

MSP briefing: COP 26 and climate debt - September 2021

About

Jubilee Scotland works in solidarity with partners in Scotland and internationally for the cancellation of all unpayable and unjust sovereign debts, and for the establishment of a fair and transparent process under which sovereign debt difficulties can be resolved.

Global Justice Now is a democratic social justice organisation working as part of a global movement to challenge the powerful and create a more just and equal world. We mobilise people in the UK for change, and act in solidarity with those fighting injustice, particularly in the global south.

This briefing is also supported by Christian Aid, a global movement of people, churches and local organisations which exists to create a world where everyone can live a full life, free from poverty.

Summary

In November 2021 Glasgow will host the United Nations COP 26 climate conference, against the backdrop of the worst global recession in a century. As economies shut down and borrowing needs increased during the pandemic, governments turned to lenders. Public debt in emerging markets, excluding China, is expected to reach 61% of GDP in 2021.¹ The World Bank warned last year that poor countries' debt levels meant they were at risk of languishing in a debtors' prison for many years to come.

Many of the most heavily indebted countries also suffer the worst economic impacts of climate change. Unable to cover the costs of responding and adapting, they are forced to take on more loans, trapping them in a cycle of climate change-induced debt. Additionally, because three-quarters of climate finance provided by wealthy countries is in the form of loans rather than grants, money that should be helping countries respond to climate change is harming them and contributing to rising – and in many countries, unsustainable – debt levels.

This is deeply unjust given the world's richest economies' high CO₂ emissions and disproportionate use of natural resources, including fossil fuels. Wealthy governments have a moral duty to help poorer countries tackle climate change without incurring debt, and ensure the creditors headquartered in their countries act responsibly and do not profiteer from crisis.

COP 26 is a crucial opportunity for governments to make progress towards a deal that will break this cycle. Scotland has already demonstrated high levels of ambition on climate change. Ahead of COP 26, we are calling on the Scottish Government to speak up on the issue of climate debt, and to push other governments and private lenders to agree a green recovery plan. This should be aligned with the UN Sustainable Development Goals and the Paris Agreement, and include debt relief to help spur an inclusive and sustainable recovery from the COVID-19 pandemic.

¹ See <https://fas.org/sgp/crs/row/IF11880.pdf>

Climate debt and COP 26

- Lower-income countries' economies are hit hardest by climate change. Between 1997 and 2016, Malawi and Rwanda had average weather-related economic losses of \$61.8 million and \$3.3 million respectively every year.²
- The annual costs of adapting to climate change in developing countries are estimated at \$70 billion. This figure is expected to reach \$140-300 billion in 2030 and \$280-500 billion in 2050.³
- A study by the International Institute for Environment and Development (IIED) suggests that 46 of the world's least-developed countries don't have the financial means to "climate proof" themselves.
- Wealthy countries pledged in 2009 to provide \$100bn (£720m) a year by 2020 to help poorer nations respond to climate change, however, to date funding has only reached \$79bn.⁴ By 2018, around three-quarters of this was in the form of loans that have to be paid back, rather than grants that do not.
- Countries in the global South, including Scotland's international development partner countries - Malawi, Zambia, Rwanda and Pakistan - already currently spend \$300 billion annually on debt payments to lenders such as the World Bank and IMF, private banks, speculators and investors.
- Private sector creditors play an ever more important role in lending to developing country governments. In 73 low-income developing countries, 27% of foreign debts are owed to private creditors. In some countries, the amount is much higher. In 2020, 69% of all debt payments due in Zambia were owed to private creditors. To date, these creditors have not responded to calls from the IMF, World Bank and G20 to join debt suspension initiatives established in the wake of the pandemic.
- The pandemic has pushed government debt to new heights; public debt increased in 108 developing countries in 2020.⁵ At the same time, investors have amassed profits collecting public debt repayments. Investment banks, asset managers and hedge funds posted record revenues and profits in 2020.⁶
- Natural disasters lead to further indebtedness; states are forced to borrow to pay for reconstruction, economic stimulus and public health costs. Countries that are vulnerable to climate change also have to pay higher interest on loans for adaptation, recovery and redevelopment.⁷ The result is a climate debt trap for countries which have contributed least to climate change, in terms of carbon emissions.
- A new global deal on climate finance can help to address these interlinked crises.

² https://eprints.soas.ac.uk/26038/1/ClimateCostofCapital_FullReport_Final.pdf

³ <https://www.unep.org/news-and-stories/press-release/step-climate-change-adaptation-or-face-serious-human-and-economic>

⁴ <https://www.oecd.org/newsroom/climate-finance-for-developing-countries-rose-to-usd-78-9-billion-in-2018oecd.htm>

⁵ https://www.eurodad.org/2020_debt_crisis

⁶ <https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/2307/attachments/original/1621949568/sovereign-bond-report-FINAL.pdf?1621949568>

⁷ <https://www.climateforesight.eu/migrations-inequalities/the-cruel-irony-of-climate-debt/>

What MSPs can do

Scotland aspires to be an international leader on climate change action, declaring a climate emergency in 2019, setting ambitious emission reduction targets and increasing the Climate Justice Fund with new and additional finance. In September 2020, the First Minister said “we recognise our moral obligation to help set the world on course to net zero in a way that is fair for all”.

In light of the recent report from the Intergovernmental Panel on Climate Change which highlighted the urgency of addressing the climate crisis, we are asking MSPs to call on the Scottish Government to realise its climate justice commitments by:

- Making a high-profile public statement ahead of, or at COP 26 calling on other rich countries, including the UK to:
 - Increase grant-based climate finance to well above \$100 billion a year (with a particular focus on increasing finance for adaptation, Least Developed Countries and Small Island Developing States) and to make progress on international discussions to agree further forms of grant-based finance, including a mechanism to compensate for loss & damage due to climate change and reparations for climate debt.
 - Suspend all debt repayments for countries impacted by extreme weather events and climate-related disasters, and offer debt cancellation to all countries that need it.
 - Compel private creditors to participate in multilateral debt relief initiatives, using legal mechanisms if necessary.
- Calling on private creditors with strong roots in Scotland - particularly Blackrock, JP Morgan, HSBC and adrdn plc (formerly Aberdeen Standard Investments) - to offer debt cancellation to all countries that need it, and to participate in the G20's Debt Service Suspension Initiative / Common Framework on comparable terms.
- Further increasing the Climate Justice Fund.
- Supporting research and analysis led by civil society in Scotland's international development partner countries on solutions to climate debt.

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