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National Treasury
REPUBLIC OF SOUTH AFRICA

DIRECTOR-GENERAL: NATIONAL TREASURY
MINISTER OF FINANCE

UPDATE ON THE DISASTER RISK MITIGATION WORK PROGRAMME

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Date	: 07 JULY 2025
Enquires	: Dennis Machobani

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MEMORANDUM

MINISTER OF FINANCE
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MINISTER OF FINANCE
1200 (2025)

TO	Enoch Godongwana | Minister of Finance
FROM	Christopher Axelson | Acting Deputy Director-General
DIVISION	Tax and Financial Sector Policy
DOC REF.	EPIFR 71/25; FSPU 57/25
DATE	07 July 2025

UPDATE ON THE DISASTER RISK MITIGATION WORK PROGRAMME

1. PURPOSE

To update the Minister on the Disaster Risk Mitigation Work being undertaken by National Treasury, and further to request the Minister to:

- Approve the publication of the Disaster Risk Financing Strategy (**Annexure A**);
- Approve the publication of a survey of municipalities' experience with disaster risk finance (**Annexure B**);
- Note the submission of a letter to selected municipalities to be signed by the Director-General of National Treasury requesting their cooperation with ongoing work to introduce parametric insurance as a complementary mechanism to reduce disaster risk (**Annexure C**).
- Approve the release of a press statement (**Annexure D**);

2. BACKGROUND

2.1 The cost of disasters, both climate related and other, has risen significantly over the past several years. Disasters impose significant economic and social costs. Between 1952 and 2019, South Africa suffered economic losses from natural disasters amounting to R172bn, with a substantial portion absorbed by the fiscus (see Figure 1).

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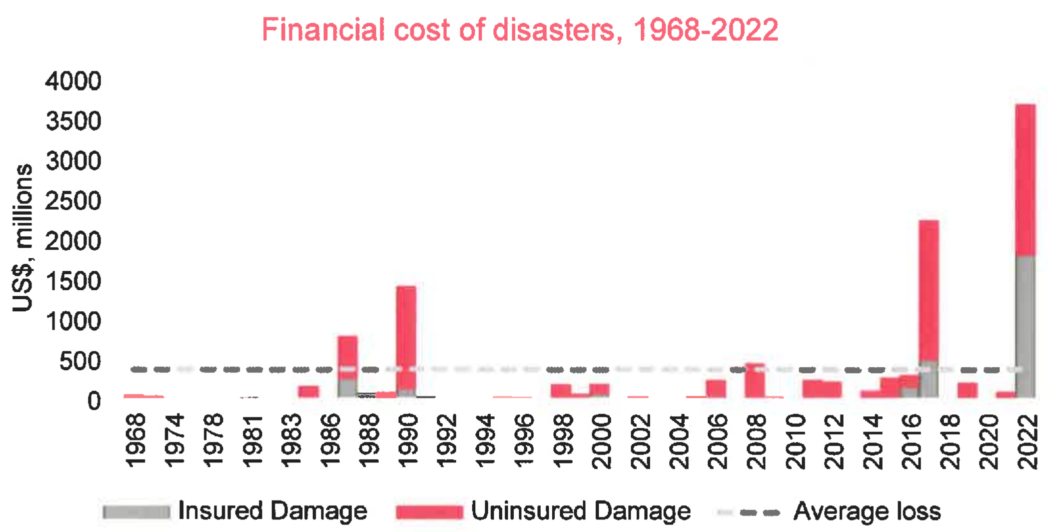
UPDATE ON DISASTER RISK MITIGATION WORK PROGRAMME

Figure 1 The financial cost of disasters has been rising



2.2 Disasters are often financed through reprioritisation of money from essential services such as education, health and safety. This approach erodes current and future development gains as costs to the repair and reconstruction of existing infrastructure, humanitarian response and aid to affected households and businesses are made with development funds. This approach sets the country on an unsustainable path as the losses are now factored on two fronts, i.e. development funds reduce, and losses increase.

3. DISCUSSION

3.1 National Treasury has been working closely with the World Bank on a comprehensive disaster risk mitigation strategy and workplan. This work cuts across multiple divisions, including Intergovernmental Relations, Tax and Financial Sector Policy and the City Support Programme. Where necessary, consultations have been held with the Asset and Liability Management Division.

3.2 Following a Disaster Risk Financing Diagnostic, published in 2023, three pieces of work have been undertaken:

- A Disaster Risk Financing Strategy;
- A survey of municipality's experience with disaster risk financing instruments; and
- The potential for the introduction of parametric insurance at a municipal level.

These three are discussed in more detail below.

3.2.1 DISASTER RISK FINANCING STRATEGY (ANNEXURE A)

This Disaster Risk Financing Strategy builds on the comprehensive Disaster Risk Finance Diagnostic (the "Diagnostic") undertaken by the World Bank, jointly with National Treasury.[1] The Diagnostic showed that the strategy prioritises three areas, namely:

- Increasing the availability of funds;
- Improving the distribution of those funds; and
- Enhancing ongoing disaster-related data collection.

Each of these is discussed individually below:

Increasing the availability of funds

The strategy sets out a programme of work to increase the availability of funds. Currently, South Africa relies heavily on the fiscus for disaster relief, which often necessitates the reprioritisation from planned development expenditures. This undermines sustainable development and draws attention to the urgency of addressing the dependency on budget reallocations. The strategy proposes that, where appropriate, disaster response involves other financial sources beyond the fiscus, such as a contingency fund and risk transfer (e.g., sovereign and private insurance). This could involve the private sector in South Africa (e.g., insurance of public buildings) or alternative public/private sector providers (e.g., international development finance institutions or risk pools offering sovereign insurance). Where it is more efficient to retain risks, appropriate processes are required to ring-fence funds and minimise the cost of emergency reallocations.

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[1] Available online on: https://documents1.worldbank.org/curated/en/099742311072334460/pdf/IDU075f77db50660c0401e087780c7d7beb1447c.pdf

Improving the distribution of funds

The strategy proposes a programme of work to improve the national government's capacity to distribute funds to provincial and municipal governments efficiently. This involves a comprehensive review of the grant system for disasters, which includes incentives for preparedness among government spheres as well as financial instruments designed to quickly meet the response needs of municipalities.

The proposed programme will streamline the approval processes and leverage technology to support intergovernmental transfers with automatic triggers, thereby expediting the availability of funds during emergencies. A vital part of this strategy is also to ensure that municipalities have access to and provide high-quality data, required for informed decision-making and effective disaster response.

Enhancing ongoing disaster-related data collection

The strategy emphasises the need to strengthen data collection efforts. This includes gathering detailed information on the sources and use of funds related to specific disasters, as well as on the maintenance status of public assets to facilitate their insurability. To complement these efforts, the strategy advocates for making DRF data publicly available and sharing this data with the private sector, specifically insurance companies. This is vital for fostering a collaborative environment and enabling more informed decision-making across all sectors. This could be complemented by building incentives for private insurance companies to share their loss data, which could improve the understanding of risks and pricing of insurance products.

Consultations on the Disaster Risk Strategy

The National Treasury undertook extensive consultations on the Disaster Risk Strategy, both with broader government and with the private sector.

The Strategy was presented to the Technical Budget Forum and Technical Committee of the Budget in February 2024. Earlier drafts were discussed in a variety of intergovernmental fora, including the Western Cape CFO forum and other fora.

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REPUBLIC OF SOUTH AFRICA

MEMORANDUM

UPDATE ON DISASTER RISK MITIGATION WORK PROGRAMME

Table 1 Stakeholders consulted

Stakeholder	Role
National Treasury	Overall strategy owner and implementer
Financial & Fiscal Commission	Advisory role in determining revenue division and budget planning
Various government Departments	Will have information on the people affected and can advise on how quickly funds should be sent
Provincial Treasuries	Manage response finances and implement provincial strategies
Municipal parastatals	Main response activity implementers
Municipalities	Main response coordinators and responsible for raising additional funds
Insurers and reinsurers	Critical to mobilize private finance for disaster responses
Private business associations	Key partners to help with timely and cost-effective responses
NGOs	Participate in response and data collection efforts

It is proposed that the strategy is now released and placed on National Treasury's website.

Short-Term Recommendations:

1. Review and update municipal insurance databases to ensure an accurate record of insured assets within municipal insurance pools.
2. Improve data quality in municipal information systems to enhance insurance capacity and risk assessment.
3. Strengthen oversight of municipal asset maintenance programs, potentially linking compliance to financial incentives. For example, the National Treasury could subsidize a portion of insurance premiums for municipalities meeting a defined maintenance standard.
4. Revise the municipal insurance tendering process to prioritize risk management and long-term resilience.
5. Incorporate municipal insurance into capacity-building and knowledge-exchange programs for key municipal officials.

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Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEMORANDUM

Medium to Long-Term Recommendations:

1. Explore a public-private partnership (PPP) model for insuring critical public infrastructure and services.
2. Establish a FinTech/InsurTech challenge fund to address market failures in insurance for low-income households and MSMEs.
3. Develop a national MSME database to enhance the efficiency, speed, and transparency of disaster-related expenditure mechanisms.
4. Expand the use of multidimensional social risk models to support the development of social unrest-related insurance products.

3.2.2 SURVEY OF MUNICIPALITIES (ANNEXURE B)

The National Treasury surveyed the 40 municipalities at highest risk of natural disasters over the financial years 2022/23 and 2023/24. The results highlighted significant delays in municipalities accessing disaster response funds and recovery grants, averaging five months and 12.25 months respectively. These delays hinder an effective response in resource-constrained municipalities. Complex application, verification and reporting processes, combined with limited technical capacity, exacerbate the delays, particularly in smaller municipalities. Challenges such as access to disaster sites, reliance on consultants and unclear processes are contributing factors.

In coastal and rural municipalities, which are heavily reliant on disaster recovery grants, reported expenditure often falls below allocations due to data discrepancies – such as issues with data quality and reporting practices – and spending challenges. Disaster risk reduction remains underfunded, with ageing infrastructure and poor maintenance increasing vulnerability. Inefficiencies are worsened by fragmentation, delays in provincial collation for disaster declarations and unclear roles across government.

The instruments available to municipalities can be classified according to a matrix of severity versus urgency (see Figure 2). Notably, instruments for high severity / high urgency events (such as large, unexpected floods) are very limited.

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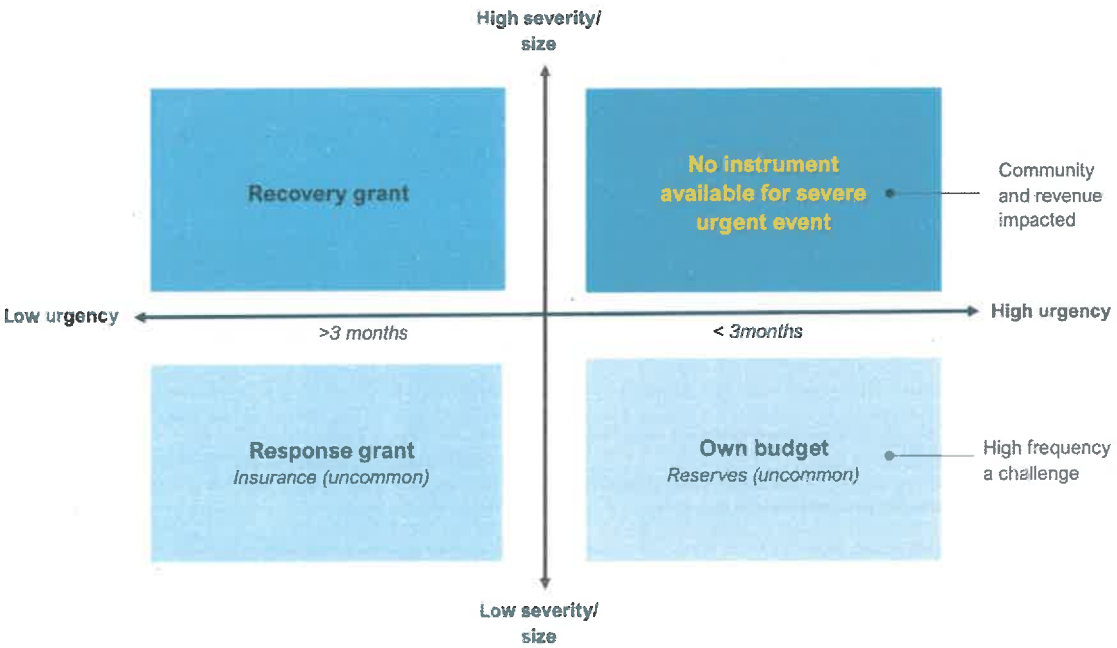
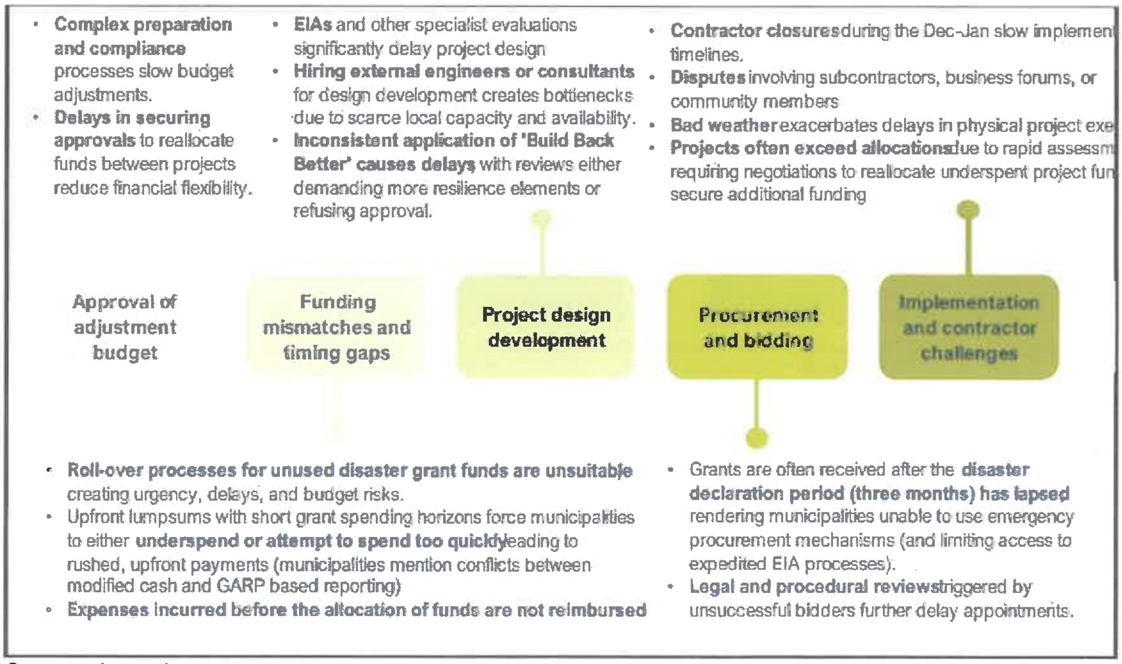
UPDATE ON DISASTER RISK MITIGATION WORK PROGRAMME

Figure 2 An instrument for urgent / high severity events is limited



Moreover, municipalities experience several issues relating to the existing grants process (Figure 3). This hinders an effective response.

Figure 3 Expenditure delays cited by respondents



Source: Interviews

3.2.3 PARAMETRIC INSURANCE (ANNEXURE C)

The next steps of the project are to undertake a detailed assessment of the viability of parametric insurance in metros that will be selected by the IGR Division. It is envisaged that metros with significant potential exposure to flood risk are the considered first for parametric insurance.
A generic letter (Annexure C) will be sent electronically to municipalities. It pertains to a survey of disaster risk finance approaches by municipalities and communicates that the next stage of work will investigate the potential for parametric insurance.

AXA Climate has been appointed by the World Bank to undertake the study. As highlighted in Figure 4, parametric insurance can add a new layer to the process.

Parametric insurance allows for a new approach to risk transfer. That said, it needs to be considered within the context of a holistic strategy at municipalities that considers a set of risk transfer and risk retention strategies.

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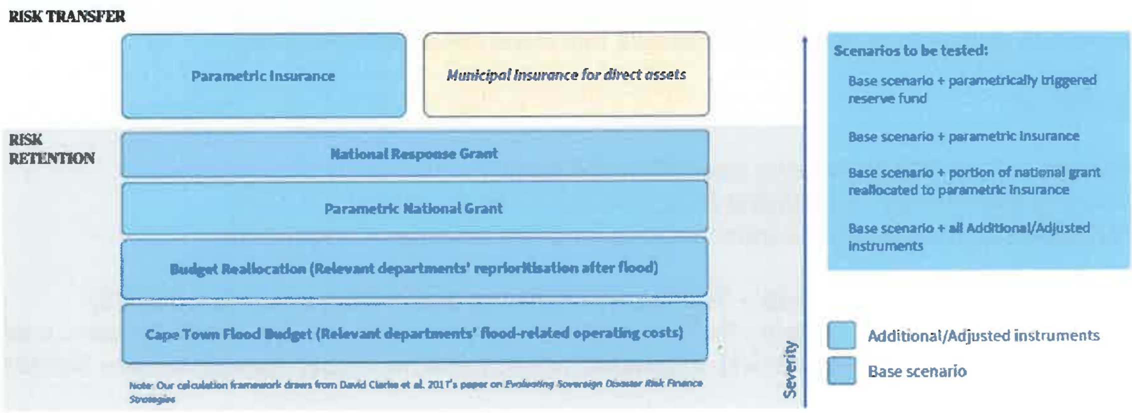
National Treasury
REPUBLIC OF SOUTH AFRICA

MEMORANDUM

Risk transfer involves shifting the financial consequences of a risk to a third party, typically through mechanisms such as insurance, outsourcing, or contractual agreements. For example, when a company purchases liability insurance, it is transferring the risk of financial loss due to legal claims to the insurer. This strategy is especially appealing when the potential loss is significant and unpredictable, making it difficult or undesirable for the company to bear the cost directly.

In contrast, risk retention means accepting the risk and dealing with any resulting losses internally. This might be a deliberate choice when the costs associated with transferring the risk outweigh the potential impact of the loss. Businesses often retain risk when the likelihood of occurrence is low, or the consequences are manageable. This strategy includes having self-insurance programs or setting aside reserve funds to cover potential losses. It can be a cost-effective approach, especially for high-frequency, low-severity risks where paying insurance premiums may not be economically justified.

Figure 4 Risk transfer including parametric insurance



The next steps in the project are to collect data from municipalities to inform the parametric insurance approach.

To advance this, two workshops are planned to explore barriers and identify solutions to improve how municipalities are insured against disaster risk. The first will engage the insurance industry, while the second will bring together a broader set of stakeholders, including municipalities, policymakers, regulators, and development partners.

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REPUBLIC OF SOUTH AFRICA

MEMORANDUM

UPDATE ON DISASTER RISK MITIGATION WORK PROGRAMME

Objectives of the industry engagement session

This workshop aims to identify barriers and opportunities for the insurance sector to play a greater role in municipal disaster risk financing (DRF). Key focus areas include:

1. **Revisiting market structure:** Assessing the need for alternative models or new layers of risk pooling/management to improve municipal coverage.
2. **Identifying specific actions:** Exploring opportunities in product development, regulatory reforms, capacity building, and risk management incentives to enhance municipal insurance.

Desired outcomes

1. **Short-term actions:** Identifying low-hanging fruit and immediate steps to improve municipal infrastructure insurance, enabling better risk-sharing between municipalities and the private sector.
2. **Longer-term solutions:** Exploring alternative models for municipal insurance in South Africa to provide sustainable and comprehensive risk cover for disaster events.

Workshop Format

Two workshops will be held to develop and refine solutions:

1. **Industry Workshop** – Identifying Plausible Solutions (by end of Q3 2025)
   Participants: Insurers, reinsurers, brokers, and risk managers, regulators

2. **Multi-Stakeholder Workshop** – Testing and Refining Solutions (by end of Q3 2025)
   Participants: National Treasury (NT), Insurance regulators (PA, FSCA), South African Local Government Association (SALGA), Insurance industry and municipal representatives, Market stakeholders (e.g. CSIR)

Workshop Agenda

Discuss findings from previous studies, including:

1. National DRF diagnostic
2. Municipal DRF Study
3. World Bank/National Treasury & AXA study on parametric insurance in South Africa

Brainstorm potential solutions across key areas:

1. Market structure: Evaluating risk-pooling mechanisms and self-insurance formalization.
2. Specific actions to enable solutions:
   - Product design for improved disaster coverage.
   - Regulatory reforms to address market constraints.

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REPUBLIC OF SOUTH AFRICA

MEMORANDUM

- Market entry strategies for insurers.
- Capacity-building and partnerships to support municipalities.

These discussions will ultimately inform actionable recommendations to strengthen disaster risk insurance for municipalities in South Africa with a focus on infrastructure cover.

A comprehensive workplan on improving risk management in municipalities is underway at National Treasury involving IGR, TFSPU and the Cities Support Programme.

4. RECOMMENDATION

It is recommended that the Minister:

- Approve the publication of the Disaster Risk Financing Strategy (**Annexure A**);
- Approve the publication of a survey of municipalities experience with disaster risk finance (**Annexure B**);
- Note the submission of a letter to selected municipalities to be signed by the Director-General of National Treasury requesting their cooperation with ongoing work to introduce parametric insurance as a complementary mechanism to reduce disaster risk (**Annexure C**).
- Approve the release of a press statement (**Annexure D**);

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RECOMMENDED NOT RECOMMENDED RECOMMENDED WITH COMMENTS

Signature
Name and Surname:
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Title: Chief Director – Financial Stability and Markets
Date: Dd-Mm-Yy

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RECOMMENDED NOT RECOMMENDED RECOMMENDED WITH COMMENTS

Signature
Name and Surname:
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Title: Acting Deputy Director-General – Tax and Financial Sector Policy
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RECOMMENDED NOT RECOMMENDED RECOMMENDED WITH COMMENTS

Signature
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Title: Chief Operating Officer– O DG
Date: Dd-Mm-Yy

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☒ RECOMMENDED ☐ NOT RECOMMENDED ☐ RECOMMENDED WITH COMMENTS

Signature
Name and Surname:
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Title: Deputy Director General: IGR
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☒ RECOMMENDED ☐ NOT RECOMMENDED ☐ RECOMMENDED WITH COMMENTS

Signature
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Title: Director General
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☒ APPROVED ☐ NOT APPROVED ☐ COMMENTS

Signature
Name and Surname:
Enoch Godongwana, MP
Title: Minister of Finance
Date: Dd-Mm-Yy 16/07/2025

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