

Debt Justice for Climate Justice



Supporter briefing | January 2024



UNFCCC / Kiara Worth CC-BY-NC-SA

The climate crisis is all around us – every day we hear new reports of wildfires, droughts, floods, rising sea levels and new extreme temperatures. At the same time, lower income countries are in the midst of a debt crisis, the likes of which hasn't been seen for over twenty years.

These crises are two sides of the same coin. The fifty-four countries already in debt crisis cannot adequately respond to the mounting impacts and costs of climate disasters or fund a just transition. Many of these same countries are on the frontline of the climate crisis, experiencing devastating events like tropical storms and hurricanes with increasing frequency.

At the same time, the lack of grant-based funding to help countries adapt to and deal with the consequences of the climate crisis – what we refer to as climate finance – is forcing

lower income countries even deeper into debt. Despite the urgent need to phase out fossil fuels, many of these countries are finding themselves locked into fossil fuel production to service debt repayments. In some cases, fossil fuel exploitation is even being forced onto countries as a condition of loans.

One of the many glaring injustices of this situation is that lower income countries are least responsible for the climate crisis, a crisis which is hitting them the hardest and which they are being forced to pay for. This is why there is an urgent need to scale up grant-based climate finance from countries like the UK which are historically the most responsible for the climate crisis, coupled with debt cancellation for all countries that need it, free from conditions and across all creditors. This briefing explains the links between the climate and debt crises and what needs to happen to get countries out of debt.

Climate disasters and the spiraling debt crisis

The world is witnessing increasingly extreme climate disasters hitting with alarming frequency. Over the last year, we've seen devastating wildfires in Europe, Chile and Hawaii, record-breaking freezing temperatures in Afghanistan, and the "most energetic and long-lasting storm ever recorded" wreaking havoc in Malawi, Madagascar and Mozambique. Countries like Pakistan and Zambia are experiencing extreme rainfall which is causing absolute devastation. The costs of clearing up and rebuilding after such disasters are often astronomical – but with climate finance for lower income countries so severely lacking, disasters force these countries even further into debt.

🔥 **SIDS (small island developing states) are sinking, and it's not due to just the sea level rise and climate change. We are actually sinking in debt.**



Lois Young Belize's permanent representative to the United Nations and chairwoman of the Alliance of Small Island States (AOSIS)

Climate finance for lower income countries is a story of inadequate pledges and broken promises. In 2009, rich country governments committed to providing \$100 billion in climate finance every year to lower income countries by 2020, but continuously failed to meet this commitment. In 2015, they recommitted to contributing \$100 billion a year every year between 2020-2025 – a commitment which has again been continuously missed. It is also woefully inadequate – it is estimated that lower income countries will in fact require at least US\$5.8-5.9 trillion cumulatively to reach their national targets for adaptation and mitigation by 2030.¹

The lack of climate finance combined with the debt crisis means that lower income countries are currently spending twelve times more on debt repayments than they are on addressing the impact of the climate crisis.²

Pakistan's floods

In 2022, Pakistan was hit by catastrophic floods. As well as the unimaginable human cost, the damage to the country is predicted to cost up to \$40bn. As of July 2023, the financial assistance offered to the country was only \$10bn, most of which was in the form of loans.³

Even before the floods Pakistan was in a debt crisis, and in 2023 the country was forecast to make \$23 billion in debt repayments – an eye-watering 47% of all government revenue. This means nearly half of all Pakistan's government's income was forecast to go straight out of the country to overseas lenders, instead of being spent on rebuilding the country and supporting communities left destitute. Pakistan is responsible for less than 1% of global carbon emissions, so bears almost no responsibility for the climate crisis which caused these unprecedented floods – yet is being forced to pay for it.

Prime Minister of Pakistan Anwaar-ul-Haq Kakar has emphasised that climate finance "must not add to the already high debt burden of developing countries". Yet without adequate climate finance, many lower income countries are forced to find resources for adaptation, mitigation and addressing loss and damage caused by the climate crisis elsewhere, including taking on more debt.

Lower income countries are currently spending **twelve times** more on debt repayments than on addressing the impact of the climate crisis.

In fact, a staggering 70% of climate finance is still being provided as loans,⁴ often at high interest rates because of the climate vulnerability these countries face. Without adequate finance for loss and damage and adaptation, over the next 10 years Sub-Saharan African countries will have to take on nearly \$1 trillion in additional debt.⁵

COP28: Loss and Damage fund finally established

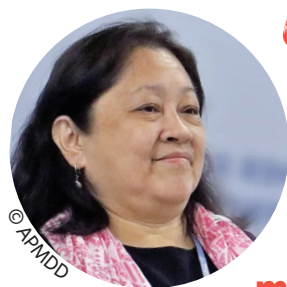
The COP28 UN climate summit closed with a deal that commits countries to transitioning away from fossil fuels. However, the summit failed to ensure adequate, grant-based climate finance for lower income countries to fund this transition, or to respond to the climate crisis. Many countries will now have little choice but to borrow to cover these costs.

Despite this disappointing outcome, there were some glimpses of hope. The Loss and Damage Fund - intended to pay for the damages caused by climate disasters - was finally operationalised after decades of struggle by lower income country governments, civil society and grassroots activists. However, some significant issues remain: there are no obligations for rich countries to pay into the Fund (what was pledged at COP28 was a drop in the ocean compared to what is needed), no financial targets, the funds pledged are not new and additional, and it will be hosted under the World Bank for at least the first four years. Worryingly, the door has also been left open for loss and damage funds to be provided as loans.

Over the next 10 years Sub-Saharan African countries alone will have to take on nearly **\$1 trillion** in additional debt

The debt crisis: forcing countries into fossil fuel extraction

Under pressure of debt, many lower income countries are looking to fossil fuels to generate the revenue they need. Research by the New Climate Institute found that out of 76 lower income countries, about half have proven fossil fuel reserves and are planning to, or already are, expanding fossil fuel extraction.⁶



🔥 We are calling for the cancellation of debt. We don't owe them, they owe us! We have paid that debt many times over, through interest and lives lost. We don't want loans. Not for loss and damage, not for adaptation, and not for renewables.

Lidy Nacpil Asian People's Movement on Debt and Development (APMDD)

Not only this, lower income countries are being forced to invest in fossil fuels by conditions attached to loans. The World Bank and International Monetary Fund (IMF) have often pushed harmful economic policies as a condition for new funding. Between 2015 and 2021, the IMF endorsed or directly supported the expansion of fossil fuel infrastructure in 55% of its member countries.⁷

The global debt crisis: What's stopping countries getting out of debt?

The deep and longstanding inequalities in our global system mean that many lower income countries have no choice but to borrow to fund basic public services and address the climate crisis. Countries can borrow from three types of lenders - private lenders such as banks and hedge funds, multilateral lenders like the World Bank and International Monetary Fund, and other governments. After the financial crash in 2008, low interest rates in the west meant that private lenders increased their lending to lower income countries where they could charge higher interest rates and make bigger profits. The International Monetary Fund and World Bank are also important lenders to lower income countries - often with climate-wrecking conditions attached to their loans.

Uganda's oil pipeline IMF loan

Uganda in West Africa took out a \$1 billion loan from the IMF in 2021 so that it could meet the needs of the population during Covid-19. The Ugandan government has allocated some of this loan to build the East Africa Crude Oil Pipeline (EACOP), intended to transport oil from Uganda to Tanzania. It is projected that EACOP will fuel the climate crisis by facilitating oil extraction, generating over 34 million tons of CO2 emissions a year. Over 260 organisations have come together with local groups as part of the 'Stop EACOP' campaign to prevent the pipeline being built.



350 Africa

Projected debt repayments by low and middle income countries and small island states from 2023-2029:

46% private lenders (not including Chinese lenders)

30% multilateral creditors

12% Chinese public and private lenders

12% other governments

With debt levels already rising, the impact of the pandemic, rising interest rates and high energy prices created a perfect storm that has plunged fifty-four countries into debt crisis. Debt payments by lower income countries increased by 150% between 2011 and 2023, reaching their highest levels in 25 years. This situation serves the interests of wealthy countries which have been able to use debt to extract wealth from lower income countries through interest repayments and use their power as lenders to exert control over countries for their own benefit.

We can see these dynamics play out in how the international community responded to the debt crisis during the Covid-19 pandemic. In 2020, the G20, a self-selected group dominated by rich countries, put in place two initiatives that aimed to address soaring debt levels in lower income countries – the Debt Service Suspension Initiative, which aimed to temporarily suspend debt payments, and the Common Framework, which aims to provide broader debt relief to countries in crisis. Both have failed to provide adequate solutions for lower income countries in debt, largely because of their failure to compel private creditors, such as banks, hedge funds and oil traders, to participate. As a result, many private creditors continue to be repaid, potentially making vast profits while lower income countries struggle to cover the costs of multiple crises.

Debt payments by lower income countries increased by **150%** between 2011 and 2023, reaching their highest levels in 25 years.

Zambia: Resisting the cycle of debt

Zambia gained independence from the British in 1964 but inherited a weak economy reliant on the export of copper, making it vulnerable to economic shocks and dependent on loans from former colonial powers.

This has left Zambia trapped for decades in a cycle of debt. The country is now in a debt crisis resulting largely from irresponsible lending from corporations in richer countries. After applying for debt relief, it has been over three years and still Zambia's creditors have not been able to agree a deal. In late 2023, when private lenders finally reached an agreement with the Zambian government, it was on terms that did not deliver comparable debt relief to that offered by government lenders, who have vetoed the deal.

Zambians are experiencing the devastating effects of the debt. Precious Kalombwana, a Zambian debt activist, explains "We can't afford to even eat three times a day. We can't even find medicine in hospitals or access good college education because of the debt."

Zambia is also vulnerable to the climate crisis, with climate change exacerbating the frequency and severity of flooding. In February 2023, Zambia was hit by devastating floods – the worst in 50 years – affecting over 150,000 people with roads, bridges and homes destroyed, including Precious' father's house.

But Zambians are resisting. Kalombwana is part of a network organising strikes and actions targeting key decision makers such as the G20 group of the world's most powerful countries and the International Monetary Fund and World Bank.

This case study has been created with Precious Kalombwana, member of Fridays for Future Zambia and Debt for Climate Zambia.

© Debt Justice



🔥 Sierra Leone's public debt was 77.3% of Sierra Leone's GDP in 2021. Cancelling the debt is one of the best ways to support tackling climate change and will mean the government can invest in adapting to and mitigating the effects.

Abu Bakarr Kamara Budget Advocacy Network, Sierra Leone

Global decision-making on debt

The UK is part of both the G7 and G20 group of self-selecting rich nations: both these groups meet to discuss the global financial system and other critical issues. International meetings like these are key spaces for campaigners and activists to demand debt cancellation for climate justice; similarly, the annual UN climate summits (COPs) present vital opportunities to raise the debt crisis and its links to the climate crisis.

The World Bank and International Monetary Fund are two of the biggest global multilateral lenders and are dominated by wealthy country agendas. Multilateral lenders provided on average \$3.3 billion a year in direct financing to fossil fuel projects from 2020 to 2022.⁸ The World Bank has been highlighted as one of the greatest multilateral contributors to fossil fuels since 2015.⁹ They are hugely influential, and their annual meetings have become an opportunity for activists and campaigners from around the world to protest their harmful lending practices.

The solution?

For lower income countries, there's no way out of the climate crisis without dealing with the debt crisis: we need the UK government to push for debt cancellation for countries that need it so they can fight the climate crisis. But right now, urgent debt relief is being blocked by the failure of bilateral, multilateral and private creditors to agree on sharing the burden of debt restructurings – because private creditors will not agree to the same terms as other lenders.

90% of the lowest income countries' debt contracts are governed by English law, which puts the UK in a uniquely influential position to influence lending practices. This is why we're calling for a new law that would make banks and hedge funds cancel debt for lower income countries.

In addition to legislation that would make debt cancellation easier, we need to make sure that lower income countries are not being pushed into more debt to deal with the climate crisis or being forced to exploit fossil fuels. This is why we're calling on the government to make sure rich countries provide substantial climate funding as grants, not more loans, including through the newly established Loss and Damage fund.

References

1. https://unfccc.int/sites/default/files/resource/54307_2%20-%20UNFCCC%20First%20NDR%20summary%20-%20V6.pdf
2. <https://www.development-finance.org/en/news/832-debt-service-watch>
3. <https://debtjustice.org.uk/wp-content/uploads/2023/08/Debt-fossil-fuel-trap-report-2023.pdf>
4. <https://www.oecd.org/climate-change/finance-usd-100-billion-goal/aggregate-trends-of-climate-finance-provided-and-mobilised-by-developed-countries-in-2013-2020.pdf>
5. <https://debtjustice.org.uk/wp-content/uploads/2022/10/Calculating-debt-arising-from-lack-of-loss-and-damage-finance.pdf>
6. https://newclimate.org/wp-content/uploads/2021/04/NewClimate_Debt-for-Climate-Swaps_PolicyMemo_March2021.pdf
7. <https://www.actionaidusa.org/publications/imf-surveillance-and-climate-change-transition-risks-reforming-imf-policy-advice-to-support-a-just-energy-transition/>
8. <https://priceofoil.org/2023/04/04/explainer-latest-data-shows-the-world-bank-group-and-its-peers-are-still-locking-in-a-fossil-future/>
9. <https://foe.org/blog/finance-to-fossil-fuels-world-bank-imf/>

Three things you can do now to take action:

1. **Sign the petition here:**
www.debtjustice.org.uk/climate
2. **Demand the UK government introduces a new law to cancel debt:**
www.debtjustice.org.uk/canceldebt
3. **Order Cancel the Debt for Climate Justice action postcards**, and more copies of this briefing, to help spread the word:

Send your name, address, and how many briefings and/or action postcards you would like to:

- **By email:** info@debtjustice.org.uk
- **By phone:** 07450875495
- **By post:** Debt Justice, Oxford House, Derbyshire St, London E2 6HG

Debt Justice (formerly Jubilee Debt Campaign) is a campaigning organisation dedicated to ending unjust debt and building a fair economy for all, here in the UK and across the world.

 @debtjustice

 Debt Justice

 debtjustice.org.uk

 info@debtjustice.org.uk

Oxford House, Derbyshire Street, London E2 6HG, United Kingdom. Registered Charity no. 1055675 Company limited by guarantee no. 3201959