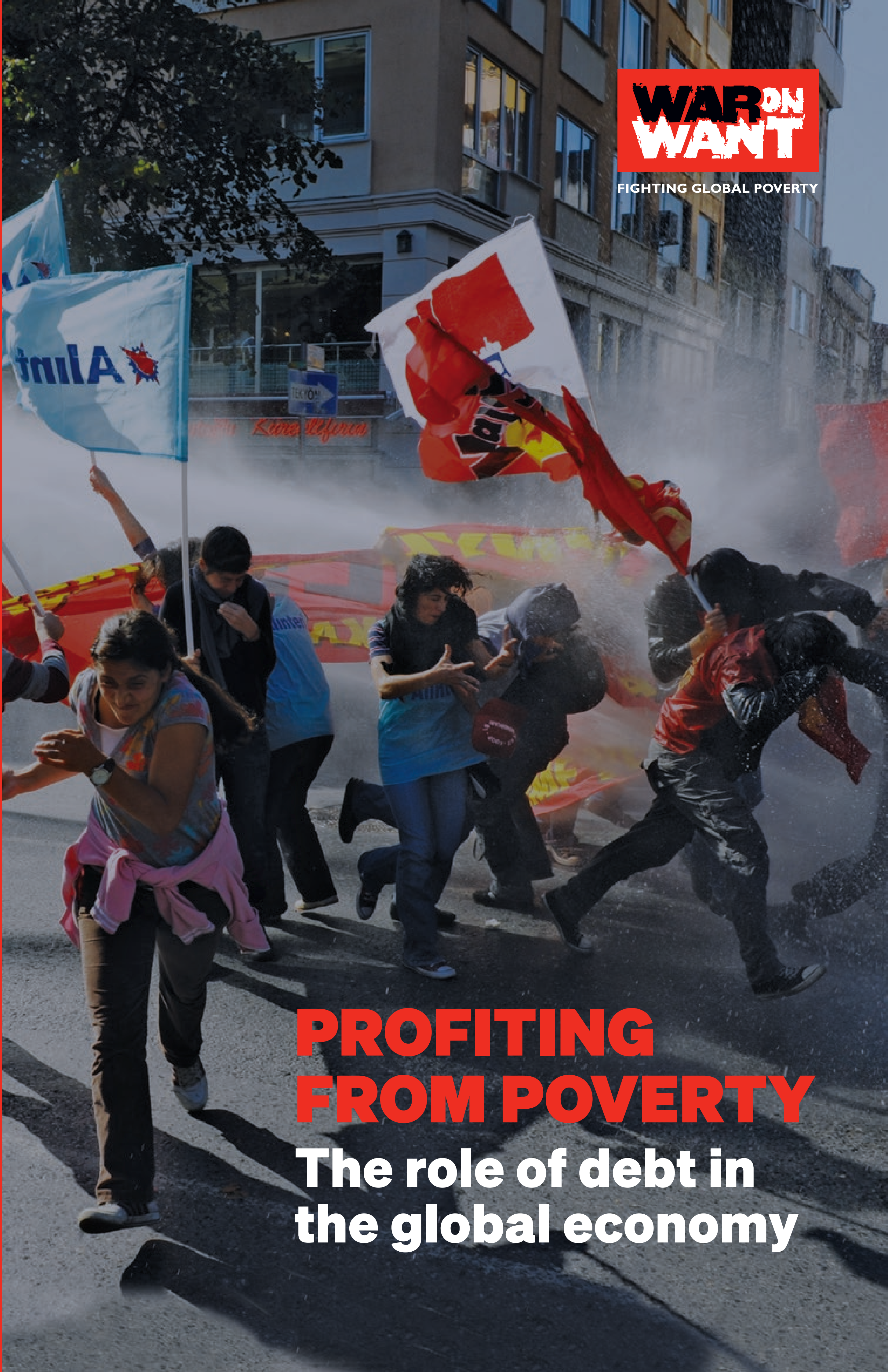
WAR ON WANT GLOBAL ECONOMY SERIES • 1. DEBT

WAR ON WANT
FIGHTING GLOBAL POVERTY



PROFITING FROM POVERTY

The role of debt in the global economy

Profiting from Poverty: The role of debt in the global economy

August 2023

Acknowledgements

With thanks to the Asian Peoples' Movement on Debt and Development

About War on Want

War on Want fights against the root causes of poverty and human rights violations, as part of the worldwide movement for global justice.

We do this by:

- working in partnership with grassroots social movements, trade unions and workers' organisations to empower people to fight for their rights
- running hard-hitting popular campaigns against the root causes of poverty and human rights violations
- mobilising support and building alliances for political action in support of human rights, especially workers' rights
- raising public awareness of the root causes of poverty, inequality and injustice, and empowering people to take action for change.

Join us!

The success of our work relies on inspiring people to join the fight against poverty and human rights abuse.

Get involved with our work:

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Introduction

War on Want has always believed that poverty is political. From our long-standing advocacy for justice not charity, to our campaigns to expose the worst of corporate exploitation and greed, it is clear that poverty is the result of political decisions made by those who hold power: governments and corporations, working within a rigged global economic system. Wealth, power and influence have consolidated into the hands of a few.

> **The poorest 50% of the global population possess just 2% of global wealth, whereas the richest 10% own 76%**

The gap between the richest and the poorest has grown exponentially to the extent that the poorest half of the entire global population now possess just 2% of global wealth, whereas the richest 10% own 76% of global wealth.[1] At the centre of this power dynamic: the climate crisis, and the damage done to the Earth's ecosystems in relentless pursuit of economic growth.

The global economic system is the result of colonialism. For centuries the countries of the Global North have dictated economic and financial rules to benefit their own interests leading to the plundering of nature, and the oppression and exploitation of communities from countries in the Global South. In so doing, causing and fuelling the climate crisis while destroying the very fabric of societies capable of adapting and building resilience to the worst of its impacts.

Countries of the Global South have been left carrying heavy debt burdens, indebted to financial institutions and private lenders. This traps them into a vicious circle where they spend more on debt repayments than on adapting to the climate crisis and, at the same time, pursue their right to development.

"The debt is with the people. Not with the IMF." Argentines protest in front of the IMF offices in Buenos Aires in 2019. *Previous page:* A statue of a Belgian colonialist, daubed in red paint to symbolise the violent legacy of colonialism.

Through structural adjustment programmes, the International Monetary Fund (IMF) and World Bank forced governments into reforms in exchange for financial aid – reforms that led to commodity dependency, which can leave economies more exposed to shocks.[2]

There are a number of drivers of debt of Global South countries. Creditors push profitable loans, which they can leverage for more power and influence over the economic policies of a country in such a way that serves the lenders interests. Unequal trade rules, which have removed tariff protections for the goods and materials produced by Global South countries, have resulted in massive trade surpluses and deficits. This leaves countries in deficit needing to borrow to pay for traded goods, with Global South economies oriented towards production for export in service of Global North overconsumption rather than domestic need. This builds on centuries of shaping of the economic structure of Global South economies through colonisation and neo-colonial economic relations.[3]

Extreme climate disasters are now heavily exacerbating debt crises in many countries. Fierce flooding in Pakistan in 2022 displaced 33 million people, killed more than 1,400, and caused approximately $40 billion in property damage. The IMF approved a bailout loan for more than $1.1 billion, but Pakistan needs to borrow billions more for recovery when the country already has external debt of around $130 billion.[4] Pakistan is responsible for less than 1% of global emissions, but ranks 8th among the countries most exposed to extreme weather,[5] and already has a heavy debt burden.[6]

The poorest 50% of people on the planet contribute just 12% of total carbon emissions, while the richest 10% are responsible for 47.6%

The poorest 50% of people on the planet contribute to just 12% of total carbon emissions. Meanwhile, the richest 10% of people are responsible for 47.6%.[7] Yet it is the poorest countries that face mountains of unmanageable debt in order to recover from climate devastation they did not cause.

Rising costs of living, lack of access to Covid vaccines, poverty, inequality and hunger, are combining, amplifying and fuelling an ecological crisis that is impacting the poorest the hardest. These are not separate or isolated crises, but the inevitable result of a system rigged to benefit rich elites and corporations to maximise profit and capture more of global wealth.

Debt is a key factor in how this rigged system is enabling the rich to maintain a stranglehold on the poorest and run roughshod over the natural world.

1. By rich elites for rich elites: the rigged global economy

> **"It was economics that Europe should invest in Africa and control the continent's raw materials and labour. It was racism which confirmed the decision that form of control should be direct colonial rule.[8]**
>
> **Walter Rodney** Guyanese activist and historian, assassinated in 1980

Global economic and political systems are constructed in such a way that they deny most people the ability to live with dignity and in harmony with the planet.

For 500 years the capitalist logic of exploitation of people and limitless extraction of nature's resources has fuelled slavery, colonialism and imperialism, creating a global economic system with the deepest of roots in racialised and gendered injustices. This logic has embedded the idea that people and ecosystems in some parts of the world can be sacrificed because they have less value than those in the richest countries of the Global North. Debt has been used by colonial powers as one tool with which to strip the countries of Asia, Africa and the Americas of resources and wealth.

In the colonial era, the UK controlled large parts of these continents, as well as Australia and New Zealand, becoming a world superpower through land grabs, coercive trade, military force and extraction of wealth.

> **The industrial revolution in the UK and Europe was fuelled by the spoils of colonial enterprises; between 1765 and 1938 the UK drained nearly US$45 trillion from India alone**

The industrial revolution in the UK and Europe was fuelled by the spoils of colonial enterprises and accelerated by carbon-intensive imperialist endeavours, as countries engineered rules to enable wealth extraction on a massive scale. The UK drained nearly $45 trillion USD from India alone between the years 1765 to 1938.[9]

The same can be said of imperialism in Africa. European colonising countries took over the best land for their own private or economic use, such as mining or commercial farming. Colonial powers restructured food systems away from production for local consumption towards cash crops grown for export markets in Europe. Minerals were extensively mined and exported with companies adopting cheap and forced labour from the very communities that had been forcibly removed from the land. This extraction and exploitation continues today in the form of the large-scale corporate capture of Africa's natural resources for markets in the Global North.

In an astonishing extension of colonial practice, over 100 companies on the London Stock Exchange, most of them British, have mining operations in over 37 Sub-Saharan African countries, controlling vast amounts of Africa's natural resources.[10]

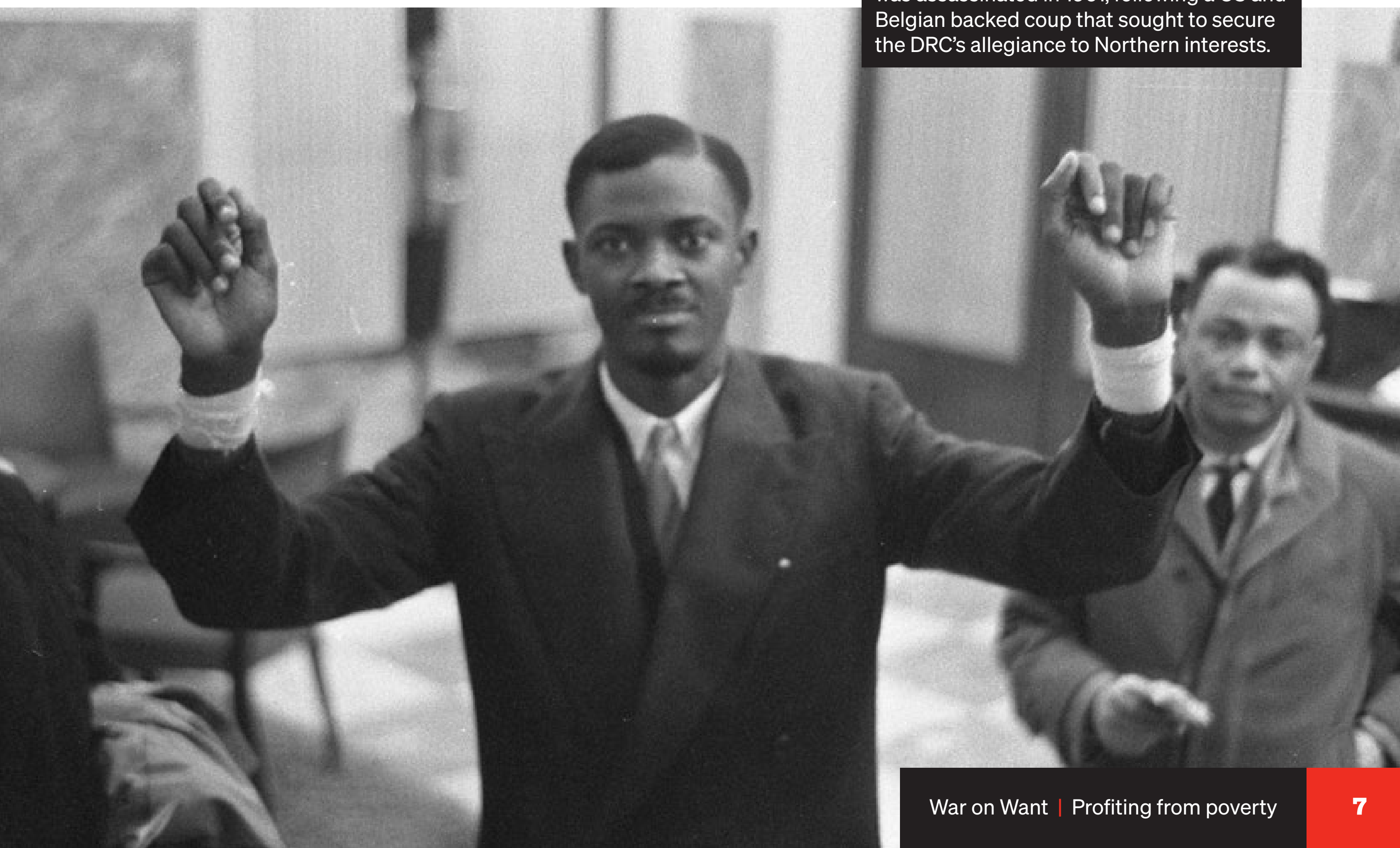
Many of these mining operations have caused widespread environmental damage in the very countries that are now bearing the brunt of the climate crisis. While UK registered companies have continued in their plunder, many of the countries in which they operate are also being saddled with mounting debt.

British colonial history also encompasses countries sometimes referred to as the 'informal colonies,' for example in Southern and Central America. In the 19th century, Britain exchanged political support for the independence movements in these countries for exclusive trade deals, while bank loans to the new governments created debt spirals. These dynamics would have a direct impact on the sovereignty of these countries for the future to come.[11]

In the post Second World War era, the principles for a rules-based global economy were largely determined by, and for the Global North, and built on a model of credit and debt that further entrenched wealth and power in the hands of rich countries and corporate interests. It is a system built on the rich and powerful benefiting from the poverty of the poor.

The World Bank and the IMF, set up in 1944, aimed to re-build economies and promote economic cooperation, and laid foundations for international trade rules, with the World Trade Organisation formed in 1995.

The principle of the indebtedness of poorer countries to the IMF and World Bank was a central part of these new economic rules from the outset. This principle was challenged by a wave of anti-colonial leaders in the Global South, including Thomas Sankara, the President of Burkina Faso, who called for a united front by African countries to not pay their debts. Many of those who challenged neo-colonialism and the interests of the Global North – such as the Congolese Prime Minister Patrice Lumumba, Guatemalan President Jacobo Árbenz Guzmán and Chilean President Salvador Allende among others – were overthrown or assassinated and pro-Western dictators put in office in their place.



Congolese Prime Minister Patrice Lumumba was assassinated in 1961, following a US and Belgian backed coup that sought to secure the DRC's allegiance to Northern interests.

Pakistani women march to demand government action around climate and pollution.

It is increasingly clear that the IMF and World Bank have upheld the colonial relations through which the Global North initially amassed its wealth. After centuries of plunder, these unequal relations now continue under the guise of economic cooperation.

The IMF gives loans or bailouts to member countries facing economic crises that threaten their ability to finance imports or service debt. But the loans are tied to conditions imposed in exchange – typically reforms aimed at rectifying balance of payments and restoring foreign exchange reserves in the central bank.

Some of these 'structural adjustment' policies include austerity measures. These entail governments cutting salaries and social benefits; undermining workers' rights by restricting collective bargaining; imposing high interest rates; privatising state enterprises; and liberalising trade and removing barriers to foreign investment. The belief is that these measures balance the budgets of countries in economic crisis and restore economies to growth.

In reality, reforms prioritise repayment of loans, and dictate how borrowed funds should be spent. The system is oriented towards lenders and the management of debtors, with too often scant regard for the people in those countries: their immediate needs and how they want their own governments to act. The winners of this neocolonial model are the International Financial Institutions and their main voting countries, foreign corporations with investment interests in Global South countries, and national elites who have benefitted from a low taxation system for their own large holdings and corporations. These policies have increased the wealth of Global North countries and their political influence at national and international level.

Even the governance models of the IMF and World Bank betray poorer countries, placing 'weighted' voting rights to countries that contribute more to the IMF/World Bank lending 'pot'. A long-standing criticism is that the voting system works in such a way that it enhances the power of the creditor countries at the expense of the poorer borrowing countries, which are left with very little power or influence.[12]

The odds from the outset were stacked in favour of the very countries that, under colonialism, had already plundered wealth from poorer countries, and could now use that wealth to buy influence on how the rules of the new global economic order would evolve.

2. Debt as a tool of economic power and control

"It is illegitimate to claim that these are debts of the people of the South. Northern lenders created the situation of "indebtedness" of the South through a long history of colonization and capitalist globalization. The consequent net outflow of wealth from the South to the North, the impoverishment of our societies and the lack of public financial resources – all these are used as justifications for loans and more loans to the South. Northern lenders then used loans as instruments for the continued plunder of the South, relentlessly pushing loans to governments and private corporations in the South, making profits through interest payments, exports of their products sweetened with debt deals, and economic conditionalities of loans that allowed them to further dominate our economies.

Asian Peoples Movement on Debt and Development (APMDD)

a) Debt and the global economy

Debt is too often regarded as an inevitable technical tool of a complex global economic system, but for millions in the Global South its impacts are all too tangible.

To understand how countries have amassed chronic levels of debt, it is critical to look at the historical context of how the rules of the global economic system evolved, who influenced them, and for what purpose. Colonialism played a huge role in creating the debt that poorer countries continue to bear. On gaining independence, countries inherited the debt burden[13] that their colonisers had racked up.[14] Some were also forced to pay compensation to former colonisers for the loss of income following the banning of slavery. Haiti, for example, declared its independence in 1804, but through an ordinance of the French king in 1825, the country was tied to a new debt to pay indemnities to former colonisers. Including interest, the debt was not paid off until 1947.

For many countries, independence came with a heavy debt burden to the very countries that had extracted and stolen wealth in the first place. Yet the end of colonialism did not end this transfer of wealth. The exploitation of land and labour continued through independence, actively undermining local industry, and leading to the construct of 'developed' versus 'underdeveloped' countries as a further means for those in power to maintain control.[15]

In the 1960s and 1970s Global South leaders advocated for the establishment of a New International Economic Order (NIEO), based on the principles of justice, sustainability and equality between states. Debt was a key issue, as the levels of state indebtedness inherited by newly independent states "left them crippled at birth".[16] Newly independent African nations faced issues like limited infrastructure, weak institutions and a lack of services such as health and education. The UN General Assembly adopted the NIEO in 1974, but its full realisation was blocked by richer countries, most notably the United States.[17]

Protestors in Colombo, Sri Lanka gather outside the President's official residence in 2022, at the height of the country's unprecedented economic crisis.

In the post-independence era, countries sought loans from foreign governments and international institutions to finance projects like roads, schools, hospitals and industrial investments. Many African countries had abundant resources, but developing them required significant investment.

Political economists have increasingly recognised that the pattern of concentration of wealth and of poverty at a global level is directly related to the legacies of colonialism and this continues to be reinforced through the structures of the global economy: trade, tax systems, monetary and financial policies, and debt.

On the face of it, Zambia should be extremely wealthy. For many years it was the seventh largest copper producer in the world. UK-registered companies like Glencore and Vedanta have used tax strategies in a blatant effort to extract even more wealth from the country.

While companies have been extracting wealth from Zambia, the country's national debt has spiralled, rising from $1.5 billion in 2011 to $31.7 billion, in 2021.[18] Extractive industries wield a lot of power and influence over local governments. Borrowing is often needed to build infrastructure for these industries, which creates debt. And sometimes these companies also operate as 'lenders' themselves.[19]

Zambia was the first African country to default on debt repayments during the COVID 19 pandemic as it struggled with debt that reached 133% of GDP at the end of 2021.[20]

The irony is that a large share of the money in the IMF vaults, which is supposed to pay for Africa's debt relief, was originally stolen from the continent in the first place, and that theft continues today propped up by deeply unfair economic rules written to maintain the colonial status quo, and to favour corporate interests.

b) Global debt levels

Governments around the world borrowed heavily to meet the costs of tackling the COVID pandemic, for those countries already servicing heavy debts, the costs of the pandemic tipped them into economic crisis. In 2019 the total global debt owed was already as high as $101 trillion.[21] By 2021, global debt passed $300 trillion, covering borrowing by governments, businesses and households, with the IMF warning that debt is now at dangerously high levels.[22]

In circumstances made worse by the global pandemic, 135 out of 148 countries in the Global South are critically indebted, with the United Nations Development Programme (UNDP) reporting in 2020 that an additional 209 million people could be pushed into extreme poverty by the pandemic by 2030 – bringing the total to 1 billion people.[23]

Countries in the Global South spent an average of 14.3% of government revenue on foreign debt payments in 2023, an increase from 6.4% in 2010.[24]

In 2022, 54 developing countries were considered to be in debt crisis.[25] However, if we define countries suffering from debt burdens more broadly, as debt payments undermining a government's capacity to provide basic services, then the number of countries affected by debt burdens is much higher. They represent just 3% of the global economy, but account for more than 50% of people living in extreme poverty – including 28 of the world's top 50 most climate vulnerable countries.

Many of these countries are at the forefront of dealing with the impacts of the rapidly worsening climate crisis, facing rising costs at the same time as mounting debt. Both factors exacerbate each other, creating a vicious cycle that disproportionately affects vulnerable populations and their environment: key impacts include restrictive fiscal policies, limited resources for climate action, rising inequality and social unrest, and climate-induced displacement and migration.

c) Creditors and debtors: the role of the UK

In addition to the IMF and World Bank, many private entities are also creditors to poorer countries, holding more than 60% of all claims on countries in the Global South. They include private banks, pension funds, investment management companies, corporations and others that have a function of credit agreement with indebted countries. Corporations such as BlackRock, the world's largest asset and investment management company, which controls over $10 trillion of assets and investments.

BlackRock is the largest holder of Sri Lanka's International Sovereign Bonds, a debt that caused Sri Lanka to default on repayments in April 2022. International Sovereign Bonds account for almost 50% of Sri Lanka's $26 billion external debt.[26]

Private creditors wield enormous influence over governments in debt and are essential stakeholders in discussions around debt relief. However, following the Covid pandemic, private creditors such as BlackRock have been reluctant to engage in debt relief measures, leaving many governments hostage with no means to pay for essential imports such as food and fuel.

Most of the international bond contracts between private creditors and indebted countries are concluded in London and New York, and are therefore subject to UK and US laws. This gives the UK and US the opportunity, as well as the responsibility, to enforce the participation of private creditors in debt relief and cancellation. Despite the potential to drive private creditors to negotiate, the governments of the G7, including the UK and US have yet to intervene.[27]

In May 2022, Sri Lanka became the first country in the Covid context to default on debt repayments due to needing funds urgently to pay for essential goods to keep people alive.

Sri Lanka's looming debt crisis

Sri Lanka is one of a number of countries dealing with a worsening economic crisis that dates back several years. Sri Lanka gained independence from the British in 1948. Its economy is dependent on textile, garment and tea exports. At independence, Sri Lanka's foreign debt was $37.8 million.[28]

The country suffered greatly from the Covid pandemic. Inflation rose rapidly as supply chains were disrupted. The travel and tourism industry came to an abrupt standstill, and international remittances plummeted as many Sri Lankan workers returned home after losing their jobs abroad. Sri Lanka also experienced an unprecedented level of capital flight from foreign investors and national elites, which brought the level of foreign reserves to their lowest level in decades.

As a result, the government had no means to pay for essential imports, leading to shortages of fuel, food and medicines. The government spent months trying to keep up debt repayments, mainly to Western banks and bond holders, while Sri Lankans were left to deal with the economic crisis, struggling with tremendous hardship on a daily basis. Fuelled by neoliberal policies and mismanagement, the debt crisis is at the centre of the catastrophe facing the Sri Lankan people.

When Sri Lanka defaulted on debt repayments, Hamilton Reserve, a bondholder based in the tax haven of St Kitts and Nevis, immediately sued Sri Lanka in US courts to demand the full repayment of the US$250 million owed, regardless of the country's inability to pay.[29]

In January 2023, over 180 economists and experts grouped together to call for extensive debt cancellation to give the economy a chance to recover, stating that "Sri Lanka would be a test case of the willingness of the international community to tackle a looming global debt crisis", and exposed the fact that private creditors such as investment companies and hedge funds were preventing a deal. They called for all lenders – bilateral, multilateral and private to "share the burden of restructuring, with assurance of additional financing in the near term".[30]

Vulture funds and financial speculators looking to profit from countries experiencing a debt crisis create further problems, buying up debt from other investors at a much reduced price and then demanding full payment. Following debt default in 2001, Argentina reached agreement with the majority of its creditors to pay back the debt at a reduced rate, but two vulture funds took the state to court for full payment and won the case.[31]

d) Hard currencies and debt dependencies

Crises like the recent one in Sri Lanka show the vulnerability of Global South economies to global shocks, dependent as they are on export-oriented sectors and on currencies that they cannot control and that are structurally stronger than their national currencies.[32]

With the arrival of global shocks, many countries fall deeper into debt to secure the hard currency needed to guarantee the availability of increasingly expensive essential goods.

As the overwhelming majority of loans are in Euros and US dollars, interest on debt must be paid in a hard foreign currency. The need to generate a hard currency which they cannot control has entrenched the dependence of Global South economies on exports.

e) Capital flight

" The haemorrhage of wealth through capital flight means more lives lost due to lack of healthcare, more children denied education, and stunted private sector development for lack of transport, power and telecommunication infrastructure.

Leonce Ndikumana Distinguished Professor of Economics, University of Massachusetts[33]

A moment of instability, whether political or economic, can lead to those who hold wealth and investments, rapidly withdrawing large sums of money and moving their assets elsewhere: capital flight.

Capital flight causes a loss of capital and wealth for a country, whether prompted by the introduction of higher taxes, a loss of confidence in the economy, or a sudden event. It can snowball, encouraging others to follow suit. It drives inequality, undermines financial capabilities of poorer countries, and can lead to the emptying out of the coffers.[34] It also enables rich elites to protect their wealth, avoid scrutiny as to how they amassed it, and move it into tax havens.

Negative perceptions of debt levels and risk of default have been cited as causes of capital flight. Fears that a country could default on its government debt often leads investors to sell government bonds, causing a fall in the value of bonds and a rise in interest rates, increasing the cost for the government to service already high debt.

It has been estimated that from 1970 to 2018 the African continent lost $2 trillion to capital flight.[35] Meanwhile, academics have estimated that since 1960 rich countries have drained $152 trillion from the Global South.[36] This illustrates the extent of power and control that rich elites and investors have, when their actions to hoard and protect wealth can determine the entire economic well-being of countries.

3. Attempts at tackling unmanageable and illegitimate debt

“Everywhere, illegitimate debts whose repayment is imposed on populations generate social and economic crises. It affects the most vulnerable and poorest populations, and therefore mostly women. On a daily basis, debt takes on a multitude of faces to impose its violence: high costs of living, rising interest rates, erosion of public authorities, destruction of natural resources and employment, expropriations and destruction of our means of subsistence. It invades our homes, our bodies, our freedoms and our minds.[37]

Committee for the Abolition of Illegitimate Debt (CADTM)

At various points, measures towards debt relief have delivered debt restructuring and even write-offs, usually for countries that have hit an economic crisis and risk defaulting on debt repayments. However, the use of terms like ‘debt forgiveness’ indicate that these measures were always within the framing of creditors holding power over those in debt having done something wrong.

a) Debt relief measures

In the 1990s, debt relief for heavily indebted and developing countries was the subject of a campaign by a broad coalition of organisations under the banner of Jubilee 2000. This campaign was successful in pushing debt relief onto the agenda of governments and international organisations such as the IMF and World Bank. The Heavily Indebted Poor Countries (HIPC) initiative was launched to provide systematic debt relief for the poorest countries, which in turn led to the ‘Multilateral Debt Relief Initiative’ (MDRI) approved by G8 Finance Ministers in 2005.

Many debt campaigns in the Global South criticised these initiatives for involving too little relief for too few countries, for having attendant conditionalities, and more importantly for being intended not so much to provide relief but to rehabilitate the “books” of these countries so that they could borrow again.

Since 1996, US$97 billion of debt has been cancelled in poor countries. However, the same countries had already (and have since) spent years repaying many more billions of dollars in loans, with some spending more each year to service debt payments than they did on health and education combined.[38]

A significant number of countries that benefited from the first rounds of debt cancellation are now re-accumulating debts. The World Bank and IMF estimate that over half of the countries that were included in HIPC and MDRI are now at risk of returning to unsustainable debt levels. In a few years, some countries, such as Mozambique, Ethiopia and Niger, could be spending as much of their government revenue on foreign debt payments as they were before debt relief.

Compounding this problem is the fact that many developing countries are increasingly borrowing from creditors offering quicker deals and fewer conditions but less favourable interest rates, such as China.

Recently, International Financial Institutions have also provided countries with unmanageable and illegitimate debts, which go against the IFI's own rules. In 2018, the IMF provided Argentina with one of the largest loans in the history of the institution, and committed multiple irregularities, violating its own articles of agreement and bylaws to accommodate the policies and reforms of a right-wing and neoliberal government. In fact, the IMF always knew that the amount of debt was beyond the affordable limits that they had established and was also aware that these same funds were going to be used for capital flight.[39]

b) Debt cancellation is not enough

Cancelling illegitimate debt is not only a moral imperative, but also necessary to avoid future economic crises, political shocks and conflicts. But it is not enough. Many countries have realised that the structural injustices of poorer countries with weaker currencies and limited sovereignty remain in place.[40]

The decolonisation process will not be complete until countries in the Global South have reached full and substantive sovereignty. An example is set by Senegal; Senegal's debt, at 70% of GDP, is far from one of the world's most indebted countries – Japan, having a 250% debt to GDP ratio. However, the big difference between these two countries is that Japan's debt is held in Japanese yen so it can never be insolvent, while Senegal's is denominated in foreign currency.

There is, however, willingness to create alternative systems. Examples include the potential adoption of a new currency by Brazil and Argentina, to be extended to neighbouring countries, or the resurgence of monetary sovereignty demands in the African continent. These ideas represent an attempt by progressive governments in the periphery to take further steps towards independence, popular sovereignty, and enhanced regional cooperation in the Global South.[41,42]

Activists from the APMDD in the Philippines take part in a global week of action to demand debt cancellation, timed to coincide with the 2022 annual meeting of the World Bank and IMF.

© APMDD

4. Debt as a barrier to economic and climate justice in the Global South

As poorer countries in the Global South grapple with debt crises, they are also at the sharp edge of the climate crisis, facing the human, ecological and financial costs of extreme climate disasters that are placing unprecedented pressure on their economies. The Organisation for Economic Co-operation and Development (OECD) states that nearly half of low-income countries are at high risk of both debt and climate crises.[43]

a) The multiple crises of climate, inequality, poverty and injustice

The climate crisis is the most pressing ethical and political issue of our lifetime. Increasing global warming is having a severe impact on biodiversity and ecosystems, including species loss and extinction.[44]

Mass deforestation, the loss of biodiversity, widespread pollution, corporate capture of land, and water shortages – our natural world is suffering immensely, with wildlife populations plummeting by an average of 69% between 1970 and 2018.[45]

Between 2010 and 2020, the UN estimated that the net loss in forests globally was 4.7 million hectares per year.[46] Forests, vital to biodiversity and to human communities not only nourish, purify and maintain the balance of ecosystems, but also provide people with jobs, and play a crucial role in mitigating climate change, absorbing carbon dioxide that would otherwise be in the atmosphere.

The global economy is deeply entwined with our natural world. All living beings rely on the health and well-being of the planet, yet the resources of the natural world have been treated as economic commodities. These resources are not endless, there is a limit on the kind of activities that the planet can sustainably support.[47]

Global ecological footprint accounts show that, as of 2022, humanity demands 75% more from our planet than its ecosystems can generate. This means that human demand now exceeds what the Earth's resources can sustain.[48] Experts believe that we are now in the situation of 'ecological overshoot.'[49]

This exploitation of resources for economic growth has enabled a life of abundance for a minority of the world's population, whilst the majority of the Global South have not benefited. Instead, many of the countries that have witnessed the plunder of their resources are now at the forefront of dealing with the high cost of irreversible ecological damage and the impacts of rising climate disruption.

> **Even if warming is limited to the 1.5°C target, climate change could cause a 33.1% GDP hit to the world's most vulnerable countries by 2100, many of which are already facing debt crises.**

Research suggests that even if warming is limited to the 1.5°C target, climate change could cause a 33.1% GDP hit to the world's most vulnerable countries by 2100, many of which are already facing debt crises. The worst affected is projected to be Sudan.[50] In 2015 the island of Dominica faced a loss of 90% of its GDP as a result of one single extreme weather impact, tropical storm Erika, and this was at just 1°C of global warming.[51]

b) Profit before the welfare of people and the planet

The global economy has been constructed in a manner that makes it heavily reliant on the extraction and exploitation of nature. According to the World Economic Forum, approximately US$44 trillion of economic value generation is moderately or highly dependent on nature[52] with construction, agriculture and fisheries, and food and beverages amongst the largest and highly-nature dependent industries.[53]

Despite the widespread economic downturn caused by the Covid-19 pandemic and the debt crises facing many countries, global wealth still grew by 7.4% in 2020, totalling $418.3 trillion. However, this was concentrated at the very top, where people are already wealthy. Billionaires added $1.6 trillion to their net wealth in 2020, and $1.9 trillion in 2021.[54] At the other end of the scale, about 97 million more people are living on less than $1.90 a day partly because of the pandemic.[55]

Proponents of economic growth point to how the last fifty years have brought about vast changes, with knowledge and technological advancement increasing economic outputs and life expectancy. But for whom have these advancements been? The benefits of economic growth are not evenly distributed, resulting in growing income inequality and a concentration of wealth among the rich.

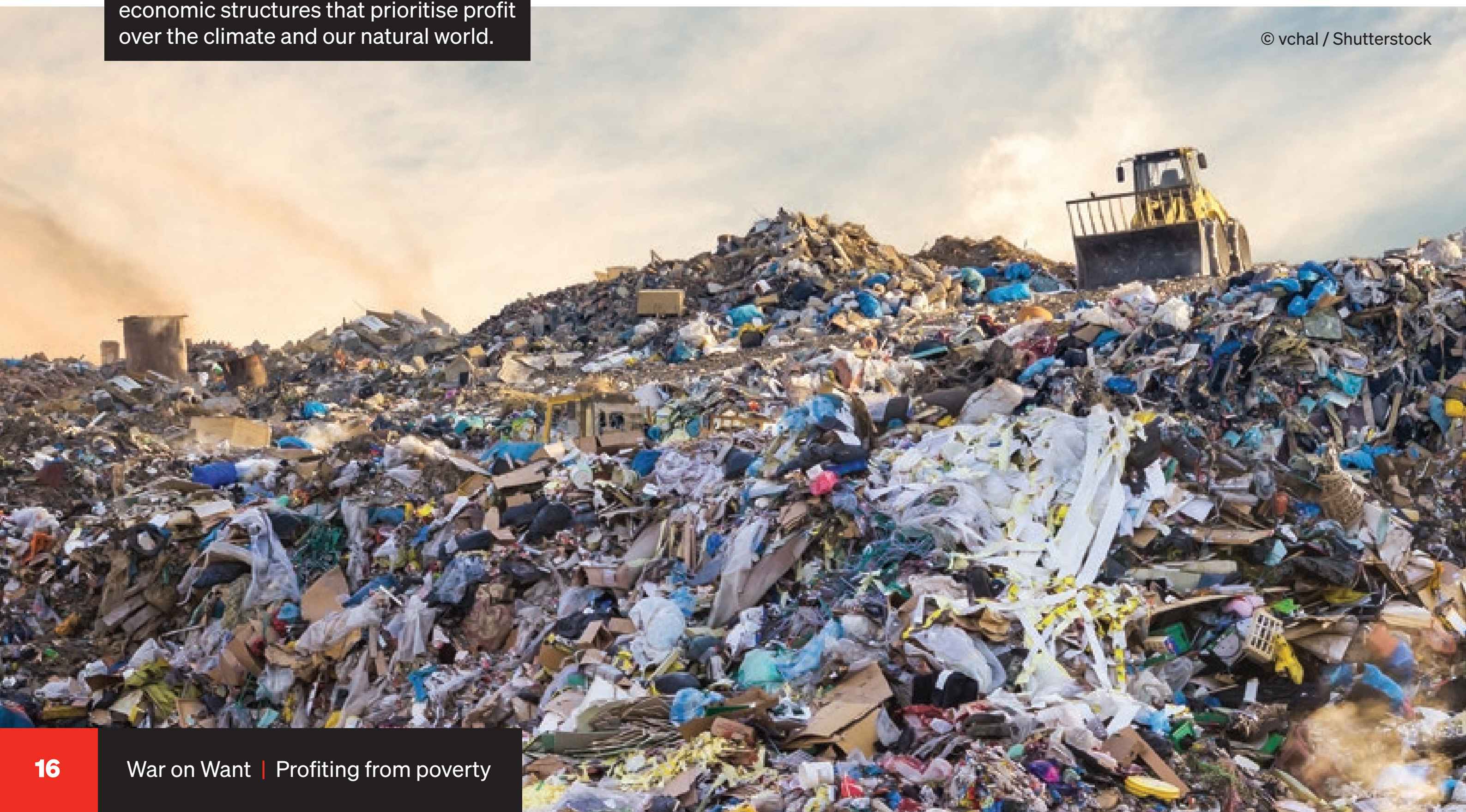
The pursuit of growth in high-income countries often comes at the expense of the Global South, which is made to bear the environmental and social costs associated with extractive industries and exploitative trade relationships.

We now produce more food, energy and materials than ever before. However, this period of vast growth has come at a heavy cost to the natural world. Human activities have severely altered land and marine environments, impacting plants and animals, with as many as a million species facing extinction, with many others threatened through the process of global warming alone.[56]

This uneven distribution of benefits leads to a vicious cycle of economic growth, illegitimate debt, and relentless extractivism, trapping nations in a dangerous state of dependency. Pursuing growth to service debt results in unsustainable environmental practices and intensifies social divisions while enriching external financial actors.

The degrowth movement argues against this focus on expansion. They challenge the idea that economic growth is necessary for improving human wellbeing and instead argue that societies can achieve improvements in education, health and overall quality of life through policies that prioritise social and environmental objectives. These policies promote ecological sustainability, social equity, and the welfare of all living beings over relentless expansion.[57]

Debt is part of the matrix of global economic structures that prioritise profit over the climate and our natural world.



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External debt in the Global South produces a need for foreign currency, reinforcing extractive practices that threaten the climate and violate the social and environmental rights of local populations.

c) Biodiversity loss

> **Our economies, livelihoods and well-being all depend on our most precious asset: Nature.[58]**

The ecological crisis and the crisis of inequality are deeply intertwined, with their origins rooted in colonialism. Countries in the Global North are responsible for 92% of global emissions, surpassing the safe planetary boundary and effectively colonising the atmospheric commons. This disproportionately affects the Global South, whose people bear the least responsibility for causing the crisis. Excessive resource use by wealthy nations is a primary driver of ecological breakdowns, such as biodiversity loss, land system changes, and soil depletion.

The perpetuation of extractivist practices, and excess use of resources from the Global South not only has ecological consequences, but also depletes resources needed for human development. Instead of being used to meet community needs, these resources are appropriated for capital accumulation and corporate expansion in the Global North. This has significant ramifications for the global economy both in the short and long term.

As most external debts are owed to international creditors, the high pressure to meet debt repayments means poor countries remain reliant on export commodities to earn foreign income. The production of many of these export commodities are linked to high levels of biodiversity loss. Studies show that as many as 927 species are projected to go extinct through deforestation, mining and large-scale agriculture, 25% of these extinctions have been directly linked to the production of exports.[59]

The presence of high levels of sovereign debt can therefore incentivise more climate damaging activities, such as resource extraction like mining, or export-oriented industrial agriculture, as priorities for a government needing to earn foreign income to service foreign debts.

Conserving biodiversity requires reducing intensive resource extraction and land use change, instead investing in long term projects that respect planetary boundaries and that are within ecological capabilities, and diversifying economies that meet the social and environmental needs of local populations.

When government spending is directed at repaying foreign debts and interest, much less money is available for investment in meeting social and environmental objectives. Borrowing countries are stuck in this trap, as servicing debts must be prioritised in order to maintain access to further lending.[60] Action to preserve biodiversity is neglected as a result, leading to further damage of the ecological systems that underpin public health, national economies and food and water.

5. Who owes who? A fair reframing of debt

a) Ecological debt

The concept of ecological debt originates from the comparison between the level of resource consumption and waste discharge by a population versus locally sustainable natural production and the capacity to absorb pollution without adverse effects. The term was coined in the 1990s as a means of recognising the use of resources in the Global North that are extracted from the Global South. The climate and social changes induced by this extraction had not hitherto been included in calculations of international debt, nor had they been factored in any ‘compensation’ whether through pricing, royalties or licensing fees.

‘Debt-for-nature’ agreements came into play where some parts of a country’s fiscal debt could be erased in return for the designation of large wilderness areas. International bodies, financial institutions and some civil society organisations are currently proposing the idea of “debt climate swaps” – mechanisms that would link sovereign debt relief to climate and development goals. An indebted government would be granted debt relief by a creditor on the basis that the money saved would be spent on climate friendly investments or policy reforms.[61]

However, this isn’t a new idea. Debt-for-nature swaps have existed for decades and to date have not been effective in solving debt sustainability problems. They may provide a dangerous distraction from the real challenge of debt restructuring and meeting climate finance commitments. Since the first debt-for-nature swap in 1987, the total value of debt treated through swaps globally has been $3.7 billion, and less than half of that has actually been allocated to environmental projects.[62] An IMF working paper also found debt-for-climate swaps to be less efficient than simply doing climate action through conditional grants.[63] They can also undermine the sovereignty of policy space in the indebted country, and prioritise the focus of the creditor. Framing these swaps as solutions ultimately undermines efforts to address underlying issues such as inequality, resource exploitation, and unjust economic systems.

The concept of ecological debt goes further and involves calculating suggested debts from individual and collective behaviours worldwide. They include underpayment debts, measured in money; biophysical debts, measured in physical units; and punitive debts, measured in amounts, but can be repaid in monetary terms.

The Global Footprint Network calculates each nation’s ‘ecological footprint’ which determines the point each year when human activity exceeds the capacity of land and sea to supply adequate resources for survival. In 1961, humans used around three-quarters of the capacity the earth has for generating food, timber, fish and the absorption of greenhouse gases, with most countries having more resources than they consumed. However, we are sliding into ecological debt earlier and earlier each year, with 86% of the world’s population now living in countries where the ecological footprint outstrips what the country’s resources can cope with.

Global South movements have broadened the definition of the term ecological debt beyond the excess of humanity or a country’s ecological footprint vis-à-vis biocapacity. The broader definition broadly takes into account history and political-economic relations between countries. Thus many Southern movements refer to the ecological debt that is owed by the Global North to the Global South because of:

- The historical and ongoing plunder of the natural resources of the Global South
- The Global North’s huge share of responsibility for the destruction of ecological and climate systems
- The imposition of ecologically harmful policies on the Global South

Therefore, including ecological debt within debates on financing climate mitigation and adaptation, and loss and damage, could provide a framework to deliver climate justice to those countries that are now paying a heavy price for the growth of Global North, through a fair shares approach of allocating ecological debt to those most responsible for ecological harm.

b) Loss, damage and reparations

Ahead of the COP26 climate summit in Glasgow in November 2021, government leaders from the Global South spoke passionately about the impact facing their communities. The Prime Minister of Barbados, Mia Mottley, was clear that a 2°C rise in temperatures is a 'death sentence' for island nations.[64] Her words echo those of Lumumba Di-Aping, chairman of the G77+China group of developing nations at the COP15 summit in 2009, who declared that a 2°C rise spelled "certain death for Africa."[65]

Yet in the same year as COP26, the debt-to-GDP ratio of nine Caribbean countries exceeded the World Bank's threshold, with the five most indebted countries in the region: Barbados, (137%), Suriname (125%), The Bahamas (102%), Dominica (101%), and Antigua and Barbuda (97%).[66]

The Caribbean in its entirety is responsible for less than 1% of global emissions,[67] yet it is among the most vulnerable to climate damage, and due to economic legacies of colonialism, is now struggling with debt and unable to afford to mitigate against the worst impacts.

These nations have been at the forefront of exposing how governments of rich countries are not following through on their commitments, not only on emissions reductions, but on provision of funding for those countries facing the worst impacts.[68] At COP27 in 2022, these same nations came together to place loss and damage as a top priority for climate negotiations.[69] In December 2022, a 'landmark' agreement was reached to provide a loss and damage fund.

During these negotiations a strong call for reparations was being made. Whether framed as a moral argument, or a matter of compensation or climate justice, a call for reparations is about recognising the context in which the climate crisis has evolved, and correcting the historical harm and the damage that continues to this day.

Activists demand the establishment of a loss and damage fund at COP27 in Egypt in 2022.

6. Putting people and planet first: A Global Green New Deal

> **"We must question the nature of the debt, the purpose of the debt, the impact of the debt, and ultimately, who owes these debts. History is replete with examples of policies and measures which are legal but nevertheless profoundly unjust and unacceptable.**
>
> **Lidy Nacpil** Co-ordinator of the Asian Peoples Movement on Debt and Development (APMDD)

The multiple crises of climate, poverty, inequality and injustice are intersecting crises: we cannot fix one without fixing all. To have any long-term viability, we need to learn to live with no more damage done to the planet and within the capacity of natural systems to renew.[70] This means redressing all of the injustices that have occurred under rigged global economic rules such as the accumulation of illegitimate debt that is needlessly crippling poorer countries.

Policies that tinker around the edges will not be enough – a radical vision of alternatives through the framework of a Global Green New Deal is needed, one where the priorities are climate protection and a fair global economic system that puts the health and well-being of people and the planet first.

Ways to end the debt crisis

Large portions of poorer country debt have accumulated as a result of colonial legacies, and from favouring corporate interests in the plunder of resources and nature. Such debt is unjust and illegitimate. Southern movements such as The Asian Peoples Movement on Debt and Development (APMDD) pioneered and led the framing and work around illegitimate debt, which is increasingly being picked up by civil society organisations in the Global North. The Observatory on Debt in Globalisation (ODG), together with the network "Who owes Who?", considers illegitimate all debts accumulated from loans that, directly or indirectly, compromise the dignity of the citizenry or threaten peaceful coexistence between peoples.[71]

Immediate cancellation of illegitimate debt

Lending countries, especially those like the UK that have gained substantially from the debt regime, should lead the way in cancelling the debt of highly indebted countries. Instead of being tied into servicing their debt, governments could invest in essential services and climate mitigation instead.

At the same time, substantial debts from countries like Sri Lanka are owed to private lenders, many subject to UK law. Debt Justice UK has found that UK-based banks are the largest owners of poor country debt.[72] Therefore the UK could pass legislation requiring bondholders to take part in internationally agreed debt relief systems, as recommended by Debt Justice UK.[73]

In March 2023, the UK Parliament's International Development Select Committee also admitted that: "legislation may be required to compel all creditors, including the private sector, to participate in debt relief" and has called on the UK government to "consult on the introduction of legislation to compel or incentivise participation of private creditors in the Common Framework."

© APMDD

Ecuador's Public Debt Audit Commission defined illegitimate debt as "those loans contracted by the State under unacceptable conditions," including those that facilitate human rights violations and the plundering of natural resources.

Debt repudiation

There are a number of instances where states have rejected odious or illegitimate debts of previous regimes.[74] The Vienna Convention on Succession of States in respect of State Property, Archives and Debts (1983) made provision for the extinction of debts, though it lacked the signatories needed to bring it into force. Lidy Nacpil, veteran debt campaigner and co-ordinator of the APMDD, states: "We must question the nature of the debt, the purpose of the debt, the impact of the debt, and ultimately, who owes these debts. History is replete with examples of policies and measures which are legal but nevertheless profoundly unjust and unacceptable."[75]

Eric Toussaint, historian and political scientist, also suggests that: "even in the absence of a change of government or regime, a state can impose debt reduction on its creditors", citing the 2019 judgement by the Court of Justice of the EU recognising that a state can unilaterally modify its debt obligations in order to aid its population.[76]

International debt mechanisms

The UN Conference on Trade And Development (UNCTAD) estimates that interest rate hikes will cost developing countries more than $800 billion in foregone income over the coming years. Such countries face the crushing impact of soaring debt, interest rate hikes, high food prices and insufficient liquidity. UNCTAD is therefore calling for the overhaul of global debt architecture in the form of a multilateral debt workout mechanism[77] to address the current crisis facing so many countries.

Climate financing

Wealthy countries such as the UK have long made promises on tackling the climate crisis, but have so far failed to deliver. In 2010, countries agreed to provide $100 billion annually in climate finance by 2020. This goal was not met, as only 18-30% of the $100 billion a year goal was realised.[78]

The UN Environment Programme's Adaptation Gap Report (2022) conservatively estimates that around $500 billion a year is needed for climate adaptation measures alone.[79] The UK should lead the way in paying its fair share of climate finance, so that countries that have been stifled by illegitimate debt

Climate reparations operate on the principle that the cost of fighting climate change must be borne by those countries and industries that have contributed the most to emissions.

have the funds to mitigate against the climate crisis, recover from climate damage, and pursue their right to development. Climate finance must be "new and additional" funding as per climate finance obligations under the UNFCCC – as the Civil Society Equity Review points out, "resources generated through debt cancellation should not be counted towards the fulfilment of climate finance obligations."[80]

Redressing harm through loss, damage and reparations

After hundreds of years of exploiting the Global South, the largest polluting companies and governments must take responsibility. CADTM suggest that solutions must involve the cancellation of illegitimate debt, and recognise the ecological and climate debt owed by the Global North to the Global South. This would entail a comprehensive restructuring of the global economic system to prioritise social and environmental justice, and a transition towards a more sustainable development model.

Global South countries must have access to resources and technologies to adapt to climate change and mitigate its impacts, as well as political and monetary[81] sovereignty, and the right to development.[82] Only if states can choose their own policies can they fight for climate reparations on the world stage.

A reparations approach should include actions to: regulate banks that are funding the climate crisis; make industries that are disproportionately responsible for emissions pay the costs for a radical just transition; reckon with colonial pasts that stole land, labour and resources; and give frontline communities the freedom, resources and tools to fight climate change and related challenges in the present.

Countries on the frontlines have been demanding equity for decades. They have fought for a fair approach in which countries that contributed most to the climate crisis decarbonise first and provide finance to others. More recently, the fight has been to ensure measures to address 'loss and damage' from those countries in the Global North that are most responsible.

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