local ownership, local decision-making, devolution), and delivery approaches (e.g., programmatic vs project-based) shape outcomes, and how can the effects of specific instruments and terms be measured and compared (e.g., concessionally, conditionalities, mineral-rights swaps)?
5. **Financial needs declared in national policy documents:** To what extent do national policy documents, such as Nationally Determined Contributions (NDCs) reflect

actual priorities, and are they shaped by prior finance received, strategic incentives to inflate/deflate estimates, and other political and institutional factors?

6. **Transition pathways across fossil fuel stages:** How do countries at different transition stages manage risks and align their actions with national and international targets?
7. **Project preparation vs. implementation costs:** What is the balance of spending between preparatory and implementation phases, and how does this affect project viability and outcomes?
8. **Subnational distribution of climate finance:** What subnational allocation patterns are visible, and what political and institutional factors shape them?
9. **Evidence on adaptation outcomes**: Do adaptation projects achieve intended results, including resilience gains, loss reduction, and improvements in quality of life, and how can these impacts be measured rigorously?

Policy insights

The workshop also generated insights for governments, funders, and other decision-makers to improve climate finance access and outcomes, which are presented below.

1. **Access and delivery require systems-level thinking, not only additional funding:** Improving climate finance outcomes demands a systems-level approach that addresses governance, institutional capacity, coordination, and domestic ownership, alongside binding macro-fiscal constraints such as debt sustainability, limited domestic asset bases, and import dependence, which jointly shape both access to and the effective delivery of finance.
2. **Mainstreaming:** Climate finance needs to be integrated into core budgets, governance systems, and institutional decision-making processes. Grants can help initiate projects, but without mainstreaming, millions may be spent without sustained improvement. Results frameworks should be redesigned to support long-term resilience, rather than only short-term measurable outputs.
3. **Municipal bankability is a structural bottleneck**: Many municipalities are not considered bankable, while operational funding gaps remain critical and underfunded. Participants discussed the need for credit guarantees, project aggregation, and more strategic use of municipal borrowing frameworks to expand subnational access to climate finance, particularly for municipalities with stronger fiscal and institutional capacity, such as major metropolitan areas. At the same time, discussions highlighted that these approaches may be less feasible in municipalities facing severe resource constraints and competing socioeconomic priorities.
4. **Targeting and transparency:** Subnational vulnerability mapping should guide adaptation allocations. Centralised funding information platforms and geolocated project data are needed to improve transparency and ensure finance reaches those most exposed to climate risk.
5. **Domestic risk definition and intermediation:** Risk is currently priced by foreign actors and institutions, raising costs and weakening local ownership. National

development banks and project preparation facilities need to be strengthened as domestic intermediaries between international climate finance and local project pipelines.

6. **Incentives for private sector investment:** Private sector participation requires credible commercialisation pathways and fiscal incentives. Disclosure and taxonomy reforms alone are insufficient and need to be sequenced carefully, given capacity and data constraints.
7. **Evidence-based allocation:** Climate science, risk assessments, and scenario-based planning should inform climate finance allocation decisions. While climate risk is only one of several considerations shaping climate finance priorities, strengthening the evidence base underpinning allocation decisions can help improve alignment between investments and local resilience needs.
8. **Fiscal and guarantee policies for Paris Alignment:** Paris Alignment refers to the goal established under Article 2.1(c) of the Paris Agreement of making financial flows consistent with pathways toward low-emission and climate-resilient development. Workshop discussions underlined that achieving this objective requires more than mobilising additional climate finance from external sources; it also involves reorienting domestic financial systems and public policy frameworks. In this context, fiscal instruments, including incentives, disincentives, price instruments, and state guarantees, were discussed as central levers for aligning investment decisions with climate objectives. Participants argued that Article 2.1(c) should therefore be understood not only as an international finance target, but also as a domestic reform agenda.