A call to action to negotiators within the UNFCCC, CBD and UNCCD to push Bretton Woods institutions to accelerate debt swaps for climate, biodiversity and land restoration.

Avaaz position paper for UNFCCC COP27,
Sharm El-Sheikh, Egypt, 6-18 November, 2022.

DROWNING IN DEBT



AVAAZ

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A call to action

Debt impedes developing countries ability to implement the Rio Conventions. Countries are not only suffocating under the weight of climate and biodiversity breakdown but also under rising debt. The global financial system is broken and the Bretton Woods institutions are not fit for purpose to address current challenges. It's time for a reform of the global financial architecture. The International Monetary Fund has to urgently develop debt relief strategies considering biodiversity and climate-related instruments. Avaaz believes that delegates should push for decisions that acknowledge the need for a deep reform of the global financial system, and the need for debt relief, including debt swaps, as an urgent measure.

Recommendations to Parties at COP27

The COP27 and CMA4 cover decisions should acknowledge the calls for a deep reform of the global financial architecture, and call on the UN Secretary-General, the IMF and the World Bank to organize a global dialogue on aligning global financial flows with the implementation of the Paris Agreement and the 2030 Agenda.

The cover decisions should mention the need for debt relief, including debt swaps, as an urgent measure, and call on Parties to start developing guiding principles. This should also be reflected in all items related to finance. Debt matters and debt swaps in particular should be mentioned in Article 6.8 of the Paris Agreement (non-market approaches to promote mitigation).

The links between climate change and debt should be part of the Global Stocktake discussions, in order to have a better global understanding of the interconnections between these issues and explore the role that Bretton Woods has played so far, and could play in the future.

Introduction



The International Monetary Fund (IMF) has just started raising concerns about the devastating effects of climate change on our economies and people, recognizing the critical role of a green transformation of the financial system1. There have been some positive developments and announcements from the IMF focused on addressing climate change including the creation of the **IMF's Resilience and Sustainability Trust** and the adoption of climate change vulnerability parameters in partnership with the World Bank, the OECD and other multilateral development banks.

Developing countries can´t breathe. They are drowning in debt, hurricanes, droughts, storms and floods as a result of climate change. They are hit first and worst despite having minimal responsibility in causing this problem in the first place2. They are least equipped to respond- and on top of all of this, they are highly indebted. Lets not forget they are also facing rapid growing rates of biodiversity loss and land degradation.

For many developing countries, the impact of climate change is pushing them into ever-greater debt3, seriously harming their economies4 after being faced with the need to take further loans to navigate the global health contingency caused by COVID-19 and the resulting economic recession. According to the IMF's Global Debt Database, about 60% of low-income countries are now in, or at risk of, distress5. New data released at the COP27 shows that in Latin America and the Caribbean, countries are destining up to 10% of their GDP in debt servicing. Current external debt stocks of developing countries are the highest in history6 and this rapid debt growth is noted across all developing regions7.

The IMF has a major responsibility in this situation and their actions recently announced are by all means insufficient and late. Funding needed in developing countries for the green transition, to adapt and to face the catastrophic effects of climate change is huge8. And high levels of debt repayments are preventing those countries from making the needed investments. The situation is worsened by tightening monetary policies in developed countries and a strengthening U.S. dollar. It is time for the IMF and the Bretton Woods institutions - and the USA, their most influential member - to speed up a reform of the global financial system.

Clearly, Bretton Woods institutions –and in particular the IMF– are not up to the current challenges. Avaaz is calling for an urgent reform of the global financial system where debt swaps are a tactical solution in a context where we need to urgently find additional ways to jointly address the need for debt relief and the need for funding climate, biodiversity and land restoration. This short brief provides recommendations for COP27 delegates to push Bretton Woods institutions to accelerate debt swaps for climate, biodiversity and land restoration.

1. https://www.imf.org/en/Blogs/Articles/2022/11/04/getting-back-on-track-to-net-zero-three-critical-priorities-for-cop27
2. These countries contributed just 1.1% of global emissions in 2019.
3. https://www.nature.com/articles/d41586-022-03474-1
4. http://v-20.org/activities/ministerial/ministerial-dialogue-ix-of-the-vulnerable-twenty-group-16-october-2022
5. Gaspar V., Pazarbasioglu, C.(2022). Dangerous Global Debt Burden Requires Decisive Cooperation. IMF Blog. https://www.imf.org/en/Blogs/Articles/2022/04/11/blog041122-dangerous-global-debt-burden-requires-decisive-cooperation
6. UNCTAD. (2021).Developing country external debt: From growing sustainability concerns to potential crisis in the time of COVID-19. SDG Pulse. https://sdgpulse.unctad.org/debt-sustainability/
7. For example, over the next six years, countries in the Vulnerable Twenty Group will be responsible for nearly half a trillion dollars of debt service payments alone.
8. Carbon Brief (2022). Analysis: US falling $32bn short on 'fair share' of $100bn climate-finance goal. https://www.citivelocity.com/citigps/climate-finance/

01 Bretton Woods must reinvent itself – or retire. And the US must stop blocking reforms



01

Bretton Woods must reinvent itself – or retire. And the US must stop blocking reforms

Rising voices have been bringing into question the role of the IMF and the Bretton Woods institutions in the current debt and climate crisis9. There is a growing recognition that the global architecture for cooperation is not fit for purpose to the challenges of the 21st century. The Bretton Woods institutions are outdated, they struggle and largely fail to align their practices with the 2030 Agenda10. Actors as diverse as ministers and heads of finance institutions11, the current United States Secretary of the Treasury12, the Indian G20 Sherpa13, and the Prime Minister of Barbados14, are all calling for a deep overhaul of financial cooperation. At the end of the 2022 Annual Meetings of the IMF and the World Bank Group the finance ministers of 58 countries that are highly vulnerable to the impacts of climate change made similar statements and proposals15. Avaaz has called on the international financial institutions to step up and fully engage with the implementation of the Rio Conventions. It is time for them to reinvent themselves.

The COP27 and the current negotiations taking place here in Sharm-El Sheikh could have been propelled if the heads of the Bretton Woods would actually have come with a plan and not only good wishes and positive statements. A plan - with a specific timeline and concrete actions and commitments - must be launched in the 2023 IMF Spring Meetings.

The U.S, the most influential member in the Bretton Woods Institutions,16 and the greatest greenhouse emitter, must stop blocking reforms and enable change. During COP27, President Joe Biden claimed the US was back as a global leader in climate, after it passed sweeping laws to tackle climate change and the announcement of multiple initiatives such as the launch of the *Climate Finance+* and investments in innovative financing for climate through the U.S. International Development Finance Corporation, to scale up private investments in adaptation in developing economies. Yet, not a single word was said about the need for a new architecture of Bretton Woods nor on the need for debt relief. His announcements are clearly not at the scale of the challenge we are facing, nor aligned with what should be the US' fair share of solidarity17. Solidarity goes hand by hand with trust. And trust can only be rebuilt by assuming its own responsibilities, putting forward concrete, urgent actions that are at the scale of the problem.

9. Martin, J. (2022) Is the IMF fit for purpose?. The Guardian https://www.theguardian.com/business/2022/nov/01/is-the-imf-fit-for-purpose

10. Dufief, E., Barchiche, D. (2022). Operationalising multilateral development banks' alignment with the 2030 Agenda. *Study* N°06/22, IDDRI, Paris, France, 16 p. https://www.iddri.org/en/publications-and-events/study/operationalising-multilateral-development-banks-alignment-2030-agenda

11. E3G (2022). Climate and Development Ministerial forward plan.Briefing reports. https://www.e3g.org/publications/climate-and-development-ministerial-forward-plan/

12. U.S. Department Of The Treasury (2022). *Remarks by Secretary of the Treasury Janet L. Yellen at the Center for Global Development* https://home.treasury.gov/news/press-releases/jy0997

13. Dutta Mishra, R. (2022).*'Restructure World Bank, IMF for climate financing'*. MINT https://www.livemint.com/news/india/world-bank-imf-need-to-be-restructured-to-enable-climate-financing-amitabh-kant-11665418023002.html

14. Ministry of Foreign Affairs and Foreign Trade, Barbados (2022). *The 2022 Bridgetown Agenda*. Ibid

15. V20 (2022). *Ministerial Dialogue IX of the Vulnerable Twenty (V20) Group*, Ibid

16. For instance, the US has the unilateral veto over some IMF decisions.

17. https://www.carbonbrief.org/analysis-us-falling-32bn-short-on-fair-share-of-100bn-climate-finance-goal/

02 Calls for a reform of the global financial architecture



02

Calls for a reform of the global financial architecture

As we state in Avaaz's COP27 position paper, debt growth and increasingly tight fiscal space point to the **need for new social pacts** allowing for increased investment with high economic, social and environmental returns. It is clear that reverting (or at least halting) climate change and biodiversity loss –as both go hand in hand– will initially require massive public and private sector investment. Equally clear is the fact that **inaction today will lead to even greater costs** (in terms both of lives lost and funds needed) and shrinking productive capacities tomorrow. The money can be found as long as world leaders and financial institutions prioritize commiting to climate change actions and the conservation of biodiversity.

At COP27, countries like France, Barbados and Colombia are calling for the IMF, World Bank and OECD to review their debt repayment rules for countries impacted. Debtors are working together in the Sustainable Debt Coalition, an initiative led by Egyptian, African and Latin American countries that are raising the voice calling for redesigning the financial international mechanisms for making fiscal space to meet climate and biodiversity goals.

The IMF must take action leading the global financial system to develop better methods of providing liquidity for developing countries and economies in transition in order to create fiscal space for investment in crisis response. The general allocation of Special Drawing Rights (SDR) in August 202118 to provide balance of payment support to countries in need, as well as the voluntary reallocation of SDRs from countries with sufficient international reserves to countries facing persistent external deficits or crises, has been used in part to fund the RST to address climate-change vulnerability but it has clearly not been enough.

In our view, the IMF has to go further by developing debt relief strategies considering biodiversity and climate-related instruments, thus creating new opportunities for aligning international policy and market developments regarding biodiversity, climate and land degradation and their role in debt markets while respecting and supporting countries' rights to development. Other measures that the IMF can put in place right away to provide liquidity are the temporary suspension of the interest surcharges and returning access to its conditional rapid credit and financing facilities to previous crisis levels, measures that have for instance, been put forward in the Bridgetown Agenda proposed by the Prime Minister of Barbados.

Based on its own research **and consultations with more than 100 IIndigenous organizations and local communities, Avaaz proposes debt swaps as a tactical solution in a context where we need to urgently find additional ways to jointly address the need for debt relief and the need for funding for climate, biodiversity and land degradation.** Several countries and global stakeholders such as the Vulnerable Twenty Group19 are already pushing for the use of climate or biodiversity-related instruments such as DNS (multilateral, bilateral, or with private investors) as part of broader debt relief or cancellation efforts. Thus the discussion and potential implementation of swaps is already on its way.

18. IMF. (2021) 2021 General SDR Allocation. IMF https://www.imf.org/en/Topics/special-drawing-right/2021-SDR-Allocation

19. Ramos, L., Bhandary, R., Gallagher, K., Ray. R. (2022). V20 Debt review. An account of debt in the Vulnerable Group of 20. https://www.bu.edu/gdp/2022/09/16/v20-debt-review-an-account-of-debt-in-the-vulnerable-group-twenty/

03 Debt swaps: guiding principles



03

Debt swaps: guiding principles

Debt, and in particular sovereign debt, has been a highly contentious issue politically, with debates emerging from the non-profit20, academic,21 faith22 and political arenas regarding the legitimacy of national debt, all with compelling economic and social arguments questioning the power asymmetries, historical and present injustices23, and even the predation of natural resources, that can be found at the heart of the debt issue. It is in this spirit of dealing with the urgency of the times and strong expectations that we see the viability of debt swaps for climate actions, based on some guiding principles where social inclusion, the rights of IPLCs and women and transparency must be at the center. These principles also apply and can be adapted for biodiversity and land restoration swaps.

In recent years, new swap initiatives are emerging. However, principles, standards and a common framework is needed in order to ensure that the environmental and social objectives are actually met with inclusivity and transparency. For example, the Institute for Governance & Sustainable Development (IGSD)24 identified the following strategies (slightly modified by us here) for developing a framework for debt-for-climate swaps as a way to implement, at scale, climate mitigation strategies consistent with a 1.5°C pathway:

- Create a High-Level Task Force to raise political visibility for debt swaps within the United Nations system and the International Financial Institutions on how debt burden impedes the implementation of all Rio CConventions.
- Mobilize high-level champions from both creditor and debtor countries, as well as international financial institutions.
- Identify the best climate mitigation and adaptation options for debt swaps, through science-based assessments at the country level.
- Strengthen and expand eligible debt types and frameworks for debt swaps, including the G20 Debt Service Suspension Initiative.
- Engage with sovereign debt rating agencies to explore how debt swaps can be structured to work in favor of sovereign credit ratings.

Another example of guiding principles are those developed under the V20 proposal25 to reform the G20 Common Framework. Finally, debt swaps should be a part of a more comprehensive set of financial mechanisms that, if scaled up through appropriate public policies and private sector action, have the potential to collectively make a substantial contribution to closing the global biodiversity financing gap.

20. Avaaz, CAFOD, Global Justice Now, Jubilee Debt Campaign, Oxfam. (2020).G20 must cancel debt to stop coronavirus 'third wave' devastating developing countries.

https://www.oxfam.org/fr/node/12401

21. Graeber, D. (2011). *Debt, the first 5000 years*. https://warwick.ac.uk/fac/arts/english/currentstudents/undergraduate/modules/fulllist/special/statesofdamage/syllabus201516/graeber-debt_the_first_5000_years.pdf

22. Holy See. (2020). Statement at the 67th Executive Session of the UNCTAD Trade and Development Board. https://unctad.org/system/files/non-official-document/TDB67_stat_item2_HolySee_en.pdf

23. Lecompte, E. (2020). Bottom of the first. Debt canceled, Crisis Protections, Next Steps. Jubilee. https://www.jubileeusa.org/ea_COVID-19_campaign_update

24. IGSD. (2020). Debt-for-Climate Swaps: Background Note. https://www.ccacoalition.org/en/resources/debt-climate-swaps-background-note

25. Ramos, L., Bhandary, R., Gallagher, K., Ray. R. (2022). V20 Debt review. An account of debt in the Vulnerable Group of 20. Retrieved from https://www.bu.edu/gdp/2022/09/16/v20-debt-review-an-account-of-debt-in-the-vulnerable-group-twenty/

Read more



"It's the Ecology, Bretton Woods.": Written by a group of economists, political scientists, and biodiversity experts, the report is based on a comprehensive review of the literature of the economics of biodiversity. It presents an actionable case for a sustainable, equitable global economy that values biodiversity and ensures a healthy future for all of us.



***The Ecological Debt: Save Biodiversity to Save the Economy*:** Rooted in a wider framework of debt justice, and looking for tactical solutions to respond to the current economic and ecological emergency, the report describes how the IMF can explore Debt-for-Nature swaps and support the implementation of the post-2020 global biodiversity framework.



The last fifty days



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For more information please contact us at:
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Check our main position paper for COP27:
bit.ly/LostInDamange

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