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Op-ed

THE URGENCY OF FAIR CLIMATE FINANCE FOR DEVELOPING NATIONS
By Daryl Swanepoel

It is becoming abundantly clear that the global community needs to reconsider its approach to climate finance in order to mitigate against the escalating impacts of climate change.

At the recent UN Climate Change Conference (COP29), wealthier nations made pledges to assist developing countries in their transition to clean energy. What they offered, however, raises several critical questions: Are they sufficient? Are they equitable? And most importantly, do they truly serve the interests of those who are most affected by climate change?

The disparity in responsibilities and consequences is staggering. Whilst developing nations have historically contributed the least to greenhouse gas emissions, they are now being asked to shoulder the burden of financial reparations for a crisis predominantly caused by developed industrialized nations. Instead of receiving the substantive grant-based aid they require, many of these countries find themselves buried under concessional loans—financial instruments that, while perhaps more palatable on the surface, can entrap them in a cycle of debt that is difficult, if not impossible, to escape.

The hidden risks associated with these loans worsen the situation, because when financial assistance comes in foreign currencies—like euros or dollars—developing nations must contend with the volatility of currency exchange rates.

Take South Africa, for example. Imagine, for illustrative purposes, that in 2015, South Africa took a ten-year €100 million loan at a 3% annual interest rate with the capital being paid at the maturity date. At the time, the Euro to South African rand exchange rate stood at 1 euro to 13.98 rand. But by 2024, the exchange rate had worsened to 1 euro to 20.19 rand.

The result?

Had the interest rates remained stable over the lifetime of the loan repayments would have cost R419 million, but due to the worsening exchange rate it would have ballooned to R515 million—an increase of nearly 23% just because of currency fluctuation!

So, what does this mean? It means that even when concessional loans come with low interest rates, they can become far more expensive over time. It means that while rich countries continue to profit, poorer nations fall deeper into debt.

For nations already grappling with economic instability, this scenario is not just a cautionary tale; it's a glaring reality that can hamstring progress and plunge economies deeper into debt.

What is being proposed as a solution?

First and foremost, the proportion of climate funding through grants needs to be increased. Wealthier nations must take greater responsibility for the environmental havoc they have wrought and provide financial assistance that does not further endanger the economic stability of developing countries. It is not sufficient to offer loans under conditions that still place the onus of repayment on those least responsible for the crisis. Be that as it may, in any event, the loans should be issued in local currencies. By allowing developing nations to borrow and repay in their own currencies, rather than enforcing the risk of external currency fluctuations, we empower them to manage their debt effectively and predictably. A simple change such as this will free up revenue that can then be invested in more sustainable development initiatives, significantly alleviating the financial strain on these countries.

Finally, there is a pressing need for reform in multilateral financial institutions like the World Bank and the IMF. These bodies must adopt more flexible policies geared towards climate-related efforts, including lower interest rates and improved terms for loans, especially for projects aimed at combating climate change.

African nations should push for significant reform that will ensure that developing countries are at the table when critical financial decisions that impact their futures are decided.

Fairness and justice need to be prioritised. As the world strives to address the climate crisis, the path forward must ensure that the financial mechanisms supporting climate action should not deepen existing inequalities but instead foster sustainable development. If we truly want to create a greener future, we must ensure that the transition is equitable for all, especially for those who have been historically marginalized in the discourse on climate change.

Daryl Swanepoel is the Chief Executive Officer of the Inclusive Society Institute. This article draws on the speech he delivered at the Africa Think-tank Dialogue's Africa Consultative Meeting organised by the Institute, and held in Cape Town from 25-26 March 2025.