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INFORMAL SETTLEMENTS AS CATALYSTS FOR A **JUST** **URBAN TRANSITION**

A dialogue project of Isandla Institute and the
Cities Support Programme (CSP) of National Treasury



Practice brief #3

Governance and funding for informal
settlement just transitions

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Background to the initiative

South Africa's economy needs to shift away from its reliance on coal and move towards a low-carbon economy. Given the rate and scale of urbanisation and the concentration of economic activity in cities, the Presidential Climate Commission has developed a **Just Urban Transition framework** that argues for the vital role of cities in decarbonising the economy and enhancing climate resilience while ensuring that inequality and social exclusion are addressed. To transition South Africa to a net zero economy in a manner that is just and inclusive, informal settlements cannot be left behind.

In 2023/24 Isandla Institute engaged experts, civil society organisations and informal settlement communities to explore what the just urban transition means for informal settlements and for informal settlement upgrading. The resulting synthesis *Making sense of a just urban transition for informal settlement upgrading* offers a provocation to key actors to think differently about the intersection between the just (urban) transition and the lived reality of millions of people in South Africa. Amongst others, it raises critical questions and opportunities to rethink the governance, programme structure and finance dimensions of informal settlement upgrading, such that vulnerabilities and risks are addressed, and socio-economic opportunities are leveraged.

Building on this seminal report, Isandla Institute in partnership with National Treasury's City Support Programme hosted three dialogues between April and July 2025 to deepen the understanding of a just urban transition for, with and in informal settlements. The participants represented a diverse range of actors from civil society, government, practitioners and experts working on informal settlements, climate change and the just transition. The dialogues focused on three themes:

- #1. Undoing the crises of vulnerability and spatial injustice: Prioritising informal settlements in the just urban transition
- #2. Centring the local economy in informal settlement upgrading
- #3. Governance and funding for informal settlement just transitions

This practice brief summarises the insights and recommendations related to **Theme #3**. The dialogue was structured around inputs from Lindiwe Johnson (Presidential Climate Commission), David Morema (Kuhle Solutions) and Dr Letsepa Pakkies (National Treasury). The dialogue was attended by Ros Gordon (independent), Gita Goven (ARG Design), Lindiwe Johnson (PCC), Adi Kumar (Isandla Institute), Seth Maqetuka (CSP), Pankie Matomela (CoGTA), Zodidi Meyiswa (SALGA), Charlotta Mokhethi (City of Ekurhuleni), Nishendra Moodley (EDP), David Morema (Kuhle Solutions), Daphne Ngoasheng (Habitat for Humanity SA), Lebogang Nkadimeng (City of Tshwane), Cassandra Nkuna (DBSA), Letsepa Pakkies (National Treasury), Zingisa Pango (SALGA), Kate Philip (The Presidency), Nonhlanhla Radebe (WWF), Kefiwe Sethoabane (DPME), Mirjam van Donk (Isandla Institute), Crystal West (DAG) and Charlton Ziervogel (CORC).

CONTEXT

There are over 4 000 informal settlements in South Africa (up from 3 200 reported in 2023), with over 70% of all informal settlements located in 15 municipalities.¹ Given the scale, nature and longevity of deprivation and neglect evident in informal settlements, informal settlement upgrading should be a national priority. Pursuing informal settlement upgrading through a just urban transition lens *and* at scale fundamentally challenges existing governance, fiscal and financial arrangements.

Grant funding for informal settlements has shifted over time, often delineated for specific components of upgrading, such as infrastructure and basic services, top structure/home construction, and neighbourhood level interventions. These are underpinned by various authorising and regulatory instruments that operate at local, provincial and national level. The Informal Settlement Upgrading Partnership Grant (ISUPG) was introduced to ringfence a minimum, predictable share of infrastructure funding for informal settlement upgrading, anchored in a programmatic approach. However, the uptake of the grant has been relatively weak, as National Treasury data shows: over the 3 financial years from 2021/22 until 2023/24, 84% of the grant allocated to provinces and metros had been utilised. Provinces performed slightly better than metros, spending 88% of the funds allocated, compared to 79% for metros.² Yet, as shown in Figure 1 and 2, in the context of broader fiscal consolidation future allocations of the ISUPG to provinces (as per the MTEF) will decline significantly, whereas the allocation to metros is set to increase, but not enough to offset the reduction in the provincial ISUPG.

1 The number of over 4 000 has been reported by the Minister of Human Settlements to Parliament in September 2024 (<https://pmg.org.za/committee-question/25992/>) and repeated by the same Minister at the National Urban Forum 2025 on 21 August 2025. A year earlier, in the draft White Paper for Human Settlements, dated November 2023, the number of informal settlements was reported as 3 200. The draft policy also mentions that 70% of informal settlements are found in 15 municipalities.

2 Presentation by the Department of Human Settlements to the Portfolio Committee, 22 August 2024 (https://www.google.com/url?sa=t&source=web&rct=j&opi=89978449&url=https://pmg.org.za/files/240822_-_Grants_Presentation.pptx&ved=2ahUKewjsnuT9up6PAxV_dUEAHcBKE98QFnoECCMQAQ&usg=AOvWaw2lu7O5R60D_LIMiyemDDk3)

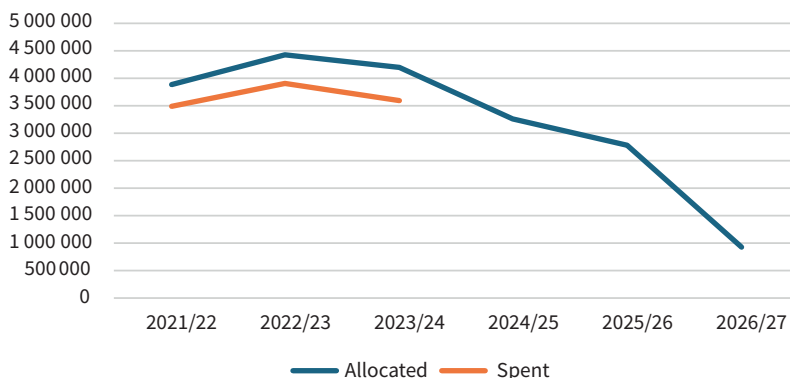


Figure 1: ISUPG-Provinces: Allocation vs expenditure R'000

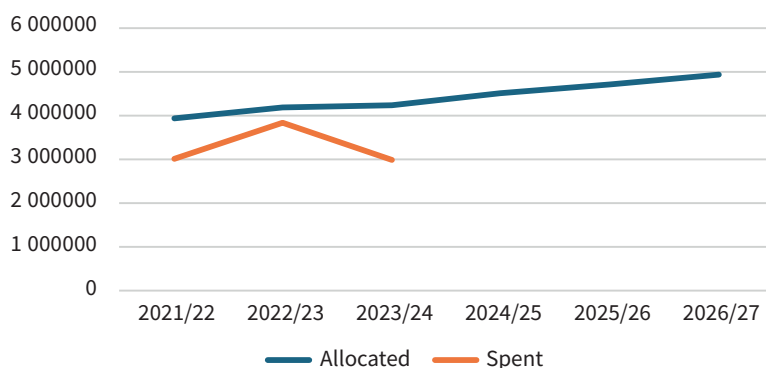


Figure 2: ISUPG-Municipalities: Allocation vs expenditure R'000

The close programmatic interface between the ISUPG and the Human/Urban Settlements Development Grant (HSDG/USDG, depending on whether it is allocated to provinces or metros) allows cities and provinces to ‘top up’ ISUPG allocations to safeguard delivery continuity for informal settlements. This approach balances fiscal restraint with the imperative to protect upgrading pipelines and outcomes for vulnerable communities. In practice, this alignment is insufficiently understood and pursued by municipalities.

Despite it being designed to enable a comprehensive approach to upgrading, the ISUPG has primarily been utilised to develop serviced sites, with other intended outcomes of the grant, such as social and economic amenities, settlement layout plans, land acquisition,

re-blocking, tenure security and social facilitation, not being (adequately) pursued. As such, it has neither resulted in significant implementation,³ nor in a change in capabilities.

While existing resources (such as the ISUPG) and capacities (both within government and of non-state actors) need to be harnessed better and used more efficiently for improved impact, there is also a need to explore alternative/additional investment and new capabilities to address the different challenges and opportunities presented by climate change.

Funding sources for informal settlement upgrading	Climate finance (incl. disaster funding)
<ul style="list-style-type: none">• Informal Settlement Upgrading Partnership Grant (ISUPG)• Urban Settlements Development Grant (USDG)• Neighbourhood Development Partnership Grant (NDPG)• Equitable Share• General fuel levy• Infrastructure and other direct grants• Indirect grants• Municipal revenue• Public Employment Stimulus Grants	<ul style="list-style-type: none">• Green Climate Fund• Loss and Damage funding• Philanthropic funding• Just Transition finance mechanisms• Municipal Disaster Grant• Municipal Disaster Recovery Grant• Emergency Housing Grant

Climate finance or green finance may offer one such avenue for new/additional funding. Similarly, new economic value chains may also present new opportunities for investment. Imagine, for example, a local manufacturing and construction sector that produces, uses and reuses affordable sustainable building materials for housing and public infrastructure, using local labour to manufacture, assemble and build these homes and structures. Such a reality would require appropriate rules, regulations, governance systems and investment. Crucially, investing in the capabilities required to transform informal settlements at scale will be key.

³ Even on the metric of serviced sites alone, the ISUPG has not performed particularly well. As noted in Practice Brief #1, over the past 5 years less than 160 000 serviced sites have been delivered through the ISUPG.

At a settlement level, where the state relies heavily on community networks, local businesses and other stakeholders to facilitate climate action and neighbourhood development, neighbourhood co-governance models would need to be explored. This also applies at a municipal level, to inform a city-wide programmatic response. The social compact, that is meant to underpin informal settlement upgrading initiatives, can be activated as a key mechanism for co-governance.

What is a social compact?

A social compact refers to a collective agreement between social partners (government, business, labour and community/civil society) in society about how to address major issues that require their collective contribution – in this instance, how best to upgrade informal settlements.

KEY INSIGHTS



Funding instruments for informal settlement upgrading are fragmented and insufficiently targeted.

The concentration of poverty and climate vulnerability in informal settlements requires a targeted approach, yet current funding instruments, grant conditions and institutional arrangements contribute to a deeply fragmented response. Municipalities can draw on national grants and local revenue to advance informal settlement upgrading, yet most municipalities have struggled to align to and blend sources of finance for this purpose. Furthermore, over 70% of informal settlements in South Africa are concentrated in 15 municipalities. This suggests that the bulk of (grant) funding for informal settlement upgrading should be targeted to these municipalities.

The ISUPG targets the metros, which are included in these 15 municipalities. As the table below shows, annual allocations to metros varies significantly. One would expect grant performance (i.e. the proportion of allocated funds spent) to be a key determinant in explaining the annual increase/decrease in allocations, but this isn't necessarily obvious. For example, in 2022/2023 Buffalo City spent 100% of its ISUPG allocation, yet

its allocation for the following year dropped by almost 2 percent. The following year, only 67% of ISUPG funds were used, yet its subsequent allocation increased by 10%.

	Grant performance			Variance in annual allocation				
	FY22	FY23	FY24	FY22/ FY23	FY23/ FY24	FY24/ FY25	FY25/ FY26	FY26/ FY27
Buffalo City	87%	100%	67%	18,4%	-1,8%	10,0%	4,5%	4,6%
Nelson Mandela Bay	36%	83%	79%	5,6%	11,8%	8,3%	4,5%	4,6%
Mangaung	34%	46%	20%	-4,3%	-14,2%	72,0%	4,5%	4,6%
Ekurhuleni	87%	100%	66%	9,4%	5,0%	1,9%	4,5%	4,6%
Johannesburg	90%	87%	69%	8,8%	3,7%	4,2%	4,5%	4,6%
Tshwane	80%	83%	65%	6,0%	-9,9%	19,8%	4,5%	4,6%
eThekweni	68%	113%	80%	-12,3%	5,8%	2,1%	4,5%	4,6%
Cape Town	90%	84%	81%	28,4%	-0,3%	-10,6%	4,5%	4,6%
Total	76%	91%	71%	6,3%	1,1%	6,5%	4,5%	4,6%

Note: Calculations based on data provided by the Department of Human Settlements in a presentation to the Portfolio Committee, 22 August 2024 (see footnote 2)



Climate funding and grants for informal settlements are not aligned, hampering a coordinated approach for impact.

There is a lack of alignment between grants that can be utilised for informal settlement upgrading (ISUPG, Urban Settlements Development Grant (USDG) and the Neighbourhood Development Partnership Grant (NDPG)) and funding for climate action, including both government funding and philanthropic funding. Due to grant requirements and stringent compliance, there is virtually no mechanism to blend these finance mechanisms to target informal settlements. As a result, the impact of these grants is deeply fragmented, piecemeal and uncoordinated.



Grant conditions and specifications do not make provision for community contributions.

Community savings schemes, such as stokvels, are actively utilised by residents of informal settlements and can be leveraged as private/community investments toward informal settlement upgrading. However, current grant instruments are unable to capitalise on this and, in fact, do not allow for such investments to be harnessed.



Effective utilisation of the ISUPG is hampered by poor business planning and pipeline management.

The ISUPG remains the primary grant instrument for informal settlement upgrading, yet the uptake of the grant leaves a lot to be desired. National Treasury estimates that currently six of the nine provinces are underspending on their ISUPG grant allocation. Cities have also shown (recurring) under-expenditure of the grant. At the beginning of 2025, National Treasury reallocated ISUPG funding from the City of Ekurhuleni and the City of Cape Town, based on financial underperformance by the end of December 2024, to the City of Tshwane, based on good performance.⁴ The underspend is because of weak pipelines and long-term business plans, with many projects not meeting the requirements of the grant. The upgrading business plans are annual plans, whereas a long-term strategy and pipeline is required for the effective implementation of projects.



Despite the intent, most of the upgrading projects are resettlement projects.

The ISUPG echoes the Upgrading of Informal Settlements Programme (UISP) in reinforcing a clear intent of in-situ upgrading with innovative tenure, livelihood and incremental neighbourhood development – which includes planning for and investing in socio-economic amenities. Much like the *Just Urban Transition framework*, the UISP

⁴ <https://pmg.org.za/committee-meeting/40512/>

also promotes city-wide upgrading, based on the principle ‘leave no one behind’. However, the approach to informal settlement upgrading remains project-based and the dominant orientation is towards resettlement to greenfields sites as opposed to in-situ upgrading. At the heart of this is weak municipal capability, stringent compliance requirements and an inherent bias towards formalisation (as opposed to incremental upgrading).



Conditional grants are not fully mainstreamed into municipal and informal settlement upgrading pipelines.

Conditional grants are not fully integrated into municipal planning and budget processes, such as the Integrated Development Plan (IDP). The USDG is generally underleveraged for informal settlements and poorly coordinated, whereas the HSDG is not integrated into long term housing plans (and, consequently, IDPs). The challenge of effectively utilising conditional grant allocations for long-term development trajectories, such as climate resilience and informal settlement upgrading, can only be addressed by improving project preparation and sequencing – in other words, sound pipeline planning with clear milestones and cash flows embedded in city-wide upgrading plans.



The fiscal logic underpinning informal settlement upgrading needs to be reconceptualised to enable a just urban transition approach, one that builds resilience, livelihoods and inclusive local governance.

A just urban transition approach to informal settlements integrates climate adaptation and climate mitigation into informal settlement upgrading. This also implies building resilience (of communities, infrastructure, institutions and the environment), integrating an economic perspective (one that invests in livelihoods, work and local economic development) and creating inclusive and accountable local governance systems and practices.

The table below illustrates how various grant instruments can be leveraged to advance key components of such an approach – bearing in mind that the existing fiscal instruments need to be regeared towards a model that facilitates co-governance, innovation and adaptive local development.

Grant Instrument	Supports Shelter	Supports Resilience	Supports Livelihoods
ISUPG	✓ Full Support	✓ Full Support	✓ Full Support
USDG	✓ Full Support	✗ Not Aligned	✗ Not Aligned
MIG	✗ Not Aligned	✓ Full Support	✗ Not Aligned
HSDG	✓ Full Support	✗ Not Aligned	✗ Not Aligned
EPWP	✗ Not Aligned	✓ Full Support	✓ Full Support
Presidential Employment Stimulus	✗ Not Aligned	✓ Full Support	✓ Full Support

Credit: David Morema (Kuhle Solutions)



The fragmentation of functions and responsibilities hampers accelerated, climate resilient informal settlement upgrading at scale and effective local governance for informal settlements.

The compliance and regulatory frameworks, such as procurement, town planning, heritage and environmental authorisations, have distinct timeframes and pathways. Each of these require oversight from different spheres of the government, as illustrated in the table on page 11. Often unbundling and bundling these functions makes delivery complicated and time-consuming, frustrating communities living in informal settlements.

Item	Development Agent	Authorising Department
Business plan ISUPG	Municipal Housing/ Human Settlements Department	National Department of Human Settlements
Infrastructure finance through USDG	Municipal infrastructure-related department/ Municipal HS	National Department Human Settlements
Town planning	Municipal Housing/ Human Settlements Department	Local government planning department
Heritage application	Municipal Housing/ Human Settlements Department	Provincial Heritage authority
Water use license	Municipal infrastructure-related department/ Municipal HS	Province / National Department of Water and Sanitation
Environmental authorisation	Municipal Housing/ Human Settlements Department	Provincial / National Department of Forestry, Fishery and Environment

Similarly, most informal settlements have a distinct leadership structure that govern day to day affairs in informal settlements, such as conflict resolution, communication of service delivery issues, representing the informal settlements, etc. Municipal officials typically work through local ward councillors, who are often disconnected from local struggles or these community leadership structures. As a result, informal settlement leadership structures and representatives often conflict with elected ward councillors. This dynamic, coupled with the regulatory and functional complications, often leads to poor delivery, lack of community participation and weak upgrading outcomes.

CONCLUSION AND KEY RECOMMENDATIONS

A just urban transition requires that the socio-economic conditions, including climate-related risks and vulnerabilities, in informal settlements are addressed as a matter of priority. This stands in stark contrast to the current reality, where informal settlement upgrading and climate action are often pursued in uncoordinated, fragmented and piecemeal fashion. Critical development outcomes, such as resilience, sustainable livelihoods, dignity, social inclusion and urban integration, are therefore not achieved.

Critically, this requires a systems approach, rather than a project orientation, towards informal settlement upgrading and climate resilience. Such an approach would appreciate that socio-economic marginalisation, spatial inequality and climate risk are interconnected and that a holistic and coordinated approach is needed. This has significant governance implications, including the need to work collaboratively and cross-sectorally, to create meaningful partnerships with affected communities and relevant stakeholders, and to coordinate investment towards development outcomes, rather than inputs or outputs.

Key recommendations for improved governance for informal settlement just transitions are as follows:

1. Invest in appropriate, inclusive and accountable governance arrangements for informal settlement upgrading, both at a settlement level and city-wide, that include community leadership and representation from informal settlements and other relevant stakeholders. The notion of the social compact remains relevant.
2. Enhance the capabilities in all spheres of government and among non-state actors to advance a just urban transition approach to informal settlements. As a starting point, a paradigm shift is needed to appreciate that informal settlement upgrading requires a holistic approach, one that simultaneously addressed physical, infrastructural, socio-economic and environmental dimensions.
3. Target investment towards areas of greatest need and vulnerability. Informal settlements should be prioritised for investment – which means that the foreseeable decline in ISUPG allocations should be reversed. Furthermore, fiscal instruments, governance arrangements and capacity support should be recalibrated to target

municipalities with the highest concentration of informal settlements. This can include a consolidated grant that initially targets the 15 municipalities, strategic land release and packaging programmes, increased investment and grants, enhanced support for capacity shortfalls, and spatial targeting for interventions.

4. Review grant conditions and strengthen institutional capacity for outcome-based budgeting, linked to pipeline planning and management, to advance results and accountability.
5. Streamline functions and responsibilities into a single, well-capacitated department that has the capability to blend finance across grants for upgrading and climate funding, to develop clear project pipelines, to deliver basic services, to prepare and coordinate social compacts and partnerships, and to promote innovation in procurement and implementation – all geared towards achieving key outcomes and long-term goals. The responsible department must be able to coordinate upgrading activities across all municipal departments and with external partners, including other spheres of government.
6. Advance a consolidated and localised approach to targeted financing for informal settlement upgrading. This requires blending local funding streams such as rates and taxes along with conditional grants and the equitable share, as well as with climate funding and other grant funding (e.g. the Presidential Employment Stimulus) to prepare a long-term development trajectory for a just urban transition of informal settlements.
7. Invest in technical support entities to capacitate and support municipalities in ensuring alignment with policy intent and instruments, whilst pursuing a context-specific approach to informal settlement upgrading. The National Upgrading Support Programme (NUSP) played a critical role in this regard until it was effectively closed down; it is critical that it is revived and adequately resourced to fulfil this vital function.
8. Leverage private funding, including from business, philanthropy and community savings schemes, to advance a just urban transition approach to informal settlement upgrading at scale and at pace.
9. Embed a just urban transition approach to informal settlement upgrading in the new Human Settlements Code to guide all stakeholders in their thinking and practice.
10. Create and curate communities of practice at different scales (neighbourhood, city/ municipality, province, national) to systematise learning, adaptation and feedback loops for improved practice and policy related to informal settlement just transitions.

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