T20 Policy Brief

Task Force 7
Towards Reformed Multilateralism: Transforming Global Institutions and Frameworks

REDUCING DEBT DURING CRISES THROUGH COORDINATION BETWEEN MULTILATERAL GROUPINGS

May 2023

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Abstract

The ongoing global climate crisis has deepened the inequalities between countries, moving the world farther away from achieving SDG 10 of reduced inequality. The emission of greenhouse gases by high-income, Global North countries results in costly natural disasters around the world; this pushes lower-income, Global South countries into debt distress, with their scarce resources and debt repayments saddled with systemic inequalities that are created or heightened by the climate crisis. The G20 can facilitate collective action in the form of a systematic chain of coordination between multilateral groupings to enhance knowledge-sharing for a holistic understanding of the inequalities that lead to debt distress during times of crisis.

The Challenge

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The year 2022 saw 10 of the most costly climate-related disasters in contemporary history, each of them resulting in more than US$3 billion in economic losses.[1] When a country is already in debt and is hit by a climate crisis, it puts even greater strain on their scarce resources. For example, the US$5.6 billion that Pakistan lost due to the series of floods between June to October 2022, amounted to 2.2 percent of the country's GDP that year.[2] In addition to facing the financial fallout of the disasters, these countries have to worry about debt repayments as well. According to the International Monetary Fund (IMF), "As of February 28, 2023 and based on the most recently published data, nine countries are in debt distress, 27 countries are at high risk and 26 countries are at moderate risk."[3] All of them are in the Global South.

These countries are spending "5 times more on debt repayments than they are addressing the impact of the climate crisis."[4] World Bank research also shows that "payments on public debt made by 69 of the lower-income nations will total more than $62 billion this year (2022), a 35% increase over 2021" and "spending over a tenth of their export revenues to service their public external debt, a proportion not seen since 2000."[5] This can be attributed to creditors from high-income countries demanding debt repayment regardless of a crisis,[6] whilst also providing climate finance in the form of loans instead of grants, which grows the country's debt even further.[7] The current lack of collective action towards solving such debt distress is moving the global community farther away from achieving SDG 10 of reduced inequality within and among countries.

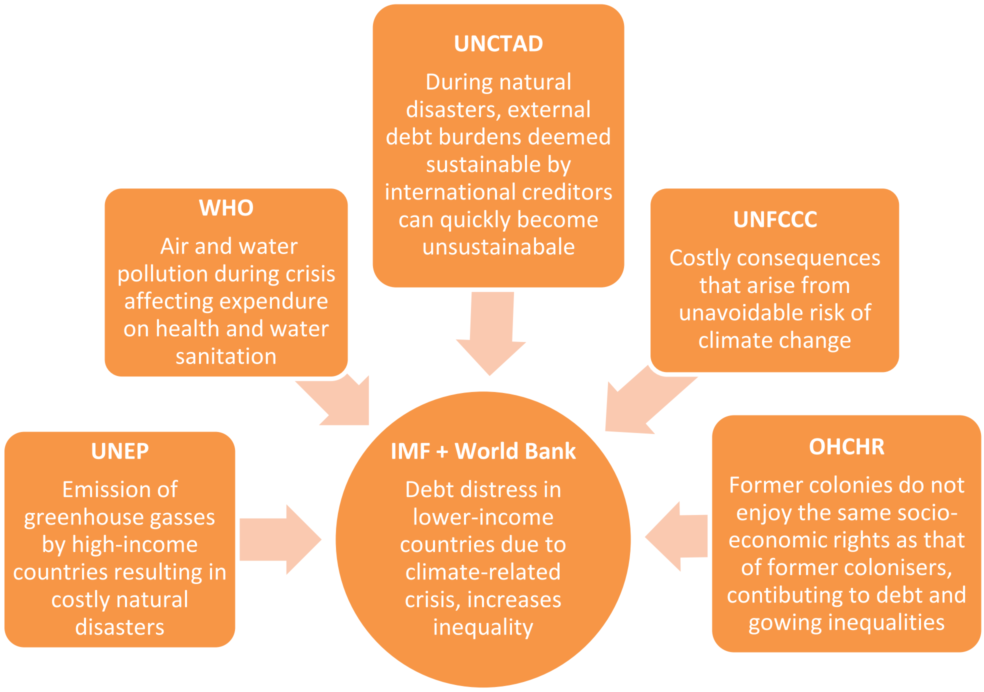
The imperative is collaboration and engagement. While the world has grown more interconnected, entities continue to work in silos. Thus, a gap in policy coordination between multilateral groupings has created a knowledge vacuum, making high-income countries unaware of the extent of their role in leading lower-income countries to debt distress during crises—be it in the form of emitting excessive greenhouse gases which has caused the climate crisis,[8] demanding debt repayment during crisis, or the negative impacts of systemic economic inequalities that are the legacy of colonialism[9] and have only heightened during the climate crisis.

The debt distress facing Global South countries should be regarded as a global problem because of their domino effect.

According to UN statistics, the massive economic fallout of debt distress has forced people to flee their countries, resulting in a record high of 24.5 million refugees in mid-2021.[10]

Figure 1 presents the inequalities outlined by multilateral groupings that all point towards debt distress in lower-income countries during crisis.

Figure 1: Debt During Crisis



Source: Author's illustration based on information from the following: IMF,[11] World Bank,[12] UNEP,[13] WHO,[14] UNFCCC,[15] UNCTAD,[16] OHCHR[17]

Various multilateral groupings have conducted policy research that underlines how the climate crisis exacerbates systemic inequalities. Yet, these multilateral groupings are failing to coordinate their policies and associate these inequalities with debt distress. This failure results in the following:

a. Debt repayments and climate financing in the form of loans: When high-income countries demand debt repayment during a climate crisis and offer climate financing in the form of loans instead of grants to lower-income countries, this can be attributed to a lack of collective responsibility towards debt distress. While each multilateral grouping mentioned in the diagram – UNEP, WHO, UNFCCC, UNCTAD and OHCHR – have explained the worsening of inequalities with climate change according to their focus area, due to a lack of policy coordination, the holistic nature and degree of involvement of high-income countries towards debt distress in lower-income countries fails to be presented.

b. Short-term policy solutions instead of long-term: Viewing debt distress *in silo* does not translate the extent of interconnected factors that contribute to it. This has resulted in effective albeit short-term solutions. Therefore, while there has been some significant collaborative progress, with the G20's Debt Service Suspension Initiative (DSSI),[18] for example, and COP27's Loss and Damage Fund (LDF),[19] these policies address only part of the inequalities outlined by UNEP and UNFCCC. If there was a mechanism that shared the findings from other multilateral groupings, this would present a bigger picture—outlining OHCHR's analysis of the unequal socio-economic build-up to debt distress in lower-income countries, WHO's analysis of the economic effects of the climate crisis on health, UNCTAD's research on unsustainable debt repayments, and the actors involved in all of the above. A more holistic picture and perspective on these long-term inequalities can facilitate long-term policymaking towards reducing debt distress.

c. Climate financing falling below estimate: The current climate financing offered to lower-income countries during crisis falls short of the amounts needed for them to mitigate climate change, and debt distress during crises.[20] COP's New Collective Qualified Goal on Climate Finance (NCQG) runs the risk of miscalculating the amount needed to mitigate debt distress due to the failure to consider the inequalities, as documented by other multilateral groupings.

The G20's Role

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The theme under India's G20 Presidency, 'One Earth. One Family. One Future' is timely and forward-looking, presenting a vital opportunity to continue to raise the important link between debt and the climate crisis, which has not yet translated into adequate action by decision-makers.[21] The G20 is the right platform to discuss reducing debt during crisis through coordination between multilateral groupings.

Responsibility of G20

1. The IMF and World Bank have relied on the G20 to bring about changes to the current sovereign debt architecture,[22] acknowledging that the current system aggravates inequalities between countries. The G20 has made strides towards this with the DSSI and Common Framework in 2020, and is the only forum capable of bringing about change in this area.

2. The G20 represents about "two-thirds of the world's population, 85% of global GDP and over 75% of global trade."[23] These economies also contribute to "75% of greenhouse gas emissions".[24] In addition, the G20 is made up of creditors as well as former colonisers that have contributed to the build-up of debt in lower-income countries.

Diversity of G20

1. G20 represents diverse economies from both the Global North and Global South, and thus is essential in bridging the growing economic gap between them, creating 'One Family' and thereby achieving SDG 10.

2. The G20 also has support from international organisations that are invited to relevant G20 meetings and are part of the policymaking process.[25] The current desire to strengthen the debt architecture expressed by countries and international organisations alike, presents a timely opportunity for the G20 to use its framework to engage with both decision-makers as well as international organisations to discuss a forward-looking agenda during the climate crisis that steers the global economy towards strong, sustainable, balanced and

inclusive growth towards 'One Future'.

3. The rotation of the G20 presidency creates diversity of thought and equal representation. For the first time, the G20 troika leadership is shared by three emerging economies—Indonesia, India and Brazil—which serves as a good opportunity to discuss matters such as debt that are gravely affecting the often neglected Global South countries.

Recommendations to the G20

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This brief suggests that policy coordination between multilateral groupings is vital to establish long-term solutions towards resolving debt distress during crisis. This approach is aimed at establishing collective responsibility towards debt distress by providing a holistic picture of the economic inequalities that contribute to it.

Policy Recommendation: Debt Resolution by Coordination Initiative (DRCI)

This policy brief proposes that the G20 establish an open platform to share information between multilateral groupings, called Debt Resolution by Coordination Initiative (DRCI). The aim should be for multilateral groupings to share their in-depth analyses of the economic inequalities that have been created or heightened by climate change. This will provide a more focused understanding of the interconnectedness and magnitude of the factors leading to debt distress. The initiative will comprise representatives from multilateral groupings who would share knowledge on the manifold aspects of debt in the affected country during a climate disaster, whilst also deciding on actors responsible for providing either debt cancelation or debt restructuring and grant-based climate finance collectively, on a case-by-case basis.

This will be implemented at the time of a climate-related disaster in a lower-income, Global South country. These are the two enforcement mechanisms the DRCI should set in motion:

- **Dispute Resolution Agreement:** Depending on the case, the required stakeholders along with multilateral groupings decide on either debt cancelation or debt restructuring during climate-related disaster, and also decide on an accumulative cost of grant-based climate finance that should be shared with responsible actors according to the guidelines below. This will include a degree of flexibility in the agreement.

- **Transparency:** Indebted countries can be granted debt cancelation by one country during a climate crisis, and by two countries if it is debt restructuring. The creditor is not expected to provide debt cancelation more than once in five years and debt restructuring more than twice in five years to the same country. Once all stakeholders agree upon a decision, the agreement should be made public.

The following are suggested guidelines for collaboration, outlining the multilateral groupings that have contributed research, data and policies to these fields and how this information can merge towards solving debt distress during crisis through collective responsibility.

Addressing the socio-economic factors contributing to inequality during climate crisis

OHCHR	UNCTAD
In September 2022, Acting High Commissioner for Human Rights and Special Rapporteurs strongly urged, "all parties should commit to addressing the negative socio-economic legacies of colonialism as a precondition to achieving sustainable development challenges." Further stating that there could be no climate justice without accounting for entrenched colonial legacies.[26]	According to UNCTAD, "developing economies have limited access to concessional resources which overtime have increasingly raised development finance on commercial terms in international financial markets" which exposes them to "higher risk profiles of debt contracts, i.e., shorter maturities and more volatile financing costs."[27]

Stakeholders: This data highlights the negative socio-economic legacies of colonialism and how it contributes to the current poor socio-economic status of former colonies, which worsens their debt during crisis. As the legacy of colonialism varies, so does the extent of economic damage by ex-colonisers, and therefore actors should accordingly agree upon debt cancelation or debt restructuring. In cases with more damage, creditors should also be made to consider contributing an appropriate sum to the grant-based climate finance needed in the affected country.

Addressing unsustainable debt repayments during climate crisis that heightens inequality

IMF	World Bank	UNCTAD
In February 2023, IMF Managing Director stated, “in light of rising debt vulnerabilities in developing and low-income countries”, exacerbated by crisis, the IMF endorses “efforts to strengthen the debt architecture and improve the speed and effectiveness of debt resolution.”[28]	In July 2020, speaking on steps towards effective debt resolution, the World Bank Group president called for “the international community to recognise this imbalance in the system”, which allows creditors rights to take precedence over debtor countries.[29]	UNCTAD has expressed a need for multilateral support and effective sovereign debt restructuring to avoid potential debt distress during climate-related disasters. Its research suggests that climate-related disasters have “jeopardised progress with SDG’s due to rising external debt burden that translates into rising servicing costs.”[30]
		UNCTAD has flagged the expiration of exceptional measures for debt relief in advanced economies as a reason for debt distress.[31]

Stakeholders: This data highlights the role advanced economies play towards rising debt vulnerabilities in developing and low-income countries. It also draws light to the similarity in policy focus between IMF, World Bank and UNCTAD, which reiterates the positives that can be attained through the process of policy coordination. Working together, these multilateral groupings can advocate that creditors of advanced economies remove their expiration on debt relief as an option under debt restructuring.

Addressing the inequalities that have led to vulnerable victims of the climate crisis

UNEP	UNFCCC
The UNEP's annual Emissions Gap Report 2022 have identified that G20 countries contribute to 75% of GHG emissions and African countries who contribute the least to climate change are the most vulnerable to its impact.[32]	UNFCCC's two policy initiatives LDF and NCQG, established at COP 26 and COP27, respectively, have addressed the financial gap in addressing and mitigating climate change in lower-income countries.[33]

Stakeholders: These two multilateral groupings provide a framework towards finding effective debt resolution amidst the climate crisis. The UNEP reports can be used to identify the top 10 emitters of GHG annually. Due to the emitters' direct contribution to the climate crisis, depending on where they stand from 1-10 on the list, they should be made to either cancel debt payments or consider debt restructuring for the affected country facing debt during a climate crisis. This system would incentivise countries to control their emissions. In addition to this, the UNFCCC's LDF and NCQG policy initiatives will benefit from the G20 DRCI recommendation, as this will provide additional information to countries while they decide the amount of finance countries are required to add to these climate funds.

Addressing economic effects of the climate crisis on health and other domains

WHO	Other Multilateral Organisations
WHO warns "direct damage costs to health from climate change are estimated to be between US$ 2–4 billion per year by 2030." Additionally, "areas with weak health infrastructure – mostly in developing countries – will be the least able to cope without assistance to prepare and respond."[34]	UNDP is responsible for calculating the cost of natural disasters such as earthquakes on infrastructure and development plans.[35]
WHO's response to climate change includes "disseminating information on the threats that climate change presents to human health and opportunities to promote health while cutting carbon emissions" and "providing scientific evidence on the link between climate change and health."[36]	FAO – Assesses the economic impact of forest fires due to declining ecosystem and affected biodiversity.[37]

Factors to be factored into climate finance grants: Often overlooked are costs of the impacts of climate crisis, whether it is deteriorating health, lost infrastructure, or declining ecosystems. These research fields highlight the abundance of information available in multilateral organisations that need to be tapped, to establish realistic costs for grant-based climate finance.

Potential Impact of DRCI

If implemented, DRCI can be a long-term and durable policy solution towards resolving debt distress during climate crisis, for the following reasons:

- **All-encompassing problem solving:** Through policy coordination, the DRCI covers past, present and future impacts of inequalities, leaving no stone unturned when addressing inequalities contributing to debt distress during the climate crisis.

- **Cost-effective solution:** DRCI is cost-effective for both the country in distress and countries providing the climate finance grants. This is because the grant-based climate finance cost will cover all aspects of inequalities faced by the affected country, while also suggesting sharing the cost of the grant with responsible actors identified through the above guidelines.

- **Breaks the debt cycle:** Collective financial responsibility towards countries facing debt distress will encourage actions towards a circular economy which will in time limit climate disasters, and thereby, the resulting debt distress.

Attribution: Tanya Keswani, “Reducing Debt During Crises Through Coordination Between Multilateral Groupings,” *T20 Policy Brief*, May 2023.

Endnotes

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