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Debt jubilees in the time of climate breakdown

When disaster hits, already impoverished countries find themselves in debt traps. Only a global mechanism can prevent this

'Superstorms' like Haiyan in the Philippines; the destruction of large cities such as Beira, Mozambique, by cyclone Idai; the destruction of virtually all buildings in Barbuda in 2017 – such news has become a daily routine. The UN recently warned that climate disasters occur at a rate of one per week. The destruction and death features globally on TV screens for a couple of days, but the impact on families, communities and entire countries will linger for a long time to come.

We still haven't devised an effective way to react to these events. Each one inspires a new call to action by relief agencies, and these are continually running up against 'crisis fatigue'. Post-cyclone pledges for Mozambique, for example, totalled USD 1.2bn, far below the needed USD 3.2bn, prompting the UN Secretary-General António Guterres to plead for more help. In effect, impoverished countries grappling with a crisis are often forced to take out loans, sentencing themselves to prolonged debt and under-development.

A mature global society needs to recognise that these disasters are going to get increasingly intense and frequent. They also need to acknowledge that they disproportionately affect poor countries that are least culpable for climate change. Migration, too, will be driven in part by impacts of climate change.

Supporting countries hit by disaster

The most disastrous are those catastrophes hitting a country that is already in dire straits with regard to fiscal and external balances. As disaster relief and reconstruction support regularly come in the form of concessional or even non-concessional loans, rather than grants, heavily indebted countries risk to find themselves in a real debt trap when a disaster hits them. In other words, they get caught up in a vicious cycle of

massive deficits, which cannot be brought back into balance before the next disaster comes down on them.

In such situations there is a need for systemic responses, which look beyond immediate emergency relief and the one-time costs for 'building back better'. Defining a legal framework for debt relief for countries hit especially hard by climate change could be one.

Moreover, foregoing an otherwise legitimate claim on an affected country allows wealthy governments to acknowledge that they have played a disproportionate part in bringing about climate change – and benefitted disproportionately from the exploitation of fossil fuels.

A solid mechanism to provide both debt relief and climate finance grants in the wake of climate disasters could therefore offer a sustainable and fair approach to the deepening climate and debt crises.

Fortunately, the world has a forum for talking about the problem of climate change – the UN Framework Convention on Climate Change (UNFCCC). There are three workstreams: adaptation, mitigation and loss & damage. The first two have developed funding mechanisms, but the third – which concerns the consequences of climate change as they affect the most vulnerable people and ecosystems – has for a decade hobbled along without any meaningful agreement.

The UNFCCC already has a tool, the Warsaw International Mechanism (WIM), to 'avert, minimize, and address' climate-induced loss and damage. But progress on the most important financing question has been stalled, thanks to rich countries' refusal to talk seriously. Several options are on the table for a funding mechanism: one, a standing fund with an automatic replenishment plan. Two, an automatic mechanism to provide debt relief in cases of major disasters.

A proper debt relief mechanism

Debt relief under such a mechanism would be based on pre-agreed criteria regarding the extent of destruction and the needs of the country in question. It would be provided in a two-step process: first, in the form of an interest-free moratorium on debt payments for a certain period, which would give breathing space for the country to contact all its creditors. And second, a comprehensive debt restructuring with the help of a competent international organisation such as the United Nations Conference on Trade and Development (UNCTAD). The guiding principle needs to be a sustainable solution that provides a high probability that the country will not find itself in an unsustainable debt

situation any time soon.

The big advantage of this approach over common emergency and reconstruction relief is that we are dealing with resources that are already on the ground, assigned for debt service in the state budget and thus immediately available without any lengthy pledging and disbursement exercises. Moreover, it allows the authorities to flexibly invest resources where they are most badly needed, not having to pay attention to donors' priorities.

Without a reliable and comprehensive financing facility to ensure finance to help countries cope with climate-induced loss & damage, the most vulnerable parts of the world will sink deeper into debt and poverty every time they are hit by climate disasters they did not cause. A solid mechanism to provide both debt relief and climate finance grants in the wake of climate disasters could therefore offer a sustainable and fair approach to the deepening climate and debt crises.

This year's climate talks, culminating in the Conference of the Parties (COP) in December in Santiago, Chile, offer the best shot yet for progress on loss & damage compensation. An operational debt relief scheme could be a crucial progress to that end.



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