Climate Finance and Debt Distress in Africa: A Critique of the FfD4 Elements Paper

By:

Tonny Arisi

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Introduction

Despite being responsible for less than 4% of global greenhouse gas emissions, African nations are disproportionately affected by climate change's devastating impacts. This situation is worsened by the present architecture of climate finance, which is mostly based on loans that further entrench the debt crisis in these developing countries. This inequitable dynamic highlights the urgent need for an integrated approach to climate finance and debt governance, yet the connection between these two critical issues, especially in Africa, remains underexplored in global policy frameworks, including in the ongoing deliberations for the Fourth International Conference on Financing for Development (FfD4). Despite the glaring connection between climate financing and debt crisis and sustainability, especially in Africa, the Elements paper for the outcome document of the Fourth International Conference on Financing for

Development (the Elements Paper) and, more recently, the Outcome document of the Fourth International Conference on Financing for Development (the Zero Draft) does not adequately address this intersection.

While the Elements Paper and the Zero Draft of the FfD4 Outcome Document acknowledge the need for better measurement and integration of development and climate finance, their approach remains fragmented. The Elements Paper, in its section on 'Financing for Climate, Biodiversity, and Ecosystems,' highlights the importance of understanding linkages between development and climate finance but fails to connect this to debt sustainability. The section on 'Debt and Debt Sustainability' in the Elements Paper does not in any way mention how climate finance is one of the contributors to debt distress in developing countries. Furthermore, not a single recommendation in the paper addresses how climate finance mechanisms can be improved to mitigate the risk of overwhelming already debt-distressed nations. Similarly, the Zero Draft does not address how debt-distressed nations like Chad and Mozambique can reconcile climate vulnerabilities with mounting financial burdens. This lack of a coherent, integrated strategy underscores the need for more robust mechanisms to align climate finance with African debt sustainability.

Understanding Climate Finance Vis-a-vis Debt Crisis in Africa

Climate finance refers to local, national, or transnational financing drawn from public, private, and alternative sources of financing that seek to support mitigation and adaptation actions that will address climate change. It encompasses both public and private funding, including investments from international organizations, governments, and private entities. The main goal is to assist developing countries in transitioning to low-carbon economies while enhancing their resilience to climate impacts.

Africa’s debt crisis has been a growing concern over the past few decades as some countries cannot generate enough revenue to meet their debt obligations. Many African countries have accumulated significant external debts due to various factors, including historical colonial exploitation, economic mismanagement, and external shocks such as commodity price fluctuations and pandemics like COVID-19. These highly indebted African countries face stark trade-offs between servicing expensive debt, supporting high and growing development needs, and stabilising domestic currencies. As a result, these nations find themselves trapped in a cycle of borrowing that often leads to unsustainable debt levels.

A 2024 CPI report indicated that as of 2023, only approximately 11% of global climate finance was sourced through concessional loans and grants. While these funds are intended to support sustainable development initiatives, they impose an additional debt burden on African nations. To put this in context, according to a 2024 factsheet by Development Initiatives, over 64% of climate-action Official Development Assistance (ODA) to Africa is in the form of loans, with multilateral institutions like the International Development Association (IDA) providing 83% of their adaptation financing as loans.

The intersectionality between climate finance and the debt crisis becomes evident when African countries have to secure finances for climate change mitigation and adaptation in the form of loans, which add to their already mounting debt burdens. The Elements Paper emphasizes debt sustainability, responsible borrowing and lending, and innovative financing mechanisms, yet it largely treats climate finance and sovereign debt as separate issues. This fragmented approach overlooks the fact that countries in debt distress, such as Chad, Zambia, Zimbabwe, Mozambique, and Ethiopia, are also among the most vulnerable to climate change. Chad exemplifies the dire intersection of climate vulnerability and debt distress, facing high poverty, frequent conflicts, and significant environmental risks like droughts, floods, and the drying up of Lake Chad.

Despite these challenges, Chad continues to rely on loans to finance its climate mitigation and adaptation efforts. For instance, in December 2024, the African Development Bank approved a €28 million funding package for solar power plants near N'Djamena, combining a €20 million mix of concessional loans and grants from the Sustainable Energy Fund for Africa and €8 million in financial guarantees. However, the justifications for the project selections are questionable. Evidence indicates that adaptation projects—the type of intervention most needed by African nations like Chad—are disproportionately funded by debt-generating mechanisms. Specifically, only 0.2% of adaptation concessional financing from the World Bank's International Development Association (IDA) went to Chad despite its status as one of the world's most climate-vulnerable countries.

This inequitable allocation of resources underscores the inadequacy of current climate finance mechanisms. The overreliance on loans—even concessional ones—forces vulnerable countries like Chad to bear the financial responsibility for a crisis they did not create, while wealthier nations fail to meet their historical obligations under the Paris Agreement. This disconnect highlights the urgent need for a shift toward grant-based financing for climate adaptation in highly debt-distressed nations. Such a shift would align financing mechanisms with the principles of equity and justice, ensuring that the fiscal burdens of addressing climate change do not fall disproportionately on the shoulders of those least responsible for its causes. Without addressing this fundamental issue, the intertwined crises of climate vulnerability and debt distress in countries like Chad will only deepen.

Additionally, the growing debt burdens limit the fiscal space available for African countries to invest in climate adaptation and mitigation measures. This ultimately creates a vicious cycle where countries in the global south struggle to meet their climate commitments while servicing debts. Non-concessional loans issued at market-level interest rates have indirectly escalated the debt burden of African countries. Eventually, this creates a difficult situation for these countries to meet their climate action goals due to limited resources, as a majority of the resources are directed towards debt servicing.

To mitigate the effect of climate financing on debt burden, the Elements Paper calls for “new and additional grant-based or highly concessional finance and non-debt creating instruments for just and equitable transitions, biodiversity conservation, and restoration”. However, this goes so far as the recommendation is concerned. There are no elaborate guidelines on addressing climate finance's contribution to debt distress.

The paper does not recommend explicit and specific reforms on how to shift climate finance away from loans towards grants or innovative instruments such as climate debt swaps; it merely recommends that there should be a shift. This is a significant oversight because the loans, granted in the form of climate finance, increase debt burdens and, in turn, weaken the broader debt sustainability goals outlined in the framework of the FfD4 Elements Paper. Such climate finance debt then diminishes the fiscal space, which, in the end, would squeeze the resources that African economies would have otherwise applied to adapt and mitigate climate change, thereby perpetuating a vicious cycle of financial instability and environmental vulnerability.

A Reflection on Global Responsibility for Climate Change

The recent COP 29 summit exemplified the reluctance of developed nations, often referred to as the Global North, to take adequate financial responsibility for addressing climate change impacts in developing regions like Africa, even though they are the most significant contributors to climate change. While there are proposed packages aimed at climate mitigation, they often fall short of providing sufficient grants or outright financial aid. Instead, these packages lean heavily on concessional loans that exacerbate existing debt issues.

This unwillingness by the Global North to take more responsibility raises critical questions about equity and justice in global climate governance. African nations argue that they should not bear the brunt of a crisis they did not create while simultaneously being expected to pay back loans tied to initiatives meant to combat that very crisis. This is something the Elements Paper fails to address in its entirety.

From a closer examination of the proposals in the Elements Paper, it is notable that they barely address the responsibility of the Global North for providing grant-based climate finance, which is a rather insufficient response to the severe debt burden faced by the Global South. The proposals barely address the structural injustices in the global climate governance architecture, especially regarding the vastly disproportionate reliance on concessional loans for climate action. In failing to provide clear-cut recommendations for the shift from loans to grants or other innovative financing instruments, the proposals in the Elements Paper fail to address financial instability and debt distress in climate-vulnerable nations.

The Need for Reforming the Global Financial Architecture

The Addis Ababa Action Agenda underlines the need for the alignment of global financing with the SDGs. It sets a very robust foundation to support the implementation of the 2030 for Sustainable Development by offering a new global framework for financing sustainable development through the alignment of all financial flows and policies with economic, social, and environmental priorities. However, the existing frameworks inadequately address the special challenges of climate finance in developing regions - something the Elements Paper ought to talk about.

To mitigate debt distress and promote sustainable development, a renewed framework and the Elements Paper should address the following issues:

I. ***Increase Grant Funding***

Climate finance must pivot towards non-debt-creating instruments, including grants and concessional loans tailored to Africa's economic realities. According to the Climate Policy Initiative, Africa requires around $277 billion annually to implement Africa's Nationally Determined Contributions (NDCs) and achieve its climate goals for 2030. However, the current climate financial flows stand at only $44 billion annually. The gap necessitates an urgent need for increased grant funding to support climate adaptation and mitigation efforts. Although the recently released Zero Draft emphasizes enhancing grant-based or highly concessional finance (e.g., Paragraph 39(b)), the specifics about significantly increasing grant funding for Africa's climate goals remain weak.

II. ***Integrate Climate Considerations into Debt and Debt Sustainability***

Undeniably, there is a direct linkage between climate financing and debt distress. However, while the proposals in the Elements Paper call for responsible lending and borrowing, they do not sufficiently integrate climate-specific debt relief mechanisms, such as loss and damage financing or state-contingent clauses linked to climate shocks. While the Zero Draft (e.g., Paragraph 51(a)) recommends refining Debt Sustainability Assessments (DSAs) to incorporate SDG spending needs and climate risks, it does not explicitly propose mechanisms for climate-specific debt relief, such as state-contingent clauses tied to climate events. As such, it is imperative that the FfD4 framework explicitly calls for integrating climate considerations into global debt sustainability analyses and restructuring processes. This will ensure that climate vulnerabilities are taken into consideration in debt assessments and that debt relief measures are designed to support countries in managing their debt and climate-related challenges.

*III. **Strengthen Local Capacity***

This will be possible if the recipient countries ensure that funds are managed and directed to areas of highest priority, such as climate mitigation and adaptation. The Elements Paper does not elaborate on a specific strategy for capacity building at the local level in terms of awareness and technical capabilities among government officials. Besides, there is generally limited understanding of climate finance and its intersection with sovereign debt, which impacts other effective bureaucratic procedures such as due diligence, procurement, and reporting. Furthermore, the Zero Draft (e.g., Paragraph 29(i)-(j)) acknowledges the need for capacity-building in domestic fiscal systems. Still, it does not prioritize technical expertise on climate finance or its intersection with debt. As such, the FfD4 framework needs to prioritise capacity-building programs, such as targeted training programs for government officials across various ministries, aimed at enhancing officials' understanding of climate change issues and their implications.

*IV. **Establish a Loss and Damage Fund***

The Elements Paper to call for commitments to robust Loss and Damage Fund, which should be fulfilled to address the economic costs of climate-induced disasters, which are projected to reach a record high by 2050; around 200 million people per year will need humanitarian aid to survive due to climate and weather-related disasters. The United Nations Framework Convention on Climate Change (UNFCCC) has been advocating for such a fund to support countries most vulnerable to climate impacts. Paragraph 39(c) in the Zero Draft commits to scaling up **Loss and Damage Fund** contributions. This direction is a welcome development, but it must be reinforced that there is a need for additional urgency and specific economic cost projections to highlight the fund's necessity for highly vulnerable regions.

*V. **Promote Innovative Instruments***

This can be achieved through developing instruments that are more flexible and better aligned with country priorities, such as the Climate Debt Swaps, reducing debt, and leveraging additional funds for resilience-building programs. Climate debt swaps are agreements between a country and its creditors to reduce its debt in exchange for investments in climate action.

While the Elements Paper refer to innovative financing, they do not fully explore the potential of tailored instruments, such as climate debt swaps, to address climate goals and simultaneously reduce debt burdens. Thus, the FfD4 framework should explicitly call for pilot programs or multilateral efforts toward scaling up these mechanisms in debt-distressed countries. This would provide practical examples and build confidence in these instruments' effectiveness, contributing to climate resilience and debt sustainability. The Zero Draft includes references to debt swaps and other financing tools (e.g., Paragraphs 49(a)-(b)), but it falls short of scaling up climate debt swaps or calling for pilot programs in debt-distressed countries, as suggested in this paper.

VI. ***Enhance African Representation in International Financial Institutions (IFIs)***

Increasing Africa's voting rights within international monetary institutions like the International Monetary Fund (IMF) and World Bank should be considered to ensure that the financing policies reflect the priorities of the African continent. The involvement of local stakeholders in decision-making will guarantee projects and financing in line with regional priorities and realities. The Addis Ababa Action Agenda underlines that global partnership and solidarity are indispensable in addressing the challenges related to sustainable development funding. The Zero Draft’s governance reform proposals, such as restoring basic votes at the IMF (Paragraph 53(a)), align with my call for greater representation but lack specificity on Africa's voting power or stakeholder involvement in decision-making.

VII. ***Leveraging Regional Solutions***

Africa’s response to climate finance challenges can also be bolstered through regional initiatives such as the African Union’s Green Recovery Action Plan. For instance, the African Union (AU) launched the Green Recovery Action Plan 2021-2027. The plan is to promote sustainable development, climate resilience, and economic growth across the continent. It focuses on areas such as renewable energy, nature-based solutions, and resilient agriculture. While the Zero Draft (e.g., Paragraph 21) acknowledges regional initiatives, it does not emphasize supporting African solutions like the AU’s Green Recovery Action Plan.

Conclusion

In their current form, the Elements Paper and the Zero Draft inadequately cover the complex and interconnected issues of climate finance and debt distress, which are crucial for realizing sustainable development in Africa. Therefore, the framework should leverage grant-based climate finance to avoid perpetual concession loans. Unlike loans, grants do not add to the already rising debt burden but instead offer a more stable and sustainable avenue to finance climate action. This will be important to break the vicious cycle of "borrow-and-under-develop" that continues to hold Africa back from realizing both its climate and development aspirations.

Additionally, incorporating climate-linked clauses in debt contracts would be a game-changing step in the global financial architecture. These might include clauses that would allow for debt moratoriums or reductions in cases of climate-related disasters to give vulnerable countries free resources for recovery and adaptation. These mechanisms would offer not only immediate relief during crises but also a more resilient financial framework that recognizes and mitigates disproportionate climate risks faced by developing nations. This will integrate the consideration of climate factors into debt management strategies for long-term stability and development.

Finally, mainstreaming debt relief measures linked to climate action offers a pathway to align financial sustainability with environmental goals. Programs that link debt forgiveness or restructuring to demonstrative climate action would incentivize countries to invest in green technologies and sustainable practices while reducing their debt burden. These measures, put together within the Elements Paper, would ensure harmonization and equity in addressing the twin challenges of climate change and debt distress. In this regard, the kinds of reforms to the global financial system would become more proactive, supportive of sustainable development for climate-vulnerable, debt-distressed countries, and thereby move toward a more inclusive and effective response to the pressing challenges of our time.

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