Policy Briefing

312

August 2025

Climate Financing in BRICS: Lessons from Brazil and South Africa

HANNAH SACK

Recommendations

- Document lessons from South Africa and Brazil's experience with carbon pricing to help upscale equitable and robust decarbonisation strategies for developing countries.
- Support the development of national green taxonomies and green bond markets through peer learning and sharing country experiences.
- Advocate for innovative debt restructuring by linking debt relief to climate commitments.
- Prioritise peer learning and collaboration through BRICS partnerships to upscale innovative climate financing mechanisms and share knowledge about country successes and challenges.

higher education & training
Department: Higher Education and Training
REPUBLIC OF SOUTH AFRICA
SAIIA 90 YEARS EST 1934
SABTT South African BRICS Think Tank
NATIONAL INSTITUTE FOR THE HUMANITIES AND SOCIAL SCIENCES

Executive summary

Climate change is destabilising developing economies, while the cost of decarbonisation exceeds national budgets. Brazil and South Africa, members of BRICS (Brazil, Russia, India, China and South Africa) and committed to net zero by 2050, have made progress. However, climate finance from developed countries remains inadequate with limited grants and unaffordable loans. This has prompted growing calls for global financial reform, including the restructuring of the World Bank and International Monetary Fund (IMF). With Brazil presiding over BRICS and hosting COP30, and South Africa set to host the G20 in 2025, both countries are well positioned to shape the global climate finance agenda. They can also lead efforts to share knowledge and experience of national climate finance tools. This policy brief explores key national financing mechanisms (carbon pricing, green bonds, green taxonomies and central bank regulation) in Brazil and South Africa. These tools support green growth and offer valuable lessons for replication across the Global South. The brief also advocates for greater peer learning and collaboration through BRICS to strengthen the bloc's collective negotiating power and enhance domestic climate policy. Such cooperation is essential to advocating for a fairer global financial architecture and accelerating the transition towards low-carbon, climate-resilient economies.

Introduction

Climate change continues to undermine the financial stability of developing countries. In addition, commitments to decarbonise require investments that cannot be met by national budgets alone. Brazil and South Africa form part of BRICS and have committed to becoming carbon neutral by 2050. While both countries have made progress in this regard, climate finance provision by developed countries remains limited and has not kept up with the commitments made under the UN Framework Convention on Climate Change (UNFCCC). Emerging economies currently need an additional $2 trillion annually by 2030 to meet the Paris Agreement goals.[1]

Geopolitical instability caused by the COVID-19 pandemic and the Russia–Ukraine war has disrupted global supply chains, putting further strain on developing countries' economies. As such, developing fit-for-purpose financing mechanisms to aid transitions to greener economies remains a key challenge for Brazil and South Africa. However, with both countries assuming leadership roles in multilateral forums such as the G20 and BRICS, their role in advocating for increased climate finance and reforming the global financial architecture is crucial.

1 Bridget Boulle, "Green Taxonomies in the Global South" (Policy Brief, South African Institute of International Affairs, 2024).

This policy brief investigates financing mechanisms in Brazil and South Africa that are aiding green growth and draws on lessons that can be replicated and scaled across the Global South. Collaboration between BRICS countries can help improve national financial systems to support transitions toward low-carbon economies, while also supporting the reform of the global financial architecture for more accessible and affordable climate finance.

The call for global financial architecture reform

Through forums such as BRICS, the G20 and UN processes, developing countries are calling for global financial architecture reform, specifically through the restructuring of the World Bank and IMF. The current international financial system's rules have caused significant shortfalls in climate financing, hindering developing countries progress towards their national climate goals. For example, developing countries pay about eight times more than developed countries to access finance from multilateral development banks (MDBs).[2] The 2021 disbursement of Special Drawing Rights (SDRs)[3] also largely overlooked developing countries, which received just one-third of the total distribution.[4] Climate finance mechanisms under the UNFCCC remain underfunded and often require technical expertise for proposal development – capacity that many public institutions in developing countries lack.

Reforming the World Bank and IMF includes amending the rules and standards that govern access to and affordability of finance, debt restructuring, addressing veto powers and increasing the representation of developing countries in international financial institutions.[5] Despite criticisms, there has been progress in this regard. For example, at the Summit for a New Global Financing Pact in 2023, the African Development Bank proposed a solution to channel SDRs through MDBs, which would preserve the asset status of the SDRs while unlocking large amounts of finance for developing countries.[6] The IMF has since accepted the proposal, which offers the opportunity to lend at least $4 for every $1 equivalent of SDRs.[7] In 2023, the AU secured a permanent seat on the G20, and a third sub-Saharan African seat was secured on the IMF's executive board.[8]

---

2 Sustainable Energy for All, "Key Outcomes of the First Africa Climate Summit", September 21, 2023.

3 SDRs are interest-bearing international reserve assets that supplement other reserve assets of member countries. Rather than a currency, it is a claim on the freely useable currencies of IMF members.

4 UN, "Reforms to the International Financial Architecture" (Policy Brief 6, UN, May 2023).

5 UN, "Reforms to the International Financial Architecture".

6 African Development Bank Group, "Summit for a New Global Financing Pact: International Community Welcomes African Development Bank Initiative on IMF Special Drawing Rights", press release, June 23, 2023.

7 Inter-American Development Bank, "IDB and AfDB Welcome IMF Executive Board's Decision Approving Use of SDRs for Hybrid Capital Instruments", press release, May 15, 2024.

8 David McNair, "Tomorrow's Global Financial Architecture: A Reform Plan for People and Planet", Carnegie Endowment for International Peace, April 4, 2024.

In addition, several initiatives supporting global financial reform and increased climate finance provision have been established, such as the Bridgetown Initiative, the Sustainable Debt Coalition and the Pact for Prosperity, People and the Planet (4P). The IMF has also established the Resilience and Sustainability Trust and, at COP28, the Loss and Damage Fund was finally operationalised. At COP29, a New Collective Quantified Goal for climate finance was established, which offered an important opportunity to review the current shortfall in climate finance for developing countries and to set more ambitious targets.

Brazil and South Africa are supporting the Global South agenda for financial architecture reform. Under South Africa's BRICS presidency in 2023, the Johannesburg Declaration was adopted, which supports the reform of the Bretton Woods institutions and the adequate and timely flow of climate finance. Under Brazil's 2024 G20 presidency, the G20 International Financial Architecture Working Group stressed the need for better forms of governance and participation of the Global South in MDBs.[9] A G20 roadmap for multilateral bank reform was developed and Brazil established a Task Force for the Global Mobilization against Climate Change (Task Force Clima) which, for the first time, coordinated climate-related activities across both the Sherpa and Finance tracks. With South Africa's G20 presidency and Brazil's BRICS and COP30 leadership in 2025, both countries have the opportunity to shape the global climate finance agenda and share experience of national climate finance instruments.

Mechanisms driving green resource mobilisation in Brazil and South Africa

Brazil and South Africa face unique challenges in transitioning to greener economies. While South Africa is highly reliant on coal, Brazil's energy mix is mostly renewable, with significant hydropower capacity and status as the world's second-largest producer of biofuels.[10] Both countries, however, are large emitters of greenhouse gases, with Brazil's emissions stemming mostly from land use in agriculture and deforestation.[11] As such, national regulation driving green investment looks different in each country.

At COP26, South Africa entered a Just Transition Partnership (JETP) with the US (which later withdrew), France, Germany, the UK and the EU, which committed to providing $8.5 billion to accelerate South Africa's transition away from coal. Since then, the Just Transition Investment Plan has been adopted, outlining key pathways to meet

9 Luiz Claudio Ferreira, "At the Helm of G20, Brazil Calls for Effective Multilateral Banks", Agência Brasil, January 26, 2024.

10 World Economic Forum, *Finding Pathways, Financing Innovation: Tackling the Brazilian Transition Challenge White Paper* (WEF, 2023), 5.

11 Andrew J. Wiltshire et al., "Understanding the Role of Land-use Emissions in Achieving the Brazilian Nationally Determined Contribution to Mitigate Climate Change", *Climate Resilience and Sustainability* 1, no. 1 (February 15, 2022): e31.

decarbonisation commitments through to 2027. Canada, Spain, Switzerland, Denmark and the Netherlands later joined the partnership, bringing the total commitment to $12.8 billion.[12]

In 2024, Brazil entered into a climate finance partnership with the Glasgow Financial Alliance for Net Zero aimed at financing clean energy development and the reforesting of the Amazon.[13] Brazil has also established the Amazon Fund, managed under the Brazilian National Development Bank, and has established a climate fund (Fundo Clima) as part of its national climate change policy. Both countries are making progress in financing their climate commitments. However, accessing affordable climate finance remains a key challenge.

Brazil and South Africa's efforts to finance their just transitions offer other BRICS countries an opportunity to learn from, replicate and scale innovative initiatives in support of achieving the Paris Agreement. The following section explores several climate financing mechanisms being implemented in Brazil and South Africa, highlighting both their successes and implementation challenges.

Carbon pricing

South Africa was the first African country to adopt a carbon tax, introduced in 2019. As of 2024, the tax stands at ZAR[14] 190 (about $10) per tonne of carbon dioxide. It is being implemented in three phases, aiming to give companies sufficient time to transition to renewable energy technologies while allowing for tax-free thresholds.

Currently, the country's coal-based electrical utility, Eskom, benefits significantly from these exemptions, raising concerns about the carbon tax's overall effectiveness.[15] In addition, although the government intends to raise the carbon tax to at least $20 per tonne of carbon dioxide by 2026 (with further increases planned), forecast models predict this will still be insufficient to meet the country's Nationally Determined Contributions targets.[16]

As such, despite the government's efforts, climate activists have criticised the extent to which the tax is aiding the provision of climate finance and the shift of private sector operations towards renewable energy technologies. For example, in 2022 Colombia and South Africa generated almost the same revenue from carbon taxes, even though South Africa's tax covered nearly 10 times more emissions.

12 Directorate-General for Climate Action, "Joint Statement from the International Partners Group on the US Withdrawal from the Just Energy Transition Partnership in South Africa – European Commission", European Commission, March 19, 2025.
13 Jake Spring and Simon Jessop, "Brazil Partners with Largest Climate Finance Alliance", *Business Day*, February 27, 2024.
14 Currency code for the South African rand.
15 It is estimated that annual carbon tax revenues from Eskom would amount to R11.5 billion when exemptions run out.
16 Haonan Qu et al., *South Africa Carbon Pricing and Climate Mitigation Policy* (International Monetary Fund, 2023), 4.

In 2023, South Africa passed the Climate Change Bill that requires the government to develop a national greenhouse gas (GHG) emissions trajectory, sectoral emission targets, GHG emission thresholds and company-level carbon budgets[17] to be reviewed every five years.

The Act has been praised for its potential to support not only the achievement of the country's Nationally Determined Contributions but also greater alignment across departments and sectors. This will help accelerate the development of emission reduction targets across sectors, while also providing the legal framework for the implementation of the JETP. In addition, the Act requires the development of national adaptation objectives and indicators.[18] While it has strong potential for guiding South Africa towards a low-emissions trajectory, its financial impact on the private sector will need careful management.

Brazil does not have a carbon tax, but it has an active voluntary carbon market due to investments in restoration and REDD+ (Reducing Emissions from Deforestation and Forest Degradation) projects. Carbon markets enable companies to buy and trade carbon credits to offset their emissions.

A draft law for an Emissions Trading Scheme (ETS) is currently being developed, which will be overseen by the Inter-ministerial Climate Change Committee. The ETS will impose emissions caps on companies emitting over 25 000 tonnes of carbon dioxide annually (excluding certain agricultural firms) and require emissions reporting from those emitting more than 10 000 tonnes a year.[19]

The draft law also recognises the rights of Indigenous peoples through a benefit-sharing mechanism, ensuring they receive compensation if they incur damages from carbon credit projects.[20] While the ETS may incentivise a reduction in carbon emissions (and deforestation), the exclusion of the agriculture sector from its regulation has created some concern regarding its effectiveness.[21]

Green bonds and debt instruments

Debt continues to undermine developing countries' access to climate finance, with climate loans often pushing them into debt traps. To support global financial reform there is growing backing for linking debt relief to climate commitments, for example debt-for-nature swaps such as the Seychelles agreement. The World Bank has recently supported the use of climate-resilient debt pauses, allowing countries to suspend debt repayments in the event of climate disasters.[22]

17 A carbon budget is the "amount of GHG emissions an entity is allowed to emit over at least three successive five-year periods".

18 The African Climate Foundation, "South Africa's Climate Change Bill: A Landmark in Climate Action", (blog), October 31, 2023.

19 International Carbon Action Partnership, "Brazil Introduces Draft Law for Cap-and-Trade System", September 11, 2023.

20 International Carbon Action Partnership, "Brazil Introduces Draft Law".

21 Matt Sandy and Juliana Horta, "Brazil Races to Launch Carbon Market Ahead of COP30", *Eco-Business*, July 17, 2024.

22 Fiona Harvey, "World Bank Offers Developing Countries Debt Pauses If Hit By Climate Crisis", *The Guardian*, June 22, 2023.

While these are promising developments, most climate finance for developing countries still comes in the form of loans. For example, in 2023 debt financing accounted for 75% of all climate finance in South Africa.[23] In addition, 85% of the JETP financing is in the form of loans.[24] In line with the UNFCCC's principle of 'common but differentiated responsibilities', South Africa and Brazil must use platforms such as BRICS and the G20 to advocate for increased debt reform and non-traditional climate finance.

Green bonds, however, offer a unique opportunity for enhanced climate finance provision, specifically through the private sector. Brazil has been particularly active in promoting its green bond market. In 2017 a group of investors signed the Brazil Green Bonds Statement, promoting the green bond market and calling on the government, civil society and the private sector to support its development. In 2023 the government launched the Sovereign Sustainable Bond Framework and thereafter debuted a $2 billion sovereign sustainable bond.[25]

South Africa has also issued green bonds, the first of which was issued by the City of Cape Town in 2017 to finance water and sanitation projects. The City's green bond received certification from Moody's with an 'excellent' (GB1) rating.[26]

Currently, emerging markets represent less than 20% of green bond issuance of which less than 1% is raised by African issuers.[27] Brazil and South Africa's pioneering of their green bond markets can thus help overcome such knowledge gaps in other developing countries.

Green taxonomies

By establishing evaluation and screening criteria, green taxonomies help incentivise investments in climate-resilient initiatives while reducing the potential for private-sector 'greenwashing'. They can also help to de-risk green investments, while supporting well-informed decision-making on projects that align to national climate and development goals. There are currently about 40 taxonomies globally, with both South Africa and Brazil having developed national taxonomies.[28]

South Africa's green taxonomy was developed in 2022 following the launch of National Treasury's 2021 technical paper, Financing a Sustainable Economy. It allows for interoperability by aligning with the EU's taxonomy. Both taxonomies are underpinned by achieving net-zero by 2050; however, South Africa's green taxonomy is voluntary,

23 Pedro de Aragão Fernandes et al., *South African Climate Finance Landscape 2023* (Presidential Climate Commission, 2023).

24 Louise Naudé, "Just Energy Transition Partnership Offers Should Come as Grants, Not Loans", World Wide Fund for Nature, November 7, 2022.

25 World Bank Group, "Brazil Sovereign Sustainable Bond: Financing a Greener, More Inclusive, and Equitable Economy", World Bank, February 8, 2024.

26 Global Infrastructure Hub, "Cape Town Green Bond", November 1, 2021.

27 Boulle, "Green Taxonomies".

28 Boulle, "Green Taxonomies".

while the EU's requires mandatory disclosures. Importantly for South Africa, the uptake of the taxonomy could help reduce the carbon tax rate. Brazil is currently developing its Sustainable Taxonomy (Taxonomia Sustentável Brasileira), which is set to become mandatory in January 2026. The government has developed a taxonomy action plan outlining 11 climate, environmental and social objectives for the Taxonomia Sustentável Brasileira, with a particular focus on land use, key to Brazil's climate finance objectives.

While taxonomies are important tools to stimulate green investments, the success of their adoption is dependent on several factors. For example, users must be equipped with clear guidance on how to use the taxonomy, and the government must ensure public support through awareness raising and profiling of the taxonomy's benefits. In this regard, South Africa has published taxonomy user and disclosure guidance, and Brazil has been strategic in profiling its taxonomy, announcing its launch at COP29. Importantly for developing economies, green taxonomies must balance national interests (and pay attention to both mitigation and adaptation) with alignment to taxonomies of the Global North, to support interoperability and international capital flows.[29]

Financial policy and regulation

The South African Reserve Bank (SARB) and Brazil's central bank, Banco Central do Brasil, are both members of the Network of Central Banks and Supervisors for Greening the Financial System and have increasingly incorporated climate change considerations into their financial regulation. In 2023, the SARB released a Proposed Guidance Note on climate related risk practices for banks, which builds off the International Sustainability Standards Board's climate disclosure standards. The SARB is also a member of the Sustainable Banking and Finance Network, and a national Climate Risk Forum has been established under the National Treasury.[30]

Banco Central do Brasil requires banks to incorporate climate risks into their stress testing in line with the Task Force on Climate-related Financial Disclosures and restricts loans for projects on Indigenous land or in the Amazon biome.[31] In addition, the bank is developing financial regulations targeted at green financial markets, securities and bonds. Brazil's Climate Fund and Amazon Fund serve as important national instruments to monitor and evaluate current financial mechanisms for climate change.

With both countries having developed green taxonomies, aligning central bank policies will help build private sector confidence in green investments and foster a regulatory environment that enables effective measurement, monitoring and management of climate finance.

29 Boulle, "Green Taxonomies".

30 Shreelin Naicker, "Principles and Guidance for Minimum Disclosure of Climate Related Risks and Opportunities", Climate Risk Forum and Disclosure Working Group, December 6, 2021, 4.

31 Carolina Mandl, "Brazil's Banks to Incorporate Climate Change Risks Into Stress Tests", *Reuters*, September 15, 2021.

Conclusion

Finance remains a major barrier to climate action, but recent efforts to reform the global financial architecture offer promising pathways towards more equitable and affordable climate finance. Both South Africa and Brazil have supported the reform of global financial architecture and have been active in developing national financing instruments for green growth. Given each country's development concerns, special attention will need to be paid to how to decarbonise without massively disrupting existing economic and trade structures.

As BRICS members responsible for significant emissions, South Africa and Brazil have a shared duty to lead the way towards net zero and advocate for fairer and more affordable climate finance. Lessons from both countries' experiences of carbon pricing, green bonds, green taxonomies and central bank policy must be shared with other developing countries to ensure best practices are scaled and possible failures avoided. In addition, financing for adaptation must not be overlooked. Brazil and South Africa (like many developing countries) are rich in biodiversity, with many rural communities being highly vulnerable to climate change. As such, financing for adaptation must be an integral part of the Global South's call for global financial architecture reform and must be mainstreamed into national climate policies.

With South Africa and Brazil assuming leading roles in BRICS and the G20 in 2025, there is an opportunity for the two countries to put climate finance at the forefront of development discussions. Peer learning and collaboration through BRICS partnerships should be prioritised to strengthen the bloc's negotiating power and enhance domestic climate policy frameworks that demand a fairer global order and support the transition towards low-carbon economies.

Author

Hannah Sack

is a Climate Change Researcher in the Climate and Natural Resources Programme at the South African Institute of International Affairs.

Acknowledgement

SAIIA gratefully acknowledges the support provided by the National Institute for the Humanities and Social Sciences and the South African BRICS Think Tank.

About SAIIA

SAIIA is an independent, non-government think tank whose key strategic objectives are to make effective input into public policy, and to encourage wider and more informed debate on international affairs, with particular emphasis on African issues and concerns.

SAIIA's policy briefings are intended for use by policymakers, whether in government or business. They are concise, providing a brief analysis of the issue at hand, and make policy recommendations.

Cover image

Khanchit Khirisutchalual (via iStock / Getty Images Plus)

Please note that all currencies are in US$ unless otherwise indicated.

SAIIA 90 EST.1934

SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS

African perspectives.
Global insights.

Jan Smuts House, East Campus, University of the Witwatersrand
PO Box 31596, Braamfontein 2017, Johannesburg, South Africa
Tel +27 (0)11 339–2021 · Fax +27 (0)11 339–2154
www.saiia.org.za · info@saiia.org.za