

Climate loan sharks

How the UK is making developing countries pay twice for climate change

Executive summary

Imagine going to court and admitting in front of the judge that you recklessly drove your car into your neighbours' house.

The court orders you to pay your neighbours, who as it happens are a low-income family struggling with mounting debts, for the damage you have caused to their house. You accept responsibility, except you don't agree to give the money, instead you offer to lend your hard-up neighbour the money to repair their house 'at a favourable interest rate'.

Obviously, in any country in the world, such a proposal would be laughed out of court. And yet it is exactly this sort of offer that the UK and other rich country governments are making to the world's poorest and most indebted countries in the high stakes arena of international climate finance.

Rich industrialised countries are overwhelmingly responsible for climate change. Around 70 per cent of carbon dioxide emissions from burning fossil fuels have been made by these countries in the global north, despite the fact that they hold just 20 per cent of the world's population. The impacts of climate change on people are also not shared evenly; according to the World Bank 75-80 per cent of damage as a result of climate change will be suffered by countries in the global south.

The UK, and other rich industrialised countries in the global north, owe a debt to countries in the global south as compensation for the devastating effects of climate change they have the primary responsibility for creating. A key part of this compensation is providing finance to poorer countries to help reduce the negative impacts of climate change on their lives and livelihoods. This is the adaptation debt.

Yet far from paying this debt, *Climate Loan Sharks* finds:

- The UK is providing most of its climate finance for adaptation in the form of capital that can only be dispersed as loans through the World Bank's Pilot Programme for Climate Resilience (PPCR). Of the capital that will be given out as loans by the PPCR, 97 per cent come from the UK.
- Of the 11 country proposals developed so far under the PPCR, at least \$1.1 billion (£704 million) of finance will be in the form of loans, making up over half of the total finance provided to 'help' poor countries adapt to climate change.
- \$419 million (£263 million) of the money for loans proposed through the PPCR proposals come from the UK government.
- The idea of climate loans was created by the UK Labour government as an accountancy trick to make its balance sheet look better, a policy continued by the current coalition government.

The PPCR is part of the Climate Investment Funds – run by the World Bank together with other regional multilateral development banks. One of the key goals of the PPCR is piloting new approaches and learning lessons for long term adaptation financing.

In practice, the lessons learned appear to be that the PPCR is fundamentally unfit for purpose. Its creation and governance lack legitimacy, it is not designed to meet local needs nor build local ownership

of projects, lacks transparency, fails to consistently consider key issues such as gender in its country plans or meaningfully engage civil society, and over-rules national governments' funding priorities.

In Mozambique civil society groups listed as having been consulted in developing proposals were unaware of the program, while in Nepal the World Bank over-ruled the Nepalese government on what the funds should be used for. In short, the PPCR appears to be a model designed entirely around the interests of rich countries and development banks rather than the needs of those affected by climate change in urgent need of finance.

The additional \$1.1 billion of debt from climate loans simply adds to the existing external debts of many of the recipient countries – the total debt of the 11 countries is over \$37 billion. For example Grenada's debt is already 90 per cent of GDP, yet it is to be lent a further \$22 million from the PPCR, over 3 per cent of the country's GDP. Lending to such a heavily indebted country is at best irresponsible and at worst wilfully dangerous.

On average these countries spend nearly 10 per cent of government revenue on servicing external debt each year, diverting enormous amounts of much needed public revenue to paying off international financial institutions, private banks and lenders and other country governments. They are in no position to be forced to accept further debt, simply as the only available source of finance to help tackle the impacts of climate change.

In order to effectively pay its climate debt, [name of report] recommends that the UK government:

- Transfers its PPCR capital contribution to a grant, so that it can be given to recipient countries as grants not as loans.
- Provides all future 'fast start' adaptation finance through UN Adaptation Fund rather than the PPCR. The UN Adaptation Fund was set up through the UN climate negotiations, has representative governance and only gives grants, yet the UK government has not yet made any financial contribution to this fund.
- Learns the lessons from the failures of the PPCR and does not promote this as the model for long-term climate finance through the UN's new green climate fund

The UK and other rich countries that have emitted the lion's share of greenhouse gases, have a responsibility to help countries such as Bangladesh and Niger to cope with the consequences of climate change. Just as lending a neighbour money to repair the damage to their house would not be acceptable, climate loans are not an acceptable way to repay climate debts. By continuing in this manner, the UK is behaving like a climate loan shark, predatorily seeking out vulnerable people who have no other choice about where to get their finance from.

Download the full report, watch the infographic and take action at www.wdm.org.uk/climate-debt-campaign/loan-sharks

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