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DEBT, CLIMATE FINANCE AND VULNERABILITY:

A BRIEF ON DEBT AND CLIMATE VULNERABLE COUNTRIES IN AFRICA

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KEY POINTS

There is a correlation between climate change, climate finance, and unsustainable debt levels in Africa. In this African Sovereign Debt Justice Network (AfSDJN) Brief, we highlight this connection focusing on eight countries in debt distress currently (Chad, The Republic of Congo, Mozambique, Sao Tome and Principe, Somalia, Sudan, Zambia, and Zimbabwe) and one highly indebted country (Ethiopia) in sub-Saharan Africa. These countries (referred to here as Debt and Climate Vulnerable (DCV) countries) are also some of the most climate vulnerable countries despite having some of the least carbon footprints. In this Brief, we find that:

- ❑ African countries need USD 2.8 trillion for climate action between 2021 and 2030, excluding the cost for loss and damage. DCV countries require 17% of this amount (USD 46.7 billion per annum). However, they have received/been approved for USD 2 billion in the last 8 years (USD 250 million per annum).
- ❑ Despite facing severe climate change impacts, adaptation funding represents 26% of the total cost required by DCV countries compared to 72% in mitigation funding.
- ❑ DCV countries are heavily reliant on external support to finance their climate needs. On average, these countries are dependent on external funding for approximately 85% of their required climate finance.
- ❑ One-fourth of climate finance received by DCV countries is in the form of loans, most notably in the case of Zambia (55%) and Ethiopia (43%), which are both undergoing debt restructuring under the G20 common framework currently.
- ❑ The impact of climate finance on the debt levels of DCV countries is even more daunting when multi-country climate initiatives are considered. About 55% (USD 2 billion) of the total multi-country climate finance (USD 3.8 billion) received by DCV countries between 2021 and 2022 was in the form of loans.
- ❑ The debt relief which DCV countries received in 2020 and 2021 during the COVID-19 pandemic (USD 2.7 billion) paled in comparison to debt repayments they continued to make during the same period (USD 11 billion).
- ❑ DCV countries are spending more on debt repayments than investment to meet their climate commitments. Currently, debt servicing by Congo, Zambia and Ethiopia exceeds their envisaged contribution to adaptation finance.

INTRODUCTION

Africa is responsible for less than 4% of the global greenhouse gas emissions, yet it is warming more quickly, its glaciers are retreating faster, and its rate of sea-level rise is higher than the global mean.¹ For Africans, this is not merely science speak. The impacts are real, devastating, and life-wrecking. Between January and October 2022 alone, close to two thousand people died and about two million people were displaced by flooding in South Africa and Nigeria.² For context, the number of deaths from flooding in both African countries is more than 5 times the combined flood fatalities in the United States and Europe in 2021.³

The situation is even more bleak. Drought-related hazards have led to the death of more than half a million people and led to over USD 70 billion in economic losses in Africa in the last 50 years.⁴ Currently, about 60 million people are in conditions of acute food insecurity, particularly in Ethiopia and Somalia, and Northern Africa is experiencing extreme heat resulting in wildfires and increasing sand and dust storms.⁵ Sadly, the situation is projected to worsen. By 2030, 108 – 116 million people on the continent will be exposed to sea level rise risk, and by 2050, climate impacts could cost African countries up to USD 50 billion per year.⁶

Loss and Damage in Africa

“In East Africa, 50 million people are experiencing famine caused by the worst drought in 40 years. Around the world, at least half of the 59 million internal migrants were displaced by the effects of climate change, according to the United Nations. This is loss and damage – irreversible climate-related devastation that cannot be mitigated or adapted to. The African Development Bank reported that the continent is losing between 5% and 15% of its growth in gross domestic product per capita each year because of climate change.”

□ Madeleine Diouf Sarr, “At Cop 27, Support Poorest for Climate Loss and Damage” Nature (2022)

To prepare for and adjust to these devastating climate impacts, about USD 579 billion is needed by 51 African countries between 2021 and 2030.⁷ This cost quadruples when the projected mitigation finance - USD 1.6 trillion - is added.⁸ An additional \$242 billion is needed for interventions with dual mitigation and adaptation benefits. In addition to the USD 264 billion commitments of African countries, the total cost of climate action in Africa between 2021 and 2030 is about USD 2.8 trillion. While the data on the cost of loss and damage in Africa is limited, it is clear that loss and damage will add billions of dollars more to the continent’s climate bill. Some

¹ World Meteorological Organization (WMO), “State of Climate in Africa Highlights Water Stress and Hazards” (8 September 2022) <<https://public.wmo.int/en/media/press-release/state-of-climate-africa-highlights-water-stress-and-hazards>>.

² Floodlist, <<https://floodlist.com/africa>>.

³ National Weather Service, “NWS Preliminary US Flood Fatality Statistics: 2021 Flood Fatalities” (2021) <<https://www.weather.gov/arx/usflood>>; Europe Climate and Climate Observatory, “Fatalities Associated with Floods (1980 - 2020)” (2021) <<https://climate-adapt.eea.europa.eu/en/observatory/evidence/health-effects/flooding>>.

⁴ WMO, *supra* note 1.

⁵ *Ibid.*

⁶ *Ibid.*

⁷ Morgan Richmond et al, “Financial Innovation for Climate Adaptation in Africa” (Global Center on Adaptation 2022).

⁸ Climate Policy Initiative (CPI), “The State of Climate Finance in Africa: Climate Finance Needs of African Countries” (CPI 2022).

have put the cost of economic loss and damage in developing countries at between USD 290 billion and USD 580 billion per year by 2030.⁹ There is an abysmal gulf between the funding needed to address climate change in Africa and the available funding. Using 2019/2020 figures, the continent's annual climate finance flow¹⁰ was USD 29.5 billion.¹¹ If this trend continues, Africa will only receive about 10% of its annual climate finance need of USD 277 billion per annum between 2021 and 2030.

A breakdown of the finance flow shows that about two thirds of the amount received were loans.¹² Worse still, about USD 996 billion in additional debt is projected to be needed by Sub-Saharan African countries to address loss and damage by 2030 unless there is adequate finance for adaptation and loss and damage.¹³ There is already a debt crisis in Africa. Eight of the nine countries in debt distress globally are African,¹⁴ the debt stocks of 40 sub-Saharan African countries increased by about a third between 2020 and 2022,¹⁵ and average debt levels have been pushed above 60% of GDP in sub-Saharan countries.¹⁶ Africa's debt crisis is being worsened by climate change. The debt burdens of African countries are making it exceedingly difficult to address the impacts of climate change, provide basic services to improve the wellbeing of their people, and participate in the new global economy.¹⁷ The cost of borrowing to address climate priorities has also become exceedingly expensive.¹⁸

Climate Change and the Cost of Borrowing

There is a range of channels through which the cost of sovereign borrowing may be affected by climate change – the depletion of natural capital and implications for fiscal sustainability and the price of sovereign risk; climate related macroeconomic risks due to the fiscal impact of climate-related natural disasters; and the fiscal consequences of mitigation and adaptation policies.

- John Beirne et al, “Feeling the Heat: Climate Risks and the Cost of Sovereign Borrowing” ADBInstitute (2020)

⁹ Heinrich Böll Stiftung, “Spotlighting the Finance Gap: What Differentiates Finance for Addressing Loss and Damage from other Types of Finance” (2022) <<https://us.boell.org/sites/default/files/2021-05/Spotlighting%20the%20Finance%20Gap%20-%20Loss%20and%20Damage%20brief%203.pdf>>.

¹⁰ We recognize the contestation surrounding the definition of climate finance. For the purposes of this paper, we adopt the UNFCCC's definition of the term as including local, national, and transnational financing drawn from public, private and alternative sources of financing to support climate actions. See UNFCCC, “Introduction to Climate Finance” <<https://unfccc.int/topics/introduction-to-climate-finance>>. In tracking climate flows, we focus on approved and/or released funding.

¹¹ CPI, “Landscape of Climate Finance in Africa” (CPI 2022).

¹² African Development Bank (AfDB), “African Economic Outlook 2022: Supporting Climate Resilience and a Just Energy Transition in Africa” (AfDB 2022).

¹³ Tess Woolfenden and Sindra Khushal, “The Debt and Climate Crisis: Why Climate Justice must Include Debt Justice” (Debt Justice 2022).

¹⁴ IMF, “List of LIC DSAs for PRGT-Eligible Countries” <<https://www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf>>.

¹⁵ IIED, “Thirty Per Cent Increase in Debts Leaves African Countries Unable to Fight Climate Change and Nature Loss” (2022) <<https://www.iied.org/thirty-cent-increase-debts-leaves-african-countries-unable-fight-climate-change-nature-loss>>.

¹⁶ Chloé Farand, “African Nations Eye Debt-for-Climate Swaps as IMF Takes an Interest” (Climate News Home, 2 September 2022) <<https://www.climatechangenews.com/2022/09/02/african-nations-eye-debt-for-climate-swaps-as-imf-takes-an-interest/>>.

¹⁷ Vanessa Nakate, “Debt Suffocates African Nations' Ability to Respond to Climate Change” (Financial Times, 18 May 2022) <<https://www.ft.com/content/51ecbfa3-c3c4-4a58-8372-980ff751f1fa>>.

¹⁸ Bob Buhr et al, “Climate Change and the Cost of Capital in Developing Countries” (UN Environment 2018); UNFCCC, “Climate Change is Driving Debt for Developing Countries” (2018) <<https://unfccc.int/news/climate-change-is-driving-debt-for-developing-countries>>.

The impact of climate change on debt levels in developing countries is on the agenda at COP 27,¹⁹ and African countries will be making a case for an urgent increase in climate finance and debt relief.²⁰ This African Sovereign Debt Justice Network (AfSDJN) Brief provides a snapshot of the debt levels and state of climate finance in nine African countries. Eight of these countries – Chad, The Republic of Congo, Mozambique, Sao Tome and Principe, Somalia, Sudan, Zambia, and Zimbabwe are classified by the International Monetary Fund (IMF) – as debt distressed, while the ninth – Ethiopia – is classified as being at high risk of debt distress. Three of these countries - Chad, Zambia, and Zimbabwe - are currently restructuring their debt under the G20 Common Framework.

These nine countries are also some of the most vulnerable to climate change globally.²¹ While the state of climate finance and debt levels in some of these countries have been considered in studies on the Vulnerable 20 Group (V20) and there are other general reports addressing climate finance and debt levels in Africa,²² there is no known study specifically on the most climate vulnerable and indebted countries in Africa. Such a study is important as it speaks to the more specific findings useful for targeted interventions for these countries. For ease of reference, the nine countries considered in this brief are referred to as “Debt and Climate Vulnerable (DCV)” countries.

¹⁹ Fiona Harvey, “Egypt says Climate Finance Must be Top of Agenda at COP 27 Talks” (The Guardian, 25 May 2022) <<https://www.theguardian.com/environment/2022/may/25/egypt-climate-finance-top-of-agenda-cop27-talks>>.

²⁰ Aidan Lewis, “African Nations Push for More Climate Finance Ahead of COP” (Reuters, 10 September 2022) <<https://www.reuters.com/world/africa/african-nations-push-more-climate-finance-ahead-cop-2022-09-09/>>.

²¹ Notre Dame Global Adaptation Initiative (ND-GAIN), “Country Rankings by ND-GAIN Index, Vulnerability and Readiness”, <<https://gain.nd.edu/our-work/country-index/rankings/>>; German Watch, “Global Climate Risk Index 2021” (German Watch 2021).

²² Luma Ramos, “V20 Debt Review: An Account of Debt in the Vulnerable Group of Twenty” (Global Development Policy Center 2022); Vulnerable Twenty Group, “Climate-Vulnerable Economies: Climate Disasters and Debt are a Vicious Cycle” (16 October 2022) <<https://www.v-20.org/our-voice/news/press-releases/climate-vulnerable-economies-climate-disasters-and-debt-are-a-vicious-cycle>>.

STATE OF CLIMATE FINANCE IN DCV COUNTRIES

Like multiple studies have found, there is a gulf between the climate finance needed in developing countries and available funding.²³ This trend becomes even more manifest when the state of climate finance in the DCV countries is analyzed. As per their updated nationally determined contributions (NDCs) submitted in 2021, DCV countries need more than USD 467.17 billion to address their mitigation and adaptation priorities (Table 1). The climate finance need of DCV countries represents about 17% of the total funding needed by African countries to address climate change. The countries are, however, not equal in the funding needed. The cost of Ethiopia's climate response measures represents about 68% of the cumulative cost, while Sao Tome and Principe, which only provided costing for its mitigation needs, requires the least funding (0.03% of cumulative cost).

DCV Countries	Mitigation (2021 - 2030)	Adaptation (2021 - 2030)
Chad	\$6.7 Conditional: \$6.3 Unconditional: \$0.415	\$5
Congo (Republic)	\$4.4 Conditional: \$4.3 Unconditional: \$0.94	\$3.8 Conditional: \$2.78 Unconditional: \$1.02
Ethiopia	\$275.5 Conditional: \$220.4 Unconditional: \$55.1	\$40.5 Conditional: \$32.4 Unconditional: \$8.1
Mozambique	\$7.59 (by 2025)	
Sao Tome & Principe	\$0.15	
Somalia	\$6.96	\$48.5
Sudan	\$4.39	\$3.85
Zambia	\$35 Conditional: \$9.5 Unconditional: \$25.5	\$20 Conditional: \$5.5 Unconditional: \$14.5
Zimbabwe	\$4.83	
Total	\$467.17	

Table 1 – Means of Implementation – Updated NDCs (2021) (in billion USD) (Source: UNFCCC NDC Registry)

²³ CPI, *supra* note 11; AfDB, *supra* note 12.

Except for Somalia whose adaptation cost is higher than the funding needed for mitigation, funding for mitigation needs in each country exceeds adaptation funding needs. Overall, mitigation funding represents over 72% of the total cost of climate actions in the DCV countries, while adaptation is only about 26% of the total cost. Zimbabwe and Sao Tome, however, provided no figures for their adaptation needs, and Mozambique did not break down its cost into adaptation and mitigation needs. Given the disastrous impacts of climate change in DCV countries, the relatively low adaptation cost is questionable. It is noteworthy that African countries are reputed to under-cost their climate needs. For example, a 2020 study on adaptation finance in Ethiopia puts the estimated cost for implementing Ethiopia's National Adaptation Plan at USD 6 billion per year for the next 15 years – a total of USD 60 billion in 10 years.²⁴ Yet, the current cost of adaptation measures in Ethiopia's updated NDC is USD 20 billion short.

Despite the devastating impacts of climate change in DCV countries and the extraordinary costs incurred, none of the countries costed for loss and damage (L&D). About USD 200 – 580 billion in L&D funding is estimated to be needed per annum in developing countries by 2030.²⁵ With the locked in impacts of climate change and the shortfall and limitations of adaptation finance, L&D finance has become vital. While not costing L&D, each of the DCV countries directly or indirectly referenced to L&D incidences. Somalia, for example, notes that “climate change-related” droughts, floods and locust infestations resulted in loss of livestock and agricultural products accounting for more than 70% of its GDP.

Adaptation Finance in Africa

“In the years 2019 and 2020, an annual average of \$29.5 billion in climate finance was committed to Africa, and approximately 39% of those commitments, \$11.4 billion, targeted adaptation activities. Of the \$11.4 billion in adaptation commitments tracked from 2019 to 2020, more than 97% came from public actors, while less than 3% was tracked from the private sector. More than half of adaptation finance commitments tracked in Africa were loans in 2019 to 2020, with 30% in the form of concessional debt and 23% in the form of commercial debt. An additional 45% of adaptation finance commitments tracked in that period were grants, with the remaining 2% a mix of commercial equity and unspecified finance types.”

□ Morgan Richmond et al, “Financial Innovation for Climate Adaptation in Africa” GCA (2022)

Mozambique provided the most detailed information about its losses although it stopped short of projecting the cost of its L&D finance. While noting that it does not know the real value of direct or indirect economic losses from extreme weather events, the number on human deaths, displacement, injuries, and destroyed private and public property from such events between 2016 and 2020 were provided in Mozambique's updated NDC. Although there is still a lot of opaqueness around L&D finance even within the UNFCCC regime, tools like the social cost of carbon, although imperfect, could be useful in ‘costing’ L&D. It is reasonable to assume that if

²⁴ CARE, “Climate Finance adaptation Study Report - Ethiopia” (CARE 2020).

²⁵ Andrew Gilder and Olivia Rumble, “An African Perspective on Loss and Damage” (SAIIA 2022).

costed and included, DCV countries' climate finance needs will considerably increase.

Chad, Congo, Ethiopia, and Zambia distinguished between conditional and unconditional funding (Table 1). Conditional funding needs are dependent on external funding support, while unconditional funding refers to cost which the countries are responsible for. The percentage of unconditional funding to the total climate finance needed by each country ranged from around 4% as in the case of Chad to 27% as in the case of Zambia. On the average, DCV countries are dependent on external funding to finance about 85% of their mitigation and adaptation needs. While conditional funding might seem minimal, they represent immense drain on the already strained coffers of these African States.

The Republic of Congo, for instance, committed to about USD 2 billion of its total USD 8.2 billion climate finance need (about USD 200 million per year for the next ten years). As noted already, Congo is debt distressed and had to reschedule USD 386 millions of its external debt service and arrears during 2021 and 2022,²⁶ and more than half its population (52%) are in extreme poverty.²⁷ Mozambique, Sao Tome and Principe, Somalia, Sudan, and Zimbabwe have not distinguished between conditional and unconditional funding. However, as shown below, while these countries depend mostly on external funding, they also incur considerable cost in climate finance.

DCV Countries	Grant	Loan	In-kind	Total
Chad	\$62.45	\$8.29	\$9.18	\$79.92
Congo	\$73.55	\$19.56	\$9.07	\$102.18
Ethiopia	\$318.97	\$257.17	\$9.14	\$585.28
Mozambique	\$274.42	\$27.3	\$0.54	\$302.26
Sao Tome & Principe	\$49.73	\$22.26	\$9.19	\$81.18
Somalia	\$254.65	-	\$0.1	\$254.75
Sudan	\$163.22	\$23.99	\$0.9	\$188.11
Zambia	\$127.92	\$178.89	\$18.51	\$325.32
Zimbabwe	\$105	-	\$0.36	\$105.36
Total				\$ 2024.36

Table 2 – External Climate Finance in DCV Countries (2015 - 2022) (in million USD) (Source: Global Environment Facility (GEF), Green Climate Fund (GCF), and Climate Finance Update websites)

Given the diverse sources and relatively uncoordinated nature of external climate finance, it is difficult to provide an accurate picture of how much DCV countries have received in climate finance. Nevertheless, platforms like the climate finance update, and the publicly available data provided by the Global Environment Facility (GEF) and the Green Climate Fund (GCF) allow for

²⁶ Fitch Ratings, "Rating Action Commentary: Fitch Affirms Congo at CCC" (1 April 2022) <<https://www.fitchratings.com/research/sovereigns/fitch-affirms-congo-at-ccc-01-04-2022>>.

²⁷ The World Bank, "The World Bank in the Republic of Congo" (7 October 2022) <<https://www.worldbank.org/en/country/congo/overview>>.

some degree of comprehensiveness in capturing how much the countries have received in public and private climate finance. A breakdown of approved and disbursed external funding for DCV countries between 2015 and 2022 provides a picture of the scale of climate finance, the primary mode of finance, and the type of financed projects in the last eight years (Table 2).

Distribution of Climate Finance

From 2016 to 2020, low-income countries representing 20% of the total number of developing countries received only 8% of climate finance, and least developed countries received 17% of finance despite representing 34% of of developing countries. In addition, African countries representing 39% of the total number of developing countries have only received 26% of climate finance allocated to countries. Small Island States received 2% of climate finance despite representing 28% of developing countries.

- David Ciptet et al, “The Unequal Geographies of Climate Finance: Climate Justice and Dependency in the World System” *Political Geography* (2022)

From the climate finance data provided on the CFU, GEF, and GCF platforms, DCV countries have received or been approved for about USD 2 billion in climate finance in eight years; coming to an average of about USD 250 million per year (Table 2). The amount received is a far cry from the over USD 46.7 billion per year needed by these countries. While most of the funding received were multilateral grants primarily from the GEF and GCF, about one-fourth (USD 537.46 million) of funding were loans. The loan component of funding received by Zambia (55%) and Ethiopia (43%) are even higher. While there is no loan component to the direct funding received by Somalia and Zimbabwe, as shown below, there is a considerable loan component in the multi-country initiatives that Somalia participates in. The substantial loan component of the climate funding received by the DCV countries support recent finding on the direct contribution of climate finance to the debt profile of developing countries.

In-kind support contributes the least to the climate funding received by DCV countries (2.8% of total funding). In-kind support (e.g., technical know-how, technology transfer, volunteering, etc.) plays an important complementary role to conventional climate finance. Sao Tome and Principe and Zambia are the only two countries with individual climate funding through equity ownership. As shown below however, equity funding is a considerable part of the multi-country projects that DCV countries participate in.

Project	Funding Value, Source and Type (In million USD)
Inclusive green financing initiative (IGREENFIN 1) – Chad, Ethiopia, Sudan Burkina Faso, Cote d'Ivoire, Mali, Senegal, Djibouti, Eritrea, Ghana, Mauritania, Nigeria, Niger (2022) <i>Type of Project: Adaptation</i>	Project value - \$172.8 \$72 – GCF – Loan \$29.6 – GCF – Grant \$25.5 – IFAD – Grant \$12 – IFAD – Loan \$14.4 – AfDB – Grant \$11.2 – ISDB – Senior Loan \$8 – WAEMU Banks and Ghana – Senior Loans/Loans
Desert to Power G5 Sahel Facility – Chad, Mauritania, Burkina Faso, Mali, Niger (2021)	Project value - \$966.7 \$8 – GCF – Grant \$42 – GCF – Private Sector Loan \$40 – GCF – Public Sector Loan \$40 – GCF – Reimbursable Grant \$20 – GCF – Guarantee

<i>Type of Project: Mitigation</i>	\$299.6 – AfDB – Senior Loans \$10 – AfDB – Grant \$50 – AfDB – Sovereign Loans \$20 – AfDB – Guarantee \$275.4 – other co-financiers – Senior Loans \$161.7 – Sponsor/shareholder – Equity
The African Integrated Climate Risk Management Programme: Building the resilience of smallholder farmers to climate change impacts in 7 Sahelian Countries of the Great Green Wall (GGW) – Chad , Burkina Faso, Mali, Mauritania, Niger, Senegal, Gambia (2021) <i>Type of Project: Adaptation</i>	Project value - \$143.33 \$82.85 – GCF – Grant \$30.32 – IFAD – Grant \$22.92 – AfDB – Grant \$7.24 – ARC – In-kind
Leveraging Energy Access Finance (LEAF) Framework – Ethiopia , Ghana, Nigeria, Tunisia, Kenya, Guinea (2021) <i>Type of Project: Mitigation</i>	Project value - \$959.9 \$80 – GCF – Subordinated Loans \$80 – GCF – Guarantee \$10.9 – GCF – Grant \$50 – AfDB – Guarantee \$18 – AfDB – Subordinated Loans \$92 – AfDB – Senior Loans \$4 – AfDB – Grant \$100 – Local fin institutions – Senior Loans \$215 – Other co-financiers – Senior Loans \$310 – Sponsor/shareholder – Equity
TAF: Supporting Climate Action in three East African Countries through Non-traditional Financing Instruments and Debt Management – Ethiopia , Malawi, Rwanda (2021) <i>Type of Project: Mitigation</i>	\$ 0.3 – Scaling Up Renewable Energy Program (SREP) – Grant
(FP180) Global Fund for Coral Reefs Investment Window – Mozambique , Bahamas, Belize, Brazil, Colombia, Comoros, Ecuador, Fiji, Guatemala, Indonesia, Jamaica, Jordan, Mexico, Panama, Philippines, Seychelles, Sri Lanka (2021) <i>Type of Project: Adaptation</i>	Project value - \$500 \$125 – GCF – Equity \$375 – Senior Investors - Equity
Piloting innovative financing for climate adaptation technologies in medium-sized cities – Mozambique , Global, Antigua and Barbuda, Lao PDR (2022) <i>Type of Project: Adaptation</i>	Project value - \$2.36 \$0.68 – GEF – Grant \$0.03 – UNIDO – In-kind \$0.1 – UNIDO - In-kind \$0.150 - Antigua and Barbuda - In-kind \$0.35 - UN-Habitat - In-kind \$0.150 – CTCN – Grant \$0.3 – Mozambique – Grant \$0.15 – Mozambique - In-kind \$0.3 - Lao PDR – Grant \$0.15 - Lao PDR - In-kind
FP117 – Cooling Facility – Sao Tome and Principe, Somalia , Malawi, North Macedonia, Panama, Kenya, Sri Lanka, El Salvador, Bangladesh (2021) <i>Type of Project: Adaptation and Mitigation</i>	Project value - \$879.84 \$32 – GCF – Grant \$125 – GCF – Senior Loan \$563.4 -WB – Senior Loan \$50 – WB – Guarantee \$80.5 – WB – Grants \$25 – GFF – Grants \$3 - Health Emergency Preparedness and Response Trust Fund - Grants \$0.94 - Pandemic Emergency Facility - Grants

GEF SGP 7 th Operational Phase – Strategic Implementation Using STAR Resources Mainly in LDCs and SIDs - Ethiopia, Somalia, Tanzania , and 54 others (2022) <i>Type of Project: Adaptation and Mitigation</i>	Project value - \$89.9 \$43.94 – GEF – Grant \$4 – UNDP (BMU/Germany) – Grant \$5.65 – Govts – Grant \$16.29 – CSO (TBD) – In-kind \$2.12 – Private sector – In-kind \$17.9 - Grantees/Beneficiaries – In-kind
Strengthening Resilience to Climate and Covid-19 shocks through Integrated Water Management on the Sudan – Chad Border area (SCCIWM) (Project formulation grant) – Chad, Sudan (2021) <i>Type of Project: Adaptation</i>	\$0.1 – AF - Grant
Umbrella Programme for Preparation of Biennial Transparency Reports and National Communications to the UNFCCC – Zambia , Antigua and Barbuda, Cambodia, Lao DPR, Liberia, Malawi, Maldives, Mauritania (2021) <i>Type of Project: Adaptation and Mitigation</i>	Project value - \$4.11 \$4.09 – GEF – Grant \$0.015 – UNEP – In-kind
Covid-19 Off-grid Recovery Platform – Ethiopia, Zambia , and 15 others (2022) <i>Type of Project: Mitigation</i>	Project value - \$100.65 \$13 – GEF – Grant \$20 - Off-Grid Energy Access Fund – Loan \$25 - Energy Entrepreneurs Growth Fund – Loan \$16.35 - Social Investment Managers and Advisors – Loan \$26.3 - AfDB - Sustainable Energy Fund for Africa - Loan
Regional Capacity Building of COMESA member states in Eastern and Southern Africa for Enhanced Transparency in Climate Change MRV as Defined in the Paris Agreement – Zambia , Botswana, Comoros, Eritrea, Seychelles (2021) <i>Type of Project: Adaptation and Mitigation</i>	Project value - \$5.75 \$4.2 – GEF – Grant \$0.4 - The Regional Center for Mapping Resources for Development – In-kind \$1 – Govts – In-kind \$0.05 – Conservation International – Grant \$0.096 – COMESA – In-kind
Total	\$3825.74

Table 3 – Multi-Country Climate Finance (2021 - 2022) (Source: Global Environment Facility (GEF), Green Climate Fund (GCF), and Climate Finance Update websites)

DCV countries participate in various multi-country climate initiatives that have attracted billions of dollars in funding between 2015 and 2022. The countries participated in, at least, 37 joint projects in the past eight years. Between 2021 and 2022 alone, about USD 3.8 billion in multi-country climate finance has been received (Table 3). About 55% (about USD 2 billion) of the multi-country climate funding received in 2021 and 2022 were, however, in the form of loans. It is unclear how much of the loans DCV countries are responsible for. It can, however, be reasonably assumed that these loans substantially contribute to the already daunting debt levels of DCV countries.

Like the silence of DCV countries on loss and damage, the individual and multi-country climate finance received between 2015 and 2022 focused solely on mitigation and adaptation. However, while the climate finance received for country-specific projects are tilted towards adaptation, over 53% of the multi-country climate funding are for mitigation projects, while another 25% have both mitigation and adaptation benefits.

NEXUS BETWEEN DEBT, CLIMATE FINANCE AND VULNERABILITY IN DCV COUNTRIES

According to UNCTAD, almost 60% of low-income countries are currently at high risk of or in debt distress.²⁸ As mentioned above, eight of nine low-income countries in debt distress globally are in Africa while 14 other countries are at high risk.²⁹ Some of these countries were already facing debt challenges prior to the outbreak of COVID-19, although the economic impact of the pandemic as well as the subsequent cost of living crisis have exacerbated their indebtedness.³⁰

From the onset of the pandemic, creditors were urged to offer debt relief to countries in order to provide fiscal space to respond to the health and economic crisis. Through the G20 Debt Service Suspension Initiative (DSSI), some African countries benefited from suspension of debt owed to bilateral creditors for repayments which were falling due between June 2020 to December 2021. Of the DCV countries, only 7 were eligible with Sudan and Zimbabwe excluded due to arrears owed to the World Bank and IMF. The total debt relief received by these countries during the duration of the DSSI was US\$ 2,647.4 million.³¹ Another form of relief was offered through the IMF's Catastrophe Containment and Relief Trust (CCRT). Debt repayments owed to the IMF by some of the DCV countries, specifically Chad, Ethiopia, Mozambique and Sao Tome and Principe, falling due between April 2020 to December 2021 were canceled.³² This relief amounted to a total of US\$ 89.6 million.

Debt - Climate Finance Initiatives – Watch out for Landmines

“A number of debt-related proposals are being made to fill the climate finance gap. While each proposal is unique and may present some benefits in specific contexts, they cannot be seen as adequate solutions on their own. Many also present risks, such as adding to debt burdens, placing the financial onus of addressing the climate crisis onto vulnerable countries, and opening the door to conditionality which historically has involved austerity measures at a national level, causing immense harm to communities.”

□ Tess Woolfenden and Sindra Khushal, “The Debt and Climate Crisis” Debt Justice (2022)

²⁸ UNCTAD, “Africa’s Economic Growth Decelerates Sharply” (3 October 2022) <<https://unctad.org/press-material/africas-economic-growth-decelerates-sharply>>.

²⁹ The countries in debt distress include Chad, Republic of Congo, Mozambique, Sao Tome and Principe, Somalia, Sudan, Zambia, and Zimbabwe. Countries at high risk of debt distress include Burundi, Cameroon, Central African Republic, Comoros, Djibouti, Ethiopia, Gambia, Ghana, Guinea-Bissau, Kenya, Malawi, Mauritania, Sierra Leone and South Sudan. See IMF, *supra* note 13.

³⁰ World Bank, “International Debt Statistics 2022” <<https://www.worldbank.org/en/programs/debt-statistics/publications>>.

³¹ The World Bank, “Debt Service Suspension” (10 March 2022) <<https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>>.

³² International Monetary Fund, “COVID-19 Financial Assistance and Debt Service Relief” (9 March 2022) <<https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker>>.

Unfortunately, even when combined, the relief paled in comparison to the debt repayments which low-income countries continued making throughout the pandemic, particularly to private and multilateral creditors (Figure 1). 8 of the top 20 countries which incurred the highest costs of servicing public debt as a percentage of their revenue in 2020 are in Africa, including Somalia (96.8%), Mozambique (35.8%) and Republic of Congo (31.9%). Specific to the DCV countries, 2020 debt repayments amounted to \$5.4 billion compared to only \$428 million worth of debt relief (Figure 1). While debt relief for DCV countries increased to \$2.3 billion in 2021, it is estimated that these governments made debt repayments worth \$5.5 billion that year. The DSSI expired at the end of 2021 thus the eligible DCV countries resumed servicing their bilateral debt, alongside their multilateral and private debt which they paid throughout the pandemic in 2020 and 2021.

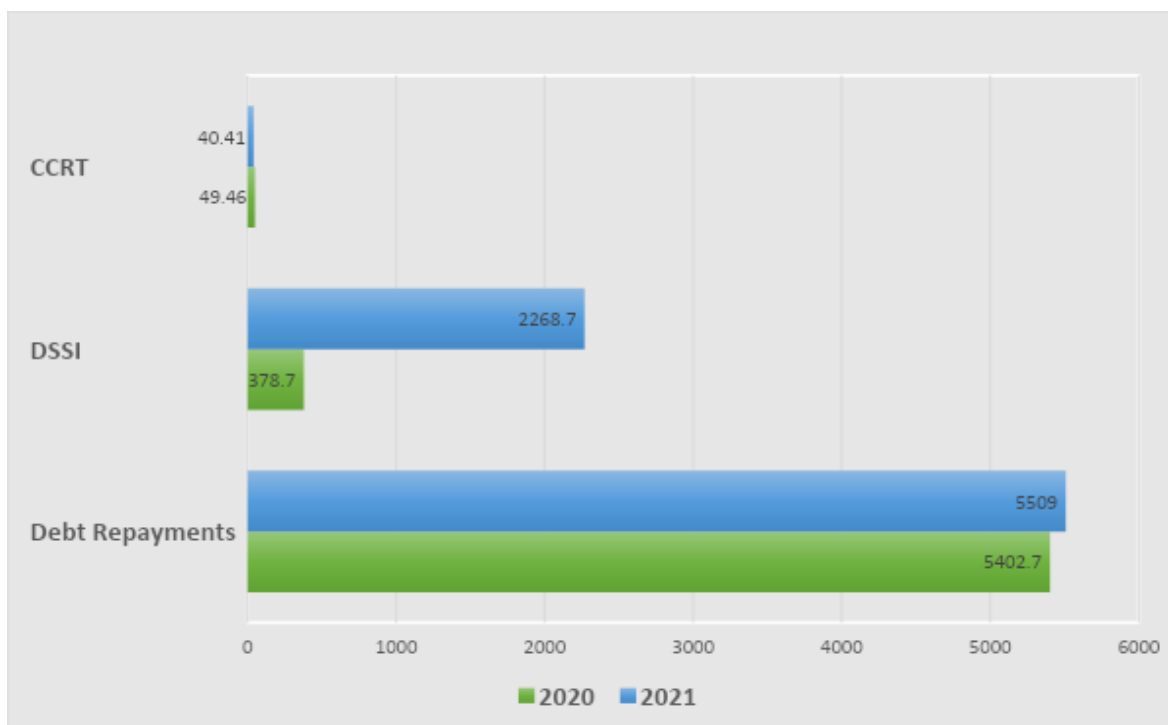


Figure 1 - Debt Repayments and Debt Relief for Africa's Most Indebted Countries 2020-2021 (in million USD) (Source: World Bank International Debt Statistics and IMF Lending Tracker)

It is important to note that the most indebted low-income countries in Africa are also among the most vulnerable to climate risks globally. According to the Notre Dame Global Adaptation Initiative country index, 5 DCV countries (Chad, Congo, Somalia, Sudan, and Zimbabwe) rank among the bottom 20 out of 182 countries with respect to both climate vulnerability and readiness (Table 4).

Country	Ranking out of 182 countries
Chad	182
Congo	169
Ethiopia	161
Mozambique	156
Sao Tome and Principe	126

Somalia	172
Sudan	177
Zambia	138
Zimbabwe	174

Table 4 - Ranking of Africa's most indebted low-income countries in climate vulnerability and readiness to improve resilience (Source: Notre Dame Global Adaptation Initiative)

Linking climate vulnerability to debt, debt relief is particularly important for the DCV countries which are prone to severe climate change impacts. High debt repayments limit the fiscal space of these countries to invest in their climate adaptation needs or to respond to disasters when they occur. Majority of the DCV countries are spending more on their debt repayments than investment in their climate needs. Particularly, the findings reveal that some of these DCV countries are spending more on debt servicing than on their climate commitments - mitigation and adaptation combined. Mozambique, for instance, spent \$855 million on debt repayments in 2021, more than its annual climate finance requirement of \$759 million.

On the adaptation front, the Republic of Congo projects to spend \$380 million annually, inclusive of external support. However, it is estimated to have spent \$609 million, almost double, on servicing debt in 2021 alone (Figure 2). This is also the case with Zambia and Ethiopia which are both undergoing debt restructuring under the G20 Common Framework. Ethiopia committed to allocate \$810 million in unconditional adaptation finance and is projected to spend almost thrice this sum on debt repayments in both 2021 (\$2.09 billion) and 2022 (\$2.2 billion) (Figure 2). Zambia's projected debt repayments for both 2021 (\$1.55 billion) and 2022 (\$2.27 billion) also exceed the government's planned unconditional adaptation finance of \$1.45 billion.

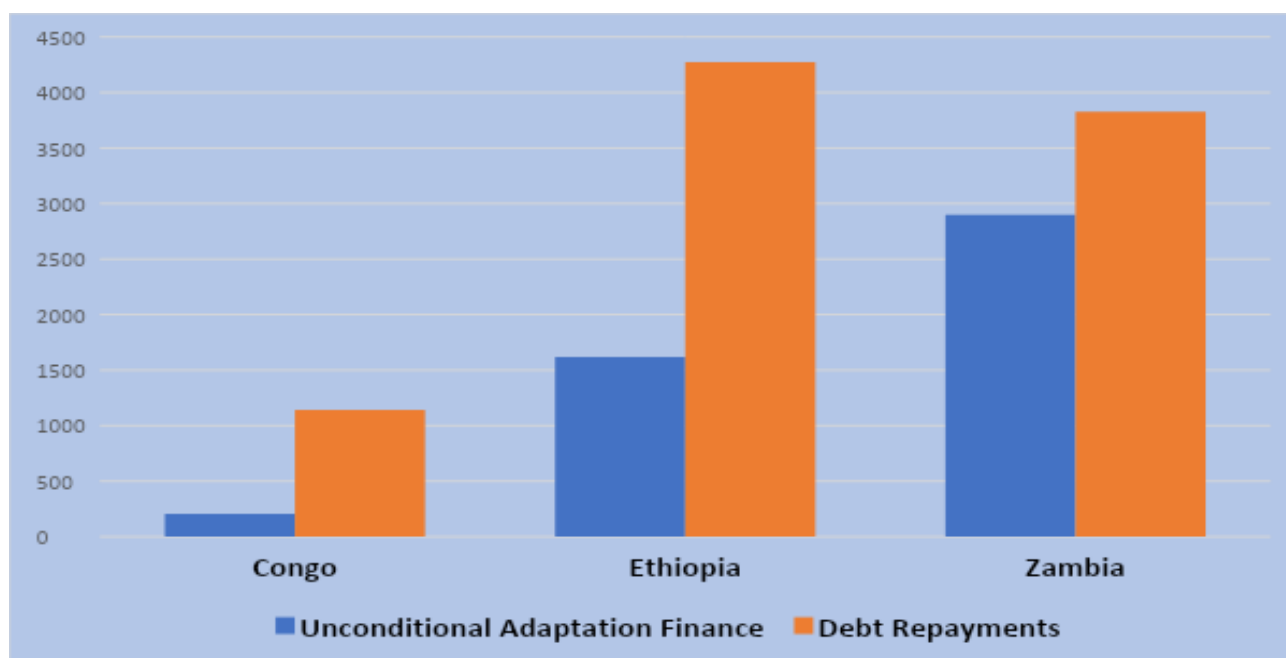


Figure 2 - Annual Unconditional Adaptation Finance and Projected Debt Repayments 2021-2022 (in million USD) (Source: World Bank Debt Statistics and UNFCCC NDCs Registry)

Without donor support, the sums which some of these governments plan to spend on climate change dwindle further. Countries such as Somalia have made

commitments in their NDCs aimed at strengthening their resilience to climate shocks. The government's estimated finance required to address climate change from 2021-2030 stands at \$5.5 billion annually, of which \$4.9 billion is targeted towards adaptation. However, the government has candidly expressed that it "does not have the fiscal capacity to mobilize financial resources for the implementation of the NDC actions." In addition, only 4 of the DCV countries (Chad, Congo, Ethiopia, and Zambia) disclosed how much their governments plan to invest on their climate needs over this decade, without external funding (Table 1).

The Bridgetown Agenda for the Reform of the Global Financial Architecture

- **Provide Emergency Liquidity:** IMF should return access to unconditional rapid credit and financing facilities to previous crisis levels; temporarily suspend interest surcharges; rechannel at least USD 100 billion of unused Special Drawing Rights (SDRs) to those who need it; and operationalize the Resilience and Sustainability Trust by October 2022.
- **Expand Multilateral Lending to Governments by USD 1 Trillion:** The World Bank and other Multilateral Development Banks should use remaining headroom, risk appetite, new guarantees, and SDR holdings to expand lending with emphasis on the attaining the SDGs and building climate resilience in climate-vulnerable countries.
- **Activate Private Sector Savings for Mitigation and Reconstruction:** Global mechanism for reconstruction grants for any country imperiled by climate disaster. New issuance of 500 billion SDRs or other low-interest, long term instruments to back a multilateral agency that accelerates private investment in the low carbon transition.

□ Barbados Ministry of Foreign Affairs and Foreign Trade (2022)

Our assessment of the climate finance of the DCV countries (Table 2) reveals that over one fourth of the climate finance received from external sources, from 2015 to date, has been channeled through loan instruments. This figure is an underestimate since it excludes the climate finance borrowed under multi-country initiatives between 2021 and 2022, of which approximately 55% is in the form of loans (Table 3). Among the DCV countries, Zambia, and Ethiopia, both undergoing debt restructuring, have borrowed highly for climate over the past eight years. The data reveals that more than half of Zambia's climate finance (55%) is in loan form compared to its grants and in-kind contribution. Zambia is among the African countries which have been most affected by climate impacts. During the pandemic in 2021, Zambia faced a serious underreported humanitarian crisis as result of wide scale food insecurity attributed to droughts and exacerbated by the economic impact of COVID-19.³³

In the absence of real debt relief and automatic debt standstills in the event of extreme climate events, compounded by prolonged and complicated restructuring processes, the DCV countries are at risk of entering a vicious cycle of indebtedness and vulnerability in which they incur further debt liabilities to address their climate needs yet spend more on debt repayments than addressing their climate vulnerabilities and building the required resilience.

³³ CARE, "The Most Under-Reported Humanitarian Crises of 2021" (CARE 2022).

CONCLUSION

Contrary to the promise of the UNFCCC regime, the punitive cost of climate change is being borne by the least developed countries in the world. While the real costs are the lost lives, the destroyed means of livelihood, and the increasingly distant hope of developing, the least developed countries are being overwhelmed by the cost of responding to climate impacts and debt burden that accompany these devastating impacts. Amidst the ongoing global downturn attributed to the severe economic impact of the COVID-19 pandemic and the ongoing cost of living crisis due to the war in Ukraine, the debt problems of the DCV countries studied in this Brief, their vulnerability to climate change, and the absence of real debt relief and meaningful climate finance, have weakened their capacity to recover and grow.

The message of this brief is simple – climate change should not impose additional debt burdens on African countries and other least developed and developing countries. This is, more so, in respect of the cost of adapting and addressing climate change loss and damage. Adaptation and loss and damage needs should be primarily financed through grants and in-kind support. The Global Mechanism for Reconstruction Grants proposed in the Bridgetown Agenda is an important piece of the loss and damage finance puzzle. There is already minimal albeit painful movement towards loss and damage finance at COP 27 with the subject appearing on the agenda for the first time in the history of COP.³⁴ However, with the checkered history of COPs and its limited usefulness in reaching actual transformative decisions, the conversation on loss and damage finance must necessarily be taken outside the UNFCCC regime.

Beyond adaptation and loss and damage funding, as demonstrated in this Brief, immense capital is needed by African countries to meaningfully participate in the global post-carbon economy. Again, climate mitigation finance should not contribute to the unsustainable debt levels in African States. This might, however, be easier said than done, as cash-strapped African States hard-pressed for funding are vulnerable to accepting loan terms which worsen their debt crisis, even when such terms are tagged ‘concessional’. Direct investment (equity) in mitigation projects is a viable non-debt source of finance which is under-explored in Africa.

There are various proposed solutions to the debt and climate change crises including debt restructuring, relief, and cancellation; debt-for-climate swaps; and mainstreaming automatic debt standstills in debt contracts for extreme climate events. These interventions must, however, be carefully assessed. At the minimum, they should - have a net positive impact on addressing the debt and climate change crises; not impede the capacity of African States to grow and meet the welfare needs of citizens; not exacerbate global inequalities and power imbalance; and be additional to climate finance commitments rather than being substitutes.

³⁴ Gloria Dickie and Kate Abnett, “COP 27 Kicks Off with Deal to Discuss Climate Compensation” (Reuters, 6 November 2022) <<https://www.reuters.com/business/cop/cop27-summit-begin-with-plea-discuss-climate-compensation-2022-11-06/>>



The African Sovereign Debt Justice Network (AfSDJN), an initiative of Afronomics Law, focuses on the equitable reform of the global financial and debt architecture by getting more African voices to participate in the reform discourse, publishing detailed studies, and developing the capacity of state and non-state entities to effectively engage in relevant global forums.

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