

Rabia



Dignity of finance:

Towards a just term sheet in financing climate
and transition-related outcomes

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Principles of Inclusive Finance Series
Working Paper 2



Defining “*dignity*”¹

Verb

1. To give a sense of worth, honour, or importance to; to elevate in status or character.

Noun

1. The inherent worth of every individual, requiring respectful and fair treatment regardless of status.
2. A sense of your own importance and value; self-respect.

¹ Oxford English Dictionary.

Principles of Inclusive Finance Series

The working papers in this series introduce a principle-based lens to the financing of climate and transition related responses, presented against the backdrop of international financial architecture reforms that adopt narratives such as just transition, derisking and needs-based finance.

Our papers present Rabia's view on what constitutes "inclusive finance principles" as first recorded during a community event in Gqerbeha (Port Elizabeth), South Africa, in August 2024. The full recording can be found here: <https://www.rabiitransitions.org/insights/the-principles-of-inclusive-finance/>

We believe three primary principles govern financing climate and transition related responses:

- **Needs-based finance:** Every site of strife needs should be met to support justice and dignity, their needs are not secondary to the needs of the funders, so financing dialogues have to reflect balanced and openness to meeting such needs fully.
- **Dignity of finance:** Every human being has the right to a thriving and prosperous livelihood, so the dialogue, tools and trade of finance must uphold such rights and be reflected in the underlying terms and conditions and in the structure of the engagement.
- **Sharing and caring:** Every investment arrangement bears an inevitable degree of risk, and should be fairly borne by all, without any one partner overcompensating the other. This process would require a far more transparent due diligence process as the financing agreement process unfolds.

Other papers in this series

Reframing needs based finance through mutual commitment and dialogue

(<https://www.rabiitransitions.org/insights/reframing-needs-based-finance-through-mutual-commitment-and-dialogue/>)

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About Rabia

Rabia Transitions is a non-profit research initiative founded in 2021, and headquartered in South Africa. Its purpose is to reimagine a financial ecosystem that fosters a just and resilient transition. Through an interdisciplinary lens, Rabia integrates financial, environmental, economic, and social perspectives to advance low emission, climate-resilient development. Rabia works with public and private finance policymakers and funders, and community organisations. It offers critical and independent research, policy options, and develops technical tools, and frameworks that are rooted in African approaches to sustainability transitions. Its work on finance is guided by the principles of justice, dignity and resilience. Learn more at www.rabiaintransitions.org

About Green Finance Institute

Established in 2019, the Green Finance Institute (GFI) is at the forefront of shaping how finance can be used to facilitate a real economy transition. As an independent organisation working with governments internationally, and partnering with financial institutions, corporates, NGOs, policymakers, academics and civil society experts, the GFI creates and scales innovative solutions that deliver practical outcomes for communities and economies.

Learn more at <https://www.greenfinanceinstitute.com/>

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Abbreviations

ACHPR	African Charter on Human and Peoples' Rights
AfDB	African Development Bank
CBDR	Common But Differentiated Responsibilities and Respective Capabilities
DFI	Development Finance Institution
IADB	Inter-American Development Bank
ICAT	Initiative for Climate Action Transparency
IMF	International Monetary Fund
IPG	International Partners Group (as used in the JETP context)
JETIP	Just Energy Transition Investment Plan (South Africa)
MDB	Multilateral Development Bank
NCQG	New Collective Quantified Goal
OECD DAC	Organisation for Economic Co-operation and Development – Development Assistance Committee
PCC	The South African Presidential Climate Commission
UNFCCC	United Nations Framework Convention on Climate Change
UDHR	Universal Declaration of Human Rights
WB	World Bank

1. The principle: Dignity of finance

Dignity of finance is a principle that recognises financial arrangements between funders and recipients should be fair, just, humane and rights-based. Practically applied, such a principle promotes financing arrangements that recognise and responds to recipient's needs, and those of funders in the context of financing climate and transition-related societal shifts.

Investment decisions are inherently a function of underlying economic, social and political processes, and the machinery of the global financial architecture is governed by assumptions and frameworks that draw on such processes. In turn, this frames how investment flows occur or do not. This implies that a mere tinkering of such machinery will not suffice, it requires a fundamental shift of the tools and processes applied by the financial ecosystem in its everyday decisions. The reframing of tools and processes, through which finance and investment unfold, is therefore essential. The intentional consequence of such reframing is financial ecosystems that respond to the development and transition related dynamics associated with just low carbon and resilient development pathways in a just and dignified manner.

Present day development challenges are increasingly complex when factoring in climate related responses. Climate risk comprises physical and transition related aspects, and the response strategy is expected to be just, i.e. recognise the impact on livelihoods of shifting from high to low carbon economies. Thus, investment has to increasingly contribute towards systemic shifts that embed societal vulnerabilities and environmental challenges into the investment proposition. The scale of investment in quantum, and quality require a “whole of society” approach (as referred to in the South African Just Energy Transition Investment Plan, JETIP, 2023), that embeds sovereign rights to development, justice and dignity into all financial arrangements.

In our paper, “Needs-based” approach to finance (Sheehama et al, 2025) – we argued that enhanced dialogue between funders and recipients was essential to appreciate the systemic nature of “needs”. We established that such dialogue is the foundation for negotiation, despite the power disparities inherent in a party seeking finance, and another with finance to disburse. In this paper, we begin the journey towards reframing the tools of finance – starting with the basis for negotiation between recipient and funder: the humble term sheet. This document typically bears the conditions and terms that govern the exchange of money between counterparties. It is the heart of financing arrangements.

The legacy of financing climate action is one where the terms and conditions around which negotiations ensue are largely driven by funders needs. Public and private lenders or providers of financial support typically present their initial terms and conditions to recipients, based on their internal guidelines. Any such terms and conditions are often not limited to financial elements but also stipulate which elements

of a project can be funded (or not). The term sheet represents the funders' initial view on their ability to respond to needs, risk and investment "appetite".

In this paper, we introduce the concept of a "*just term sheet*" – in order to give practical expression to the stand-off and narratives that have been anecdotally observed, stating "financing a just transition is difficult". The discussion, however, goes beyond climate related concepts, given that developing countries have called for more equitable and balanced negotiations over decades of engagement on development.

2. Key demands of counterparties

The key demands of counterparties are the starting points for detailed engagement that result in the term sheet. Any disconnect between the key demands of either party, usually become the “red lines” and major negotiating points between the parties.

For recipients (either a sovereign or an entity), the “key demands” may include elements of those listed in Table 1. A sovereign’s key demands are largely informed by a national investment/ development/ transition plan, which represents their “needs”. For example, during South Africa’s JETIP development process, the intention was that every investment should directly embed justice. This “ask” challenges the perception that just related components require separate standalone investments and can only be financed through grants. A country’s actual investment needs should be the primary basis for determining the total capital costs (Sheehama et al., 2025). This supports strategic portfolio creation led by national priorities and needs rather than funders’ templates.

Table 1: Key asks of recipients (public or private)	
Key needs specific to transition context	<ul style="list-style-type: none"> • Portfolio/ programme-based funding that is beyond single asset finance • Predictable and front-loaded access to ensure sustained transition momentum • Sequencing of investments based on their interdependencies (e.g. balancing grid ahead of new generation capacity) • Embedding social protection nets within investments, not as a separate standalone • Full responsiveness to needs and ensuring country ownership • Instruments appropriate in the context of need and fiscal capacities • No cherry-picking of investment opportunities, financing “whole of society” approach
Red Lines & Motivations	<ul style="list-style-type: none"> • Energy security and resilience as a development imperative • Managing direct and indirect social disruptions due to the lack of social safety nets • Fiscal capacity realities recognising broader development needs • Respect for sovereignty and self-determination
Constraints	<ul style="list-style-type: none"> • Relationship with fossil fuels determines ease of transition • Environmental and social ambitions determine the investment impact • Structure and capacity of domestic financial system indicate new funders’ impact • Level of indebtedness as a practical intervention point • Need for societal “buy-in” and building trust around transition • Limited leverage with funders and high dependency • Administrative capacity to service multiple funders
Strategic goals	<ul style="list-style-type: none"> • A “whole economy” approach • Investment in resilience, not only carbon reductions • Practical and effective delivery mechanisms • Predictable, multi-year funding across sectors • Terms and delivery that share risks equitably • Participation of local finance institutions • Dignified engagement structure for access to finance

Source: Author’s own analysis

For funders, Table 2 describes the key demands linked to transition related investments, which may not differ significantly from development related investments. However, there may be calls for structural policy reforms that (in a climate context) imply a pace of decarbonisation, and a requirement for no “new” fossil fuel related investments by the government or ultimate funding sources. This paper is not endorsing such requirements, such highlighting that, from a negotiation perspective – financiers may place such options before recipient countries – depending on whether they are public or private providers of finance.

Table 2: Key asks of financiers (mainly public)

Key Demands	<ul style="list-style-type: none"> • Clear investment plan with defined needs (project pipeline) • Creditworthiness and institutional credibility of the counterparty • Governance frameworks to be robust and relied upon • Appropriate risk-adjusted return relative to alternative investments. • Structural reforms may be required around enabling policy contexts • Country and investment platforms that are clear, i.e. policy frameworks, credible project pipeline
Red Lines & Motivations	<ul style="list-style-type: none"> • Risk-adjusted returns with recognition that financiers have a minimum threshold • Development obligations to support climate action, tinged with own climate goals • Replicability of investment in other regions • Anti-corruption and anti-terrorism metrics may limit which countries to invest in
Constraints	<ul style="list-style-type: none"> • Investment mandates may offer limited pool of instruments and support • Limited concessional capacity • Preferential partners and volatile geopolitical dynamics • Regulation
Strategic goals	<ul style="list-style-type: none"> • Evidence development and climate support to the recipient • Financial innovations relative to the financiers' risk tolerance • Disbursement pressures, i.e. allocations for single and/or multi-year programmes • Package the deal in a way that aligns risk-sharing with local ownership • Robust financing arrangements that cover responsibilities, and disputes

Source: Author's own analysis

3. Building a just term sheet

The legacy of financing climate outcomes has often been justice on paper without dignity in practice (Naidoo et al., 2024). The *Just term sheet* reframes finance as a legal and moral obligation. As (Clements, 2024) observed, “*implementing climate justice requires overcoming difficulties in defining terms*”, highlighting the challenges in translating principles into practice.

The concept of a “just term sheet” recognises that a strategic shift in negotiations and financing arrangements is necessary to integrate the principles of justice and dignity. Each item on the “term sheet” holds potential for operationalising justice and dignity in the design and negotiation of financing terms.

3.1 Need elements of the just term sheet

The use of proceeds on a term sheet is a major convergence point between financiers and recipients – where needs and financing logic collide. Transitions are mission oriented, requiring purpose driven investment to support systemic change across economic, social and environmental systems (Mazzucato and Vieira de Sá, 2025; PCC, 2022; Naidoo, 2021). The narrative of “capital” has been framed around a perceived “gap” of funding.

Certain scholars believe that the real problem is the absence of investment pipelines that are mission-oriented and align with national public purpose and structural transformation (Mazzucato, 2025). The argument that investment pipelines are not mission oriented or aligned with national purpose is potentially problematic. The purpose of funds have been expressed across the deluge of investment plans that most global south countries are required to present (Sheehama et al., 2025). The core issue may rather be one of “needs lost in translation” between financiers and recipients, or one where the unmet needs represent a compromise by the recipients to funders’ needs for reduced outcomes. Table 3 considers these elements.

Table 3: Expression of needs and counterparties

Line item	Details	Integrating just and dignity related elements
Use of proceeds and beneficiaries	To support investments that support the shift to the just transition to clean energy of [country] over the next (x) years.	<p>The uses for transition are likely to be systematic in nature – with interventions supporting systemic, regenerative, just transition outcomes with demonstrable social, distributional, and adaptation co-benefits, rather than just an asset class. The use should be led by recipient needs, defined by nationally identified priorities in a transition context with a clearly defined “justice” outcome.</p> <p>This section should specify the eligible use of proceeds (i.e. renewable energy generation, infrastructure). Often narrow and pre-defined by funder mandates. Further, it should identify the key beneficiaries.</p>
Duration/tenor (years)	To align with the transition period and outcomes envisaged by the recipient	<p>This period should be adequately matched to the underlying project cash flows and development timelines, with appropriate grace periods as needed.</p> <p>The duration should also align with the asset life and macro-fiscal realities.</p>
Borrower	Recipient/sovereign/ entity; and/or the entities through which funds may be ultimately disbursed	The borrower should be situated within the national/ other development or investment plan underpinning the transition related investments. legal counterparty included, but a deeper mention of the party that ultimately bears repayment and contingent fiscal risk (e.g. where the legal counterparty is supported by or required to be supported by further credit underpins). The choice of borrower must ensure they are able to prioritise public good and developmental impacts.
Lender	Public and/or private entities, e.g. multilateral development banks and their implementing arms; regional and/or national lenders (as appropriate); including any co-financiers or cohort of financiers	All entities to be named upfront, including those involved as intermediaries of funds, where the arranger is different from the lenders. The pre-requisites required by intermediaries of arrangers (e.g. IPG in the JETP) should be described and agreed upfront, and reliance on approved investment direction to be factored in. Risk being mitigated is that intermediaries may require review of agreed processes, which would delay the flow of funds. Enhanced transparency could be adding a flow of funds graphic in the term sheet.

Source: Author's own analysis

3.2 Funded amounts and disbursement elements of the just term sheet

Justice and dignity manifest practically in how funds are made available to recipients, which relates directly to the disbursement schedule and conditions of drawdown. Specifically, just transition projects require a portfolio-level thinking that recognises that investments have systemic impacts (Lowitt, 2021; Naidoo, 2021). Such impacts have an iterative nature and require flexibility and adaptability around the investment priorities. Further, the interdependencies of interventions to support systemic impacts mean that portfolios should be indivisible. Such a requirement recognises that, in the absence of clear guidelines, financiers are more likely to “cherry-pick” bankable interventions only and sideline foundational interventions (linked to people and place-based dynamics) that relate to “just” transitions.

As discussed further in Table 4, for example, the drawdown schedule should recognise that transition related risks are a composite of industrial, infrastructure and, importantly social dynamics. The way in which risks manifest at the initiation of the investment process should match the drawdown schedule. For example, if the primary risk is affected livelihoods, then the sequence of drawdown has to be investments that create social safety nets ahead of, or at a higher pace than, other investments.

Table 4: From capital provision to accessibility

Line item	Details	Integrating just and dignity related elements
Total costs	Full costing is needed.	Based on the response to “use of proceeds”, this section should include full costing linked to implementing (if multiple assets, complementary and interdependencies should be included here).
Availability	Drawdown of the finance needs to be flexible and adaptive, i.e. lump sum, facility, maximum tranches.	For a sustained transition, access to predictable flows upfront is essential. The funded amounts should ideally be structured as a facility, available over a particular period, with a drawdown schedule pre-determined with room for adaptability. Programme facilities should have pre-requisites that allow a streamlined process for drawdown aligned with investment needs.
Disbursement schedule	Flexibility and adaptability are necessary here in response to transition related outcomes.	<p>There is a need for disbursed funds to align with transition readiness and social outcomes, not only funders’ technical milestones. Disbursements of funds are often linked to narrow milestones (i.e. financial close).</p> <p>Sequencing of investments and pace of investment are important to ensure that finance is directional and coordinated across the interdependencies of the portfolio (e.g. social safety nets have to be in place, prior to plant shutdowns in case of energy transition portfolios; increased renewable energy generation may rely on adequate grid infrastructure, hence grid investment should be paced faster than generation investments).</p> <p>Flexibility to allow the disbursement of funds to be channelled through appropriate local institutions (i.e. DFIs), which are best placed to manage them for the intended outcomes and in the most cost-efficient manner.</p>

3.3 Instrument and fee components of the just term sheet

Any financing instrument design that supports the transition related investments should be based on the characteristics of the transition process, that emphasises an adaptive approach to financial instrument and process design (Naidoo, 2019), i.e.

- i) directionality - instruments that lead towards low carbon and resilient options.
- ii) temporality - short vs long term components of investment.
- iii) systemic impact – instruments that lead to shifts in development pathways.
- iv) social contestation – instruments that build trust among affected stakeholders, and account for the disruptive impacts of systemic impacts.
- v) experimentation - instruments that create space for learning and exploration.

Table 5 presents elements of the term sheet where the instrument design recognises the unique characteristics of the transition process. Such a design also requires equitable risk and reward sharing between financiers and recipients. A risk sharing approach is distinct from that of de-risking – where de-risking assumes that specific instruments will be introduced to reduce the risks for a particular class of investors (usually private sector or multilateral and bilateral public financiers). The challenge in this context is that “de-risking” is a narrative that assumes all risks must be mitigated, whereas transition related risks become tolerable over time – hence, financial instrument design should not “lock-in” the mitigation of such risks that are in a stronger position to mitigate such risks in the first instance.

The financing agreements will reflect the risk arrangements through the specific design of “covenants”, i.e. legally binding clauses where the funder stipulates conditions that borrowers must comply with during the loan period. Such covenants may include measures such as maintaining a specific cash balance to ensure interest on the loans can be repaid during the loan period, and the use of security on the loan. The covenants are a powerful mechanism through which the “lender” ensures the loan is recoverable, setting either positive or restrictive conditions.

The Bridgetown Initiative, launched by Prime Minister Mia Motley in 2022, argued that the current global financial architecture is outdated and requires a major overhaul. A distinguishing feature of the initiative was its call for practical propositions, which included covenants and clauses that recognise relief during debt distress. The call to action contributed towards the World Bank’s Climate Resilient Debt Clauses, which provide for deferral or restructuring of repayments in the event of natural disasters or unforeseen crises. For example, this was implored in the case of Barbados (WB, 2023; WB, 2025).

Table 5: Instrument design based on transition context and needs

Line item	Details	Integrating just and dignity related elements
Instruments	Combination of instruments based on the underlying use of proceeds and associated risk sharing arrangements	<ul style="list-style-type: none"> Finance instruments should match the needs of the portfolio and its individual projects. They should recognise variations in scale, value of investment, intended impacts, and the stakeholders involved. Financial instruments combine concessional and commercial loans, equity, guarantees, and grants. For transitions and climate related portfolios, having equitable access to appropriate technologies, and technical support are also instruments to advance just outcomes. Finance from private sources including domestic capital markets where possible, should be encouraged. Such measures must be on transparent terms and aligned with demonstrable economic and social development impacts. Transitions are inherently iterative, and experimental. Financing instruments should be designed to provide appropriate safety nets and contingencies that recognise implementation delays and setbacks that directly impact the affected livelihoods. The principle being that social risks of loss of livelihoods must be anticipatory and therefore mitigated within the portfolio.
Covenants	Clauses that prescribe recipient (borrower) conduct during the loan period	<ul style="list-style-type: none"> Risk sharing should be based on allocations to parties that are best able to bear them, and not automatically to the recipient country. The term-sheet, could thus support equitable burden-sharing and risk distribution instead of reinforcing asymmetry. Loan covenants can be structured to provide relief, concessions and related arrangements, that recognise challenges in terms of strife (e.g. climate related weather events, transition challenge or social challenge). They should be structured to provide relief, restructuring or other means that do not penalise the recipient for inability to service or repay during particular periods of crises. Dialogue between funders and recipients should consider “risks” outside of the control of the recipient, as a channel where dignity and justice can be practically recognised through such relief measures.
Interest rate	The rate of interest (i.e. x per cent), frequency of payment (i.e. semi-annually), pricing of capital (i.e. fixed, floating) and interest amount.	<p>Rate determination should recognise fiscal capacities with pricing benchmarks that align with local dynamics.</p> <ul style="list-style-type: none"> Any concessional capital should be used to reduce the unallocable risks of the local financial actors to support further climate and development objectives and enhance the development impacts. Concessional interest rates should be linked to climate and social outcomes, not only credit risk imperatives.

Line item	Details	Integrating just and dignity related elements
Interest rate continued		<ul style="list-style-type: none"> Affordable and differentiated interest rates that consider sovereign constraints (i.e. avoids punitive risk premia). This could include differentiated interest rate pricing, such as lower or zero interest for projects that deliver public goods or address inequality. The principle of “risk sharing” is essential, which is markedly different from “de-risking” certain partners, at the expense of meeting needs and over-subsidising such partners where they are able to mitigate and/or absorb such risks.
Commitment and/or facility fees	Payable to financiers as upfront and/or charges over the life of the facility	For public lenders, the facility would be linked to development and climate related financial obligations under the Paris Agreement. Therefore, such fees should be reduced and/or waived, in particular for low-income, and climate vulnerable countries.
Currency denomination	Usually foreign denominated (if loans) in EUR/USD	Mitigate the currency mismatch (i.e. borrowing in foreign currency to apply to projects denominated in local currency) by providing local currency loans and interest payment options. Where such is untenable, then offer multi-currency options and lender absorbing the currency risk exposure (particularly for low income and climate vulnerable countries).

Source: Author's own analysis

3.4 Trust-related impacts in the just term sheet

Transition related investments imply economic, and societal disruptions. The interventions require portfolio/ programme approaches, rather than a single asset or point investment. In turn, rights holders can inform the outcomes of such investments – such persons are those with vested interest in how the transition unfolds, such as workers, communities, local governments and businesses. Table 6 describes ways to integrate just outcomes within financing arrangements. These may manifest differently for public and private financiers, but the principles can be adapted to ensure the intended impacts.

Table 6: Conditions and outcomes to advance “just” impacts

Line item	Details	Integrating just and dignity related elements
Just transition-related outcomes and due diligence	These are often implicit or absent, creating the risk of misinterpretation and assumptions decoupled from the “use of proceeds” and development/transition related investment plans of the recipients.	<ul style="list-style-type: none"> • Explicit commitments and actions are necessary to include as an outcome of the finance provided. Such should provide for creating and sustaining jobs, building capacities among workers, offering affected persons close to or at retirement dignified exit options, and contributing to local value chains. • Access to finance through intermediaries that will provide finance should be broad to include affected groups (women, youth, marginalised communities), as appropriate. • Financiers and recipients should introduce “local value creation” into the financing design to advance just components – this includes industrialisation, resilient infrastructure and beneficiation of supply chains, fair pricing – that ensure financial rewards are sufficiently circulated within the local economy. This may also manifest through appropriately designed offtake or supply arrangements, e.g. include local value creation as key performance measures (programme for results model). • Ownership models for transition-related portfolios should recognise the need for wealth creation, and gross capital formation in the economy. These may take the form of public vs public-private-partnership arrangements, or whether such investments are fully private. • The legal representation afforded to the recipient and funders in the financing negotiations needs to be balanced and fair, with parties able to engage as equal partners in pursuit of specific needs and outcomes being achieved.
Conditions of facilities/instruments	Financiers may require recipients to undertake certain reforms.	<ul style="list-style-type: none"> • Any conditions must support institutional strengthening rather than coercive reforms, linked to the agenda of the financiers. • Loan default and related clauses should provide for climate and transition related deferral events potentially linked to climate risks (i.e. physical, transition and social aspects).

Line item	Details	Integrating just and dignity related elements
Conditions of facilities/instruments continued		<ul style="list-style-type: none"> • Such deferral events should be explicit, trigger conditions for the recipient to defer one or more payments. • Conditions that advance structural reforms or require policy reforms to benefit one or a group of countries should be prohibited. Any macro-conditionalities unlinked to climate and building social safety nets and prosperous livelihoods should be absent from any arrangements.
Public Participation	Reporting and disclosures to build trust through transparency.	Whether public or private lenders are involved, provision for significant public participation processes should be included that provides adequate access to information about the financing arrangements. For example, joint monitoring frameworks, citizen structures and committees. This public participation process should include due diligence processes which adequately contain a transparent risk assessment and risk allocation framework and outcomes for public scrutiny.
Dispute resolution	Jurisdiction and legal forum.	When disputes arise, provisions must be made for creating safe spaces for engagement that recognise the regional and national contexts. For example, regional arbitration centres can enhance understanding and ensure fair legal representation to eliminate asymmetrical power dynamics.

Source: Author's own analysis

4. Linking the just term sheet to justice and dignity in law

Integrating justice and dignity into term sheet design is not an abstract aspiration – it aligns directly with legal principles under international and domestic laws (e.g. UDHR 1948; African Charter on Human and Peoples' Rights 1981/86).

4.1 Balancing power asymmetries in negotiations

The “*dignity and justice channels*” refer to procedural mechanisms that ensure finance design respects human rights, agency, and local priorities, rather than treating recipients as passive beneficiaries. A just term-sheet reframes negotiations as processes that must recognise structural realities, respect developmental priorities, ensure agency, guarantee transparency, and preserve the ability to self-determine trade-offs.

The principle of justice should be applied through fairness in processes and burden-sharing through concepts such as the “*polluter pays principle*” (1992 Rio Declaration on Environment and Development) and the “common but differentiated responsibilities and respective capabilities” (CBDR) under the United Nations Framework Convention on Climate Change (UNFCCC) (Bryant and Webber, 2024). For example, in context of transition related financing arrangements, this means recognising different fossil-fuel dependency, environmental and social imperatives influencing the ability to respond, varying debt burdens, and fiscal capacities and capabilities (Naidoo et al., 2024).

Bryant and Webber (2024;160) state that “*the state of climate finance is a stark indicator of the balance of power in climate politics.*” In practice, this means that countries and the intermediaries through which they channel funds often hold disproportionate influence over how climate finance is allocated, designed and how proceeds are implemented.

Loan agreements outline terms and conditions primarily determined by the mandates, policy priorities and strategies of the providers of finance – an approach which is often at loggerheads with the precise needs or strategies of recipient countries (Prizzon et al., 2024; Sheehama et al., 2025). These pre-determined terms highlight a procedural injustice – in that recipient countries face unmet needs, with limited to no space to renegotiate or shape conditions.

In sum, asymmetry exists in how term sheets are determined between funders and recipients. This directly raises the need to deepen and expand how “justice and dignity” is being absorbed among climate circles. At present, the narrow view holds that a just transition implies ensuring jobs for affected persons.

The concept of a *Just Term Sheet* proposed in this paper recognises that the supply and suppliers of finance need to aspire to just and dignified financing terms and conditions. The principle practically applied would be evidenced in, the way in which initial dialogue and loan negotiation processes unfold, the financing terms and conditions constructed, and covenants that recognise the inherent nature of climate risk and social consequence.

The concept of a just term sheet inverts the power asymmetries – to challenge both financiers and recipient countries to reset the basis for engagement. A dignified negotiation process means that terms and conditions more fully incorporate local priorities, and financing provisions are aligned to transition related needs as they unfold.

4.2 Justice – Obligation imperatives for “how” financing terms are determined

Justice demands fair rules, shared responsibilities, and transparent processes. In legal terms, this echoes the CBDR principle under the UNFCCC. In particular, Article 9 of the Paris Agreement, re-establishes the obligation of developed countries to lead in the provision of financial support to developing countries (UNFCCC, 2015).

A just term sheet should be a culmination of processes fairly applied. The process offers a space through which obligation-based negotiations can be anchored, in good faith between parties. Further, such a process should transparently address the risks of shifting donor interests and reversal of pledges (i.e. JET-IP withdrawals), acknowledge the range of funding needed, which is presently inadequate and insufficient (CESR, 2025;6), and address related shortcomings of the New Collective Quantified Goal (NCQG).¹

The Just term sheet aims to operationalise justice by embedding the following:

- **Equitable risk-sharing:** Terms and conditions should be commensurate with climate and development risks faced by recipients – and reflected in how interest rates are determined, how rewards are shared and the selection of instruments by interrogating the use of MDBs’ preferred “modus operandi” status, that is, the institutional practices and policies that guide the types of instruments they offer, their standard financing terms, and the degree to which these practices are aligned with the risk profiles and development needs of the recipients (Sheehama et al, 2025; Pages 22-23; Violetti, Booth and Fukuda, 2023; See page 30; Clements, 2024).

¹ The new goal aims to mobilize US\$300 billion annually by 2035 from developed countries to support climate action in developing countries, by building on the previous goal of \$100 billion per year by 2020. However, this new target still falls far short of the needs of developing countries to respond to climate change.

- **Transparent disclosure:** Citizens have a right to know the conditions of finance, especially the fiscal exposures that their governments may be negotiating, based on financing arrangements linked to climate and development, relative to the anticipated gains. This directly addresses procedural fairness and accountability.
- **Predictability and front-loading of finance flows:** Recipients would have confidence to advance their transition related investments where real funds are accessible for drawdown (i.e. not pledges or heavily caveated disbursement conditions), respecting the appropriate checks and balances of financiers.

In sum, *justice* applied in practice means that recipient countries are acknowledged as the equal parties which they are under international law, and funders are held accountable for who pays, under what rules, and how risks and responsibilities are shared.

4.3 Dignity – Missing nuance to financing climate and transition related responses

The Paris Agreement recognises “justice” as a basis for climate action. This is, however, insufficient, as justice as an investment basis is meaningless unless livelihoods are improved. Dignity recognises the inherent worth of every human being.

Dignity is a foundational principle recognised in international and national frameworks, including the Universal Declaration of Human Rights (UDHR)² (ACHPR, 1986), the African Charter on Human and Peoples’ Rights.³ This principle was reaffirmed in the International Court of Justice’s 2025 advisory opinion, which affirmed that (ICJ, 2025;115) *“The full enjoyment of human rights⁴ cannot be ensured without the protection of the climate system and other parts of the environment.”*

There may be instances where financial terms and conditions are technically “fair and just” but potentially undermine sovereign and citizen dignity. This would happen where such conditions exacerbate debt distress, restrict access, and neglect social dimensions, among other things.

The just term sheet can integrate the principle of dignity that is consistent with international and local laws, in particular human rights frameworks, by requiring:

- Financing structures that edge countries into circular debt traps, and worsen inequalities.
- Prioritising social impacts (i.e. jobs, livelihoods, resilience) within investment portfolios.

² Preamble: “Recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family...”

³ Article 5: “Every individual shall have the right to the respect of the dignity inherent in a human being...”

⁴ The court regards the following as human rights: such as the right to life, the right to health and the right to an adequate standard of living, including access to water, food and housing.

- Sovereign led decision-making, informed by inclusive public participation of rights holders.
- Nationally determined sequencing and aggregation of investments.
- Predictability of flows, with front-loaded access to resources.
- Participation of local public and private financial institutions, relative to capabilities.
- Transitions are participatory, transparent, and accountable to all rights holders.

In sum, dignity transforms the *term sheet* into a human-centred social contract that is reflected in every clause of the financing agreements. It is essential that recipient countries are affirmed as equal negotiating parties, rather than passive recipients of pre-set terms.

4.4 Measuring investment returns: Dignity of finance through just term sheets

Strong financial ecosystems can positively contribute to transformational socio-economic outcomes (Sheehama et al., 2025; UNDP, 2025), particularly processes of change as required to address climate risks and related social consequences.

There is no empirical evidence to give funders comfort that a “just term sheet” will offer higher rates of return relative to term sheets that reflect different funding arrangements. That is not the purpose of this proposition – to suggest better returns will manifest if the term sheet is adopted, or to make an argument that financing just related outcomes offers better financial returns on investment.

What we believe, though, is that in the long run – the design of financial products and services, evidenced in loan agreements and covenants, will better recognise that transition related investments are experimental, directional and systemic – but also fundamentally socially disruptive. A just term sheet responds to these characteristics, and if applied, should contribute towards a portfolio building approach that embeds just transitions.

A just term sheet also offers practical entry points through the existing tools of finance to better anticipate and mitigate climate risks, harness investment opportunities beyond single assets, and shift towards multiple assets. Simply put, the terms and conditions of finance are no longer commensurate with the emergent needs and realities faced by the recipients. Hence, tools of the trade are helpful places for introducing shifts.

There are emergent frameworks monitoring comprehensive information on monitoring the justice-related aspects of low-carbon development, such as the OECD DAC Rio Markers and the Initiative for Climate Action Transparency (ICAT), *Just Transitions Monitoring Guide*. Such a guide offers performance metrics that could be tailored for understanding the benefit of devising just financing terms and conditions (Singh, N, et al., 2025; UNFCCC, n.d).

5. Conclusion

The global financial architecture reform narratives widely acknowledge the need for improved quantity and quality of finance, elimination of debt traps, and risk appropriate financial instruments. However, transition related investments present challenges for systemic shifts at social, economic and environmental levels.

The reform agenda should begin at the negotiating table, where financiers and recipients prepare the essence of every financial arrangement. Our first paper advocated for a deeper dialogue to focus on “needs-based approach to finance”. This working paper goes further, calling for a needs-based approach to be underpinned by a just term sheet – the point where the terms and conditions of funders, and the rights and needs of borrowers converge – and the financial exchange ensues.

The process of developing a just term sheet serves as the powerful convergence of rhetoric and intention versus commitment and practicality of financiers and recipients alike. A just term sheet is also a reflection of the origination strategy of the funders, and their due diligence procedures, to ensure that the principles are upheld.

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