June 2011

Climate loan sharks

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

JUBILEE DEBT CAMPAIGN

World Development Movement
Justice for the world's poor

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With thanks to Gabriella Williamson, Sarah Reader, Julian Oram and Kirsty Wright.

June 2011

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The World Development Movement (WDM) campaigns for a world without poverty and injustice. We work in solidarity with activists around the world to tackle the causes of poverty. We research and promote positive alternatives which put the rights of poor communities before the interest of big business. WDM is a democratic membership organisation of individuals and local groups.

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Jubilee Debt Campaign is part of a global movement working for full cancellation of unjust and unpayable impoverished county debts, without harmful conditions attached. We are working for a fairer international system of borrowing and lending, where debt is not an instrument of control for the rich, and further unjust debts cannot build up in the future. We are a UK coalition of national organisations and local and regional groups, as well as thousands of individuals.

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Cover image: The Indonesian Climate Finance Network protests against World Bank involvement in climate funding, Jakarta, November 2010.

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climate loan sharks

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 debt burdened 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 86% of its £234 million climate finance for adaptation in the form of capital that can only be dispersed as loans through the World Bank's Pilot Program for Climate Resilience (PPCR). Of the capital that will be given out as loans by the PPCR, 97 per cent comes 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.
- Including contributions to other World Bank funds, $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 flawed. Its creation and governance lack legitimacy, it is not designed to meet local needs nor build local ownership of projects and lacks transparency. It 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 programme, 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 its 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 debt burdened 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, *Climate Loan Sharks* 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 the 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.

Through its policies, the UK government is behaving like a climate loan shark, seeking out vulnerable people who have no other choice about where to get their finance from.

1. 'Fast start' and the UK's adaptation finance

"Those states principally responsible of the direct causes of global warming, are not assuming their responsibility for the incremental social and environmental debt they are accumulating, owed to the most vulnerable peoples of the world, generating an unjust situation that need to be urgently reversed."[1]

Oscar Rivas, minister of the environment, Paraguay, speaking at the United Nations general assembly

At the UN climate summit in Copenhagen in December 2009, in recognition of their responsibility for the majority of current and historic greenhouse gas emissions, developed countries committed to provide 'fast start' finance for developing countries to help them tackle climate change. Rich industrialised countries committed to provide *"approaching $30 billion"*[i] between 2010 and 2012.[2] This finance was to be new, meaning that it had not already been committed, and additional to pre-existing aid commitments. It was stated that the finance was also to be balanced between adaptation (helping countries adapt to the impact of climate change) and mitigation (helping countries to reduce their greenhouse gas emissions).

However over a year and half later, though rich countries have publicly pledged $28 billion for 'fast start' finance, only $12.5 billion of this has actually been committed to specific climate funds with the rest still to be allocated.[3] Furthermore $15 billion of this total comes from just one donor, Japan, $10 billion of which had already been committed in 2008 well ahead of the Copenhagen summit.[4] Only 4 of the 21 donor countries have confirmed that any amount of their climate finance will be additional to their aid commitments, the other 17 are instead diverting money away from much needed development goals.[5] Rich countries are clearly failing to live up to the commitments made at Copenhagen, depriving developing countries of the finance so urgently needed to tackle climate change.

As part of this 'fast start' finance, the UK government committed £1.5 billion for 2010 – 2012, none of which is additional to pre-existing aid commitments. Of this finance, £500 million had already been announced in 2008 as a contribution to the World Bank's Climate Investment Funds, leaving only £1 billion as 'new' money for the three years.

So far, the UK government has committed £568 million to specific programmes for 2010 – 2011, though it is already late in meeting the UN deadline for announcing its climate finance commitments for 2011-2012, with no date confirmed for when this decision will be made.[6] Of this, £234 million has been committed to programmes aiming to help countries adapt to climate change, 86 per cent of which has been committed through the World Bank's Pilot Program for Climate Resilience (PPCR).[7]

i. In this report $ refers to US$

2. The World Bank's PPCR – fundamentally flawed

The Pilot Program for Climate Resilience (PPCR) is one of four climate funds within the Climate Investment Funds – run by the World Bank together with other multilateral development banks (MDBs). The Climate Investment Funds were set up by donors to *"establish a multibillion-dollar fund [that] will boost the World Bank's ability to help developing countries tackle climate change."*[8]

Of the four Climate Investment Funds, the PPCR is the adaptation fund, with the other funds focusing on clean technologies, renewable energy and forests. The PPCR also claims to take an innovative approach to adaptation, aiming to *"integrate climate resilience into core development planning"*, which it views as distinct from other adaptation activities such as pre-existing national adaptation plans.[9] In total 18 countries have been selected to receive funds from the PPCR and full proposals have now been developed for 11 of these. Country programmes include funding for activities such as improving flood drainage, increasing drought resilience in water supplies, improving capacity for disaster response, improving coastal and river defence systems and supporting drought resistant agriculture.

One of the key goals of the PPCR is to *"pilot finance in the short term to learn lessons that will be useful in designing scaled up adaptation financing"*[10]. In practice, the lessons that should be learned appear to be that the PPCR is fundamentally flawed and is failing to deliver. Its creation and governance lack legitimacy, it is not designed to meet local needs nor build local ownership of projects and it lacks transparency. It 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 short, the PPCR appears to be a model designed entirely around the interests and goals of rich countries and development banks rather than the needs of those affected by climate change in urgent need of finance.

2.1 Legitimacy

The PPCR was created by donor governments entirely outside of the UN climate process to give the World Bank a central role in climate finance. It is not accountable to, or connected with, the UN process – a process which is supposed to be the democratic international space for dealing with climate change. Ultimately it is accountable to the World Bank board, long recognised to be hugely biased towards the interests of rich industrialised countries in the global north.

The desire for donors to create a new fund to meet their interests is also reflected in the governance of the PPCR. The PPCR board has the same number of developed and developing countries – a significant shift of power towards the rich donor countries compared to the 30:70 split within the UN Framework Convention on Climate Change (UNFCCC) as a whole. This was recognised immediately by the developing countries in the G77[i]: *"The governance of these funds is donor-driven. There is clearly money for climate actions, which is the good news, but the bad news is it is in the hands of institutions that do not necessarily serve the objectives of the convention."*[11]

The dominance of the interests of donor states can be seen in practice in the decision making process. During the discussions for the approval of the first three projects from the PPCR, members of the PPCR board noted that the scoping for the Tajikistan project had not been completed, that budgets appeared incomplete, and that issues relating to gender and consultation had not been fully addressed. However they still approved the financial package as the US stated that *"We need things to move forwards so we can get more money. Congress needs to see results"*.[12]

i. The Group of 77 (G77) is a loose coalition of developing countries, designed to promote its members' interests and create an enhanced negotiating capacity in the United Nations. There were originally 77 founding members, but this has now grown to 131 member countries.

2.2 Country selection and access to funds

This donor dominated approach to the PPCR also drives the process for selecting countries to receive funds. Rather than allowing countries in the global south to apply to the fund for the finance they need, the PPCR undertakes a top-down selection process, where rich donor nations choose which countries will be eligible to receive money from the fund.

Even the group of experts tasked by donor countries to identify eligible countries criticised the model: *"Doing a top-down (or even expert judgement-based) selection as opposed to a demand led selection process poses problems of inclusion / exclusion of countries that will seem arbitrary and open to challenge* [...] *The delay of demand driven activities until after the country selection also opens the process up to the danger of a lack of sufficient country ownership and buy-in."*[13]

The group recommended that the donor countries considered moving to a demand-driven and participatory approach, which could be created without significant complexity or delay – a recommendation that the board has so far ignored. Changes to the list of eligible countries put forward by the expert group were also driven by the World Bank and other development banks' interests rather than an impartial assessment of country need or capacity.[14]

Not only do the World Bank and other MDBs play a key role in decision making, they are also the only organisations that can implement projects funded by the PPCR. Other major multilateral funds such as the UN Adaptation Fund, the Montreal Protocol Fund and the Global Fund to Fight Aids, Tuberculosis and Malaria have all been open to either UN agencies, multilateral organisations, national country or civil society groups accessing funds to implement projects.[15] Instead the PPCR requires that only MDBs can implement projects or gain access to finance, increasing the power and influence of these lending institutions and prioritising funding for existing MDB projects over government, UN or civil society projects.[16]

2.3 Bank charges

Multilateral development banks, including the World Bank, don't just gain through the increased power and influence that comes with their involvement in the PPCR projects. According to the PPCR's own policies, the fees the banks can charge are at least 40 per cent more than they would for a standard project.[17] According to the PPCR's policies this would equate to a flat fee of $350,000, though the MDBs could request a higher fee.

In practice this represents the very lowest end of the fees charged by the banks. For example, in the funding proposal for Tajikistan, total MDB fees reached an enormous $2.3 million, while in the case of St Vincent and the Grenadines MDB fees make up 4 per cent of the total finance package.[18,19] No clear justification as been given by the Climate Investment Funds or the MDBs as to why such unusually high fees are required for the PPCR projects, diverting funds from donor countries away from where they are needed most – the recipient countries.

2.4 The wrong institution for climate finance

The central role of the World Bank in the Climate Investment Funds is also deeply concerning. As an institution, its governance, history and its financing for projects responsible for causing climate change, makes it wholly unsuitable for managing and delivering climate finance.

The World Bank is designed to favour the interests of rich countries in the global north over the majority of countries in the global south. On the board of the World Bank, countries like the UK and the USA get one representative each whereas all 47 sub-Saharan African countries are represented by just three representatives. The president of the World Bank is always chosen by the US government. Even in making decisions, instead of 'one person one vote' systems that most of us are used to in elections, the World Bank uses a 'one dollar one vote' system, automatically handing power to the world's richest countries.[20]

The World Bank's history is also littered with development disasters causing massive social and environmental upheaval.[21] For example, between 1960 and 1980, 28 million people were displaced by World Bank funded agricultural reform projects in Brazil. The bank's funding for large dams is also one of the most controversial parts of its history. The Sardar Sarovar dam in India for example, resulted in the resettlement of 200,000 poor farmers and an independent inquiry found the bank culpable of 'gross delinquency'. These are just two examples of the countless projects the World Bank has funded that have had disastrous impacts on poor communities in the global south.

As well as damaging projects, the World Bank together with the International Monetary Fund (IMF), has a long history of forcing extreme free market policies on developing countries; privatising public services and pushing failed models of export-led growth and trade liberalisation. These 'one size fits all' policies led to economic stagnation in countries across the global south while cutting communities' access to vital services.

Not only have World Bank funded projects had devastating impacts on local communities, its funding has consistently been used to finance projects that have contributed to climate change. For decades the World Bank has provided finance for deforestation, extractive industries and fossil fuel industries that have driven increasing global greenhouse gas emissions. In spite of taking on its new role in climate finance, it continues to provide enormous funding to the fossil fuel industry that is driving climate change. In 2010 the World Bank provided $6.5 billion of finance to the fossil fuel industry and increased its funding for coal fired power stations by over 350 per cent in just one year, reaching a total of $4.4 billion.[22] In the same year the bank increased lending to renewable energy and energy efficiency projects by just 7 per cent.

With such a skewed governance structure, a history of failed projects and a key role in financing projects that have caused climate change, the World Bank is a completely inappropriate institution for managing and delivering international climate finance.

2.5 Transparency

A lack of transparency from the Climate Investment Funds administration unit, housed in the World Bank, has also dogged the PPCR. Information on disbursements - the amount of money the fund has actually given out - was only provided following a request from the civil society observer on the PPCR board.[23] This proposal requested detail of the disbursements to date, the implementing agencies through which the money had been channelled, the grant and loan breakdown of the disbursements and a brief description of the activities that had been funded. Instead only a brief report was made available which did not provide detail on the grant and loan breakdown, nor what activities had been funded – naming only the implementing MDBs and associated recipient countries.[24]

Individual country proposals also lack significant vital detail. Of the eleven country proposals developed so far four give no information on the fees for MDBs involved in the project, while another two provide no detail on the additional finance from other institutions – both highly controversial components of the PPCR proposals (see above and section 3).[25] In order to be able to effectively assess the PPCR and to learn lessons for long term adaptation finance, it is vital that there is full transparency on what money the PPCR has actually disbursed, how this money is spent and what additional finance countries will receive.

2.6 Gender issues and engagement with civil society

The World Bank's own environmental, social and gender assessment of the Climate Investment Funds also found significant failures of the PPCR to effectively incorporate gender into country proposals. According to the report *"The treatment of gender is one aspect that varies widely across different proposals* [...] *In a couple of cases, there is no mention at all of gender considerations."*[26] The report also notes that *"gender is only effectively integrated in proposals when there is already existing information in the country from gender assessments"*.

These findings are deeply concerning as they clearly show that the PPCR's own guidance on including gender issues in proposals is being ignored and no effort is being made to address gender issues in the countries likely to need it most. This is especially important given that women are likely to suffer the greatest burden from the impacts of climate change, being more likely to:

- die in climate change-related disasters and suffer from increased workload, loss of income, health problems and violence and harassment in the aftermath of such events;
- be displaced or encounter problems when other (usually male) family members migrate for economic reasons;
- experience increased burdens of water and fuel collection and resulting health problems due to increased incidence of drought or other changes in climate;
- feel the effects of rising food prices most acutely and be the first to suffer during food shortages;
- suffer exacerbated health inequalities;
- suffer from violence, including sexual violence, in resource conflicts.[27]

Serious concerns have also been raised about the way the World Bank has engaged civil society organisations in the process of developing the country proposals.

In Mozambique, independent researchers found that civil society organisations listed in the PPCR documentation as having been consulted not only felt that they had not been consulted, they were also completely unaware of the PPCR at all.[28] As one of those apparently consulted said: *"we now know about PPCR because you are interviewing us and not because the government or the MDBs shared this with CSOs (civil society organisations)."*[29]

2.7 Ignoring national priorities

In addition to the serious concerns about the way in which the PPCR operates, there are even deeper questions about the World Bank over-ruling national governments' own priorities for climate adaptation. In the case of Nepal, the government had wanted money from the PPCR to fund its existing national adaptation plan, a key national document endorsed by the cabinet and the prime minister. Instead, the World Bank ruled that in line with its own policies, the PPCR must build on existing national adaptation plans, not fund them.[30] When countries have already developed long term strategic national adaptation plans, as in the case of Nepal, it is staggering that rather than provide funding for these plans the PPCR instead must fund other proposals and activities – potentially leaving the countries own adaptation priorities unfunded.

3. Making developing countries pay twice

"When the countries of the north offer loans to the south to mitigate the effects of climate change, which are largely the responsibility of the former, it is akin to crashing into someone's car, wrecking it and then offering them a loan to repair the damage."[31]

Riccardo Navarro, CESTA, El Salvador

Rich countries are forcing countries in the global south to pay twice for the impacts of climate change: first, through the impacts of climate change directly and secondly by giving loans through the PPCR to 'help' countries deal with those impacts, which have to be paid back. The PPCR itself gives out nearly half of its funds in loans, due to restrictions on the money given by rich nations like the UK, and also through additional finance often in the form of loans from other development banks.

3.1 UK's adaptation loans

Of the nine developed countries that have contributed to the PPCR, the UK is only one of two countries to provide finance in the form of capital rather than as a grant.[32] The UK's contribution makes up 97 per cent of all capital contributions to the PPCR. Grant contributions to the PPCR can be given to recipient countries as grants, whereas capital contributions can only be given in the form of loans. According to World Bank staff, the PPCR only gives loans to recipient countries due to the restrictions on capital contributions from countries such as the UK.[33]

The UK decided it would make its contribution to the PPCR as a 'capital grant' in 2007. The UK does not require any of the money to be given back, however because it was given as capital this meant that it could be defined as investment rather than current spending. The purpose of this was that by defining it as investment, it created an asset and so made a lower contribution to government net borrowing (expenditure minus assets).[34] Whilst the amount of money spent was the same, the way it was accounted for lowered government borrowing figures. The idea of climate loans was created by the UK Labour government as an accountancy trick to make its balance sheet look better.

Giving loans for climate change adaptation stands in clear contradiction to the policies held by both the current UK government coalition parties at the last election. Liberal Democrat party policy has been to provide *"grants for communities vulnerable to the impact of climate change without increasing the burden on indebted countries"*.[35] Conservative party policy has been to *"continue, as far as possible, to give aid as grants not loans"* and to *"encourage other donors such as the World Bank to give aid for social objectives, whenever possible, as grants"*.[36] The coalition government's programme commits to exploring new international sources of finance, but does not make a commitment on how climate finance will be disbursed.[37]

Since coming to power, the coalition government has approved the transfer to the PPCR of £135 million out of the £202 million that had already been publicly announced for the fund.[38] The Conservatives and Liberal Democrats have continued to support loans for climate adaptation and the dodgy accounting tricks which go along with it. Despite missing the UN deadline for announcing climate finance for 2011-12, the current coalition government is yet to announce further contributions to the PPCR. In meetings with civil society, civil servants have indicated that there is not yet any intention to change the UK's policy of providing capital for loans from the PPCR.

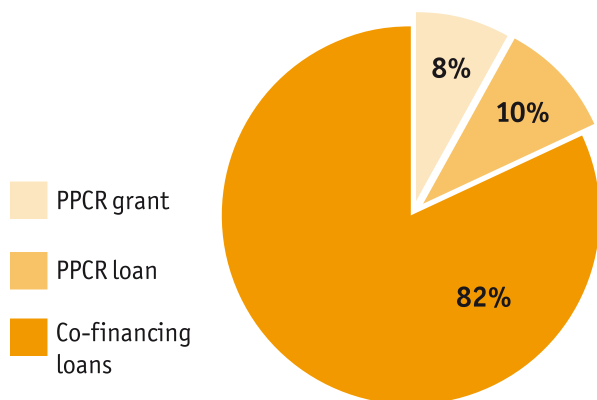
The World Bank has been keen to point out that countries may choose to only access grants from the PPCR and do not have to accept loans as part of their finance package.[39] In practice however, countries in urgent need of finance for adaptation have little choice but to accept loans through the PPCR to meet their needs. When major international donors such as the UK only make funds available in the form of loans, recipient countries are faced with the stark choice of either accepting loans or going without the finance needed.

3.2 Additional finance, additional debt

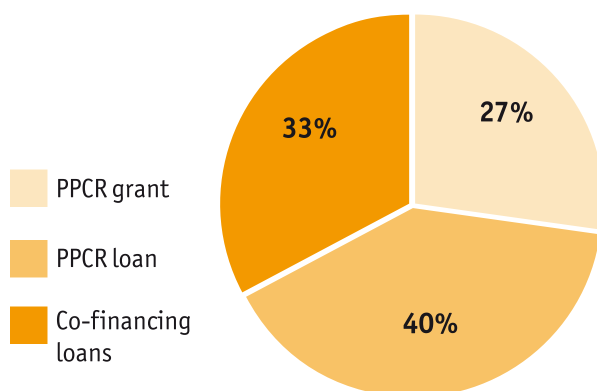
The finance that countries receive as part of PPCR programmes does not come solely from funds from the PPCR itself. This only makes up around one third of the total finance packages agreed with recipient countries. The other two thirds is additional finance from other development banks or donors, known as co-financing. The focus on co-financing in the PPCR is clearly to the benefit of donor countries as they can claim they have delivered more finance to recipient countries without having to provide more funds themselves. The focus on this goal in practice is also clear, guidelines for developing country proposals emphasise the need for dialogue with other climate finance donors and development partners to identify and promote opportunities for co-financing.[40] In practice however, more than half of this co-finance is provided in the form of loans, in some cases significantly exceeding the finance provided directly by the PPCR.

Of the 11 country proposals developed so far, at least $1.1 billion (£704 million) of finance will be in the form of loans, making up over half of all the total finance provided (see appendix 1). In the case of Bangladesh, $575 million will be given in loans, making up 92 per cent of the total finance agreed for the country through the PPCR. Nearly three quarters of Grenada's finance will come in the form of loans as will over half of Mozambique, Nepal and Niger's total finance package. As noted above, due to a lack of transparency in co-financing this is a conservative figure for the total debt created through the PPCR. No detail on co-financing was provided in the country proposals for either Nepal or St Vincent and the Grenadines, and in other country proposals, little or no detail was given on whether certain co-finance would be given as grants or loans.

Graph 1 Grant and loan breakdown of total PPCR finance package to Bangladesh



Graph 2 Grant and loan breakdown of total PPCR finance package to Grenada



The World Bank is also central to this process of co-financing with nearly two thirds of the co-finance loans being provided through other arms of the World Bank group, some of which is to be lent at full commercial rates. Including the UK's contributions to other World Bank funds, $419 million (£263 million) of the money for loans proposed through the PPCR come from the UK government.[41]

3.3 Recipient country debts

This additional $1.1 billion of debt simply adds to the existing external debts of many of the recipient countries – the total debt of the 11 countries is over $37 billion (see appendix 3). On average these countries spend nearly 10 per cent of government revenue on servicing external debt each year.

Bangladesh, set to take on $575 million in debt through the PPCR, already has an external debt of $21 billion, 25 per cent of its GDP. The Bangladesh government spends $1 billion a year on debt service, 10 per cent of the government's revenue. Even with highly optimistic projections for economic growth, the 1 per cent of GDP currently spent on debt servicing is set to rise to 1.1 per cent by 2013.

The government of Niger currently spends $200 million a year on debt service, yet is set to take on a further $72 million in debt through the PPCR proposal. This increase in external debt undermines the $2.3 billion in Niger's debt cancelled in 2004 and 2006. Mozambique and Zambia, also both set to receive loans through the PPCR package, have also had debt cancelled in the last 10 years due to the size of their external debts.

Cambodia's debt has increased by 5 per cent of GDP in the last two years and is set to rise from $3.2 billion today to $5.3 billion by 2015. The IMF says that this enormous growth in debt is manageable because it ambitiously predicts the Cambodian economy will grow by almost 7 per cent a year. In spite of this it is now set to take on another $55 million in debt, agreed through the PPCR.

The most shockingly reckless lending is the inclusion of $22 million in loans to Grenada. This may appear small compared to the $575 million lent to Bangladesh, but this sum makes up over 3 per cent of Grenada's GDP. Grenada's current external debt is already nearly 90 per cent of GDP and the government spends $20 million a year on debt repayments – a full 13 per cent of government revenue. Grenada has so far been considered too rich to qualify for debt cancellation despite almost forty per cent of the population living below the poverty line. Lending to such a heavily debt burdened country is at best irresponsible and at worst wilfully dangerous.

To put these figures into context, the UK's current external debt stands at 15 per cent of GDP (from both public and private sectors) and the government spends an estimated 2 per cent of government revenue on debt service.

These 11 countries are already overloaded with external debts, diverting much needed government 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 external debt, simply as the only available source of finance to help tackle the impacts of climate change.

3.4 Sustainable debt?

In response to questions about the impact of increasing the debts of recipient countries the World Bank has been keen to highlight that all lending is in line with its own 'Debt Sustainability Framework'.[42] They claim that as all the lending through the PPCR has been assessed against this framework this will *"reduce the chances of an excessive build-up of debt in the future"*.[43] While this could be seen as an admirable goal, in practice the Debt Sustainability Framework is highly unlikely to be successful in achieving this because:

- **The Debt Sustainability Framework does not analyse what lending is for.** The IMF and World Bank Debt Sustainability Framework does not evaluate the kind of lending and whether it is helping to create sustainable growth in the economy, exports and government revenue in order to easily repay loans and any interest.
- **The Debt Sustainability Framework is by its nature biased.** The Debt Sustainability Framework is conducted by two major creditors, the IMF and the World Bank, and so cannot be regarded as an independent evaluation of the situation.
- **The Debt Sustainability Framework is based on questionable growth assumptions.** The IMF has a history of over-predicting growth rates in countries it is lending to. But the Debt Sustainability Framework often uses high growth assumptions so that the predicted future situation looks fine. In reality, no-one can be certain what future economic growth will be.
- **The Debt Sustainability Framework is very weak.** The thresholds for analysing when a country is at risk of debt distress are very high. For example, a country could be spending 20 per cent of government revenue on external debt service, but would still be considered as at low risk of debt distress.
- **The Debt Sustainability Framework is only concerned with ability to pay, not what the impacts of payment are.** Sustainability is defined narrowly as whether a country will be able to meet repayments. It makes no consideration of what the impact of repayments will have on government spending, valuable resources flowing out of the country and ultimately the impact on inequality and poverty.
- **The Debt Sustainability Framework does not include all debts.** It only includes direct government debts and so ignores private-private external debts, which have created many debt crises such as the Asian Financial Crisis in 1997/98 or the crises in countries such as Ireland and Spain today.

Given these fundamental flaws in the World Bank's assessment of these countries ability to take on more debt (often from the World Bank itself), the framework provides little safeguard against the huge economic and social consequences of lending to impoverished and debt burdened countries.

3.5 Opposition from the global south

Civil society groups in countries in the global south set to receive loans through the PPCR have condemned this use of 'climate loans'.

In early 2011 a human chain was formed in Dhaka, capital of Bangladesh, protesting against World Bank climate loans. Rezaul Karim Chowdhury from Equity and Justice Working Group Bangladesh highlighted the contradictions between the government's acceptance of loans for climate adaptation and repeated statements by the government in parliament and international negotiations that they would not accept such loans.[44]

In addition to calling on the government to reject the loans, the civil society organisations also called for the loan proposals to be discussed in parliament; for the participation of civil society, local governments, climate victims and beneficiaries in project management and for a wider review of government policy on accepting and repaying foreign loans.

Prodip Kumar Roy of the NGO Campaign for Rural Sustainable Livelihoods said that the loans are *"imprudent and premature as the multilateral climate financing process of UNFCCC is going to take shape by 2012* [...] *It is the conspiracy of developed countries to avoid the multilateral process of UNFCCC and also to continue exploitation by debt and domination through the World Bank."*[45]

In Nepal, 11 civil society organisations produced a statement calling on the government to reject the loan elements of the PPCR (reproduced in full on the next page). The statement supports a polluter-pays approach to adaptation finance, based on the fact that although Nepal has historically contributed a tiny fraction to global emissions, it remains one of the most vulnerable countries to the effects of climate change.

Opposition to the PPCR loans from the global south has not just been limited to civil society organisations. Nepalese MP Sunil Pant has said: *"The Nepal government has not yet decided to take the $60 million loan, but there is certainly big pressure from the World Bank to do so. We don't have a full cabinet and stable government, so it is very easy for institutions like the World Bank to push their agenda in these circumstances. Many in civil society, and we MPs, are saying no to the climate loan. It would be good for people to raise this matter in the UK. Nepal can't afford more loans and we must get grants for climate change adaptation, as Nepal contributed nothing to global warming."*[46]

Say NO to 'climate loans'[47]

Statement from civil society organisations of Nepal

Adverse impacts of global warming and subsequent climate change are already apparent with an increase in the frequency and intensity of climate induced extreme events. People's lives and livelihoods, especially of poor and marginalised social groups such as farmers, indigenous communities, women and children, in least developed countries and developing nations are most at risk and vulnerable to these disasters. These nations contribute negligibly to the global green house gas emissions but are least able to cope with and are the most vulnerable to climate-related risks and hazards. For example, Nepal has contributed to the world green house gases emission by only 0.025 per cent but is ranked as the fourth most vulnerable country among the 170 countries from the impacts of climate change.

Accordingly, the United Nations Framework Convention on Climate Change (UNFCCC) realised the need to support the countries least able to cope with adverse impacts of climate change, in which developed nations have agreed to support least developed and developing nations to adapt to the adverse impacts of climate change. In the Conference of Parties (COP) meetings of UNFCCC, least developed countries including Nepal have been strongly advocating for the direct access of the recipient countries to the climate finance. For which, climate finance should be within the United Nations regime, and must be separated from and in addition to the Overseas Development Assistance (ODA). More importantly to internalise 'polluter pays principle' any financial support on adaptation and mitigation must be in grants and NEVER IN LOANS.

Referring to the current ongoing discussions on climate finance and climate justice, Nepal is one of the recipient countries of the World Bank funded 'Pilot Program for Climate Resilience (PPCR)' programme. Of the total USD 110 million, USD 50 million is in the form of grant and USD 60 million is a loan offer. In relation to this funding negotiation, we are concerned about the willingness of the Government of Nepal to accept the loan. Contrary to its position, we urge the Government of Nepal to stand by with its positions on climate finance and NOT TO ACCEPT ANY LOAN ON CLIMATE CHANGE. We also oppose the World Bank on pledging of loan for adaptation and resilience to the nations that need immediate financial support to adapt to adverse effect of climate change. This is intended to devalue and defame the ongoing climate funding process under the UNFCCC mechanism.

The government of Nepal, recognising the Nepalese peoples' rights and sentiments, and its position in international negotiation on behalf of least developed countries group, must consider the following points while agreeing on any decisions related to loan on climate change:

- **No loans for climate related activities**
  All the climate finances for the countries of the south must be in the reparation mode.
- **Protect human rights and the environment**
  The financing of climate related activities must not violate human rights and social justice. Accountability and responsibility for climate change is mainly caused by the developed world. Least developed countries are the only sufferers. There is no strong logic for the developed world to support these countries through loan. It is unfair and unacceptable to offer loan and overlook UNFCCC mechanism.

- **Respect the climate change policy 2067**
  Climate change policy 2067 recently endorsed by the government of Nepal has internalised climate justice as its essence. The policy internalises the polluters pay principle payment of ecosystem services as a mechanism of generating internal resources on adaptation. It also aims to comply with the national and international commitments that the government of Nepal is advocating for. The government must respect and comply with its own national policy.
- **Burden to Nepal**
  The average annual ratio of debt servicing to GDP is 2.7 per cent but average annual growth rate of total debt servicing is 15.9 percent and total outstanding debt to GDP is nearly 58.76 per cent. With different grace periods of various loans ending up, this loan amount will add extra burden to the government and Nepalese citizens to repay the loan amount. This is unjust to the people of Nepal who are already overburdened by debt and hence vulnerable to climate-induced risks.
- **Adaptation and resilience are very much interlinked**
  We raised our concerns on how the government is advocating PPCR is for 'climate resilience not for adaptation' to justify loan. We strongly believe that the government should not be misguided with technical jargons and try to interpret the language at its own ease.
- **Accept only grant amounts and best utilised in productive sectors**
  A loan is a loan, it is concessional or in any other form. We urge government of Nepal to accept only the grant amount and effectively utilise this in productive sectors. Government of Nepal should lobby with the World Bank to convert the loan into a grant without any condition attached with it. Moreover, since the international financing modalities on climate change are not clear and most likely that the country like Nepal will benefit more in the future. Nepal should not go for loan option in climate change and donors and World Bank should not offer the loan. The grant amount at this moment is enough. We again reiterate to begin with the grant amount.

This has been duly signed on 13th February 2011 by:

NGO Federation of Nepal
Federation of Community Forestry Users Nepal, (FECOFUN)
Global Alliance for Community Forestry (GACF)
Irrigation Water Users Federation, Nepal
Federation of Drinking Water and Sanitation Users, Nepal
Women in Policy Advocacy Alliance
NGO Group on Climate Change
Forest Action Nepal
Campaign for Climate Justice, Nepal (CCJN)
National Association of Community Electricity Users – Nepal (NACEUN)
Rural Enterprise Developers (RED) Group Nepal

This statement was prepared by Nepalese civil society organisations.

4. Why climate loans can't repay a climate debt

"Financing must not take the form of loans and other debt creating instruments that would be adding further injury and burdens on the peoples of the south."[48]

Milo Tanchuling, Freedom from Debt Coalition, Philippines

4.1 Loans are unjust

Loans for climate change adaptation are unjust. Rich countries such as the UK have a disproportionate responsibility for causing climate change, whilst countries such as Bangladesh and Niger have effectively no responsibility.

Around 70 per cent of carbon dioxide emissions from burning fossil fuels have been made by countries in the global north, despite the fact that they hold just 20 per cent of the world's population. Despite agreeing to tackle climate change in 1992 through the UNFCCC, the global north has continued its addiction to fossil fuels. Rich industrialised countries, with one-fifth of the world's population, continue to account for 55 per cent of carbon dioxide emissions from burning fossil fuels, compared to 45 per cent in the global south, where four-fifths of the world live. Average per person emissions in the global north are more than four times higher than in the global south.

It is conservatively estimated that each year climate change is already responsible for the deaths of 300,000 people, seriously affecting over 300 million more and causing economic losses of over $100 billion.[49] These 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 will be suffered by countries in the global south.[50]

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. It is not fair to pay this debt with loans that must be paid back.

4.2 Loans will not create a return to repay them

Loans for adaptation will not create a return to repay them. By definition, adaptation is reducing the negative impacts of climate change on people's lives and livelihoods. If it is 100 per cent successful, all it will do is negate the negative impacts of climate change. There should be no assumption that any adaptation funding will lead to any returns in terms of increased GDP, exports or government revenue to finance their repayment.

Loans are the theoretical basis of capitalist development. The resources given through a loan can be invested, producing more goods and services. This increased production therefore allows interest and ultimately the loan to be repaid.

When loans in foreign currencies are given, a further step in the theory is required. A loan in US$ can only be repaid by earning US$. A country has to export more in order to earn the US$ to repay the loan. Thus with foreign currency loans, it is not enough just to increase production generally, it is production of exports which have to increase (or products which replace imports, freeing-up more export earnings to repay debt).

Finally, foreign loans from other governments or institutions such as the World Bank are usually to be repaid by the recipient country government. But any increased production from the loan may fall to private actors elsewhere in the economy. If there is not a thought through way for sufficient resources to be passed to the government, repayment of loans may not be made by the beneficiary, but out of government funds thus removing resources from key services such as education and healthcare.

Applying this theory shows why loans in response to sudden shocks like droughts, floods and necessary adaptations to climate change are such a bad idea. Loans for adaptation can help productivity compared to what would have happened without them. For example, loans for investment in more drought resistant agriculture may mean yields are not as affected by drought. But if drought is increasing due to climate change, the most that can be hoped for is that production will remain the same. This will not create the resources with which to repay the loan, so repayments will have to be made from elsewhere in the economy.

The PPCR loan documents do not provide any analysis of how adaptation loans could possibly lead to the return on investment with which to repay them.

4.3 Zimbabwe and Sudan – a lesson from history

The history and experience of Zimbabwe and Sudan clearly show the dangers of using loans in response to natural shocks such as droughts and floods, and should serve as a lesson of the dangers of using loans for climate adaptation.

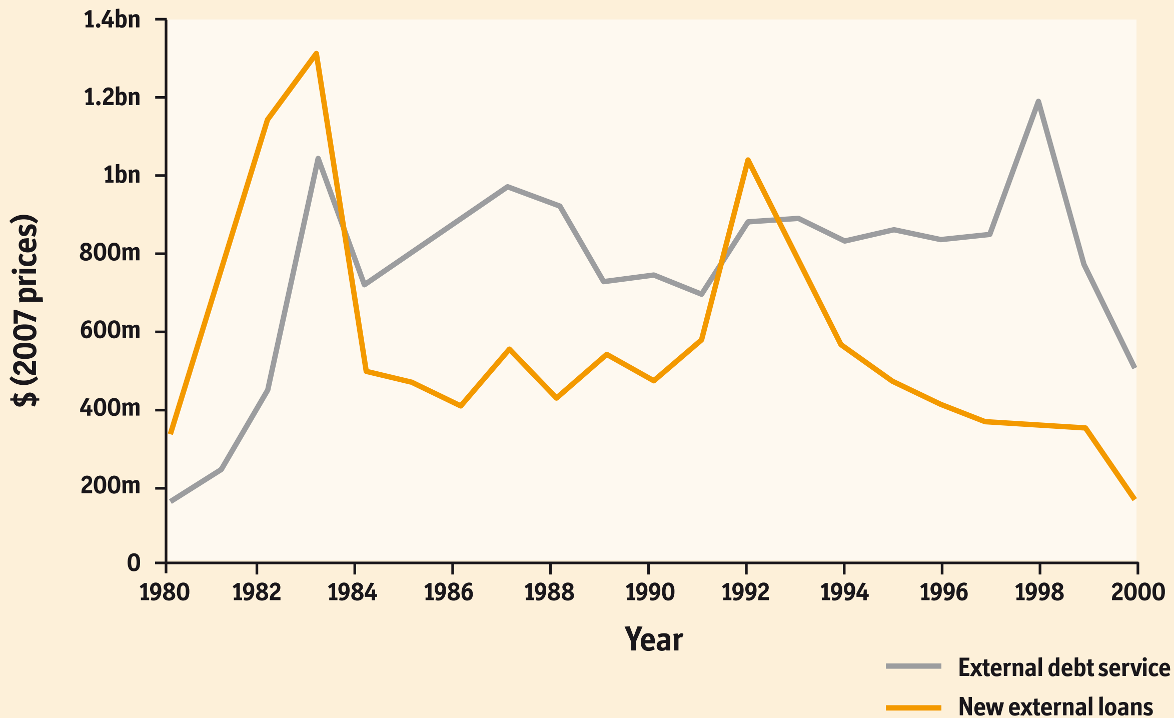
Zimbabwe and drought

Between 1982 and 1984, Zimbabwe was hit by drought, reducing agricultural production. The prices of export commodities also began to fall, reducing the amount Zimbabwe received for its exports. Combined with the global recession, these external shocks forced the economy to stagnate.

The fall in export revenues and increase in imports meant the country was short of foreign currency. The government resorted to plugging this gap by borrowing from foreign private banks and the IMF. The IMF disbursed US$300 million between 1981 and 1983.[51] In 1982 and 1983 Zimbabwe received over $1 billion a year in new loans (in 2007 prices), a large proportion of which were prompted by the drought.

The loans helped Zimbabwe pay for immediate needs such as importing food but they were not given to be invested in an activity which would produce a return to repay the loan. The impact of the early 1980s drought was to leave Zimbabwe with loans to be repaid, but no means with which to repay them.

Graph 3. Foreign loans disbursed to Zimbabwe government and external debt service, 1980-2000 (2007 prices) [52]



In 1991 and 1992 Zimbabwe was hit by its most serious droughts since 1967. Maize production fell 25 per cent in 1990-91 and a further 33 per cent in 1991-92. By December 1992, 6 million of Zimbabwe's 10 million population were registered for drought relief. Once again loans were given to 'help' Zimbabwe deal with the impacts of the drought, causing the impact of the natural disaster to continue years later with the debt repayments required on vital aid.

Loans directly in response to the drought included US$120 million of loans (then prices) from the World Bank between 1992 and 1995 for an 'emergency drought and recovery and mitigation project'. Around half the funds for the project' were used to import food, with the World Bank estimating the total foreign exchange cost was over US$450 million (then prices).[53]

Again there was a flood of new loans in 1991 and 1992, topping $1 billion in today's prices. These loans again left Zimbabwe repaying the debt over the following decade. Along with extreme free market economic policies pushed by the IMF and World Bank, this led to economic growth falling and poverty increasing throughout the 1990s. Zimbabwe's debt grew so large it was forced to default on repayments in 2000. Its debt today is around $7 billion.

Sudan's debt: Drought and flooding

During the 1970s, Sudan's economy was strong with good prices for its major export, cotton. With lots of cheap money in the world economy following the 1970s oil price spikes, private banks lent recklessly to Sudan in anticipation of future revenue from oil.[54] Western powers also supported loans to Sudan, for instance in order to purchase their exports.

However, heavy flooding in 1978 destroyed the cotton harvest just as banks started to realise they had lent too much. Sudan was pushed towards defaulting on its debts. Rather than the banks taking some responsibility for their reckless lending, the IMF bailed them out by lending Sudan $89 million to service private bank debts. This was not enough, and in 1979 the IMF lent a further $254 million in order to clear debts to foreign private banks.[55]

US interest rates increased rapidly at the start of the 1980s, further increasing Sudan's debt crisis. Sudan once again went into arrears on its payments, and was only able to pay these when Saudi Arabia lent the country more money in 1981. With arrears paid, the IMF then also lent to Sudan again. In 1982, a new loan programme from the IMF totalling $224 million was agreed. The IMF's official history says that "*Optimism was still being fuelled by the prospects for cotton and petroleum exports, by a lack of knowledge about the extent of external debts and (for bilateral creditors) by respect for Sudan's strategic role in the region*" (emphasis added).[56] Just as in other African countries such as what was then Zaire, Western powers continued to loan money to an already highly indebted dictator, in order to keep them on side in the cold war.

Throughout this period the IMF sought to push Sudan to implement austerity and structural adjustment to reduce its debt burden. In 1983 more loans were given with tough economic conditions attached.[57] But drought severely reduced exports and food security in 1983 and subsequent years. Economic tensions increased, and the government imposed Islamic law across the country, including the previously autonomous south. Despite the start of the civil war, the IMF lent more money in April 1984. With the drought, civil war and falling prices of commodities, Sudan defaulted on its debts in 1984. In 1985 Sudan's foreign debt was $9 billion.[58] This forms the basis of much of Sudan's current debt, but has increased massively since due to interest payments.

4.4 The debt trap

Through the 1980s, 1990s and into the 2000s many countries' development prospects were destroyed by the burden of debt. Unjust and unsustainable debts had built up through the 1970s, mainly due to reckless private lending by banks awash with money due to the then high oil price. Loans were also given to maintain dictators in power during the cold war, or to 'help' countries suffering from natural disasters such as droughts, which increasingly affected much of Africa through the 1980s and 1990s.

Debt repayments reversed progress in tackling poverty and inequality. Debt payments were a serious burden on government budgets and led to foreign exchange income from exports flooding back out of countries. Debt also gave large amounts of control over countries to creditors, particularly through the IMF and World Bank. Structural adjustment policies were pushed on countries such as trade liberalisation, deregulation and privatisation.

Debt burdens also meant countries had to focus more on exporting in order to earn the foreign exchange with which to pay their debts. Economies became far more dependent on exports, and so more at risk of financial and economic crises caused in other countries. The focus on exports also helped to increase inequality, centralising economic production with local elites and multinational companies.

Only through global campaigning against the injustice of debt did some debts start to be cancelled through the Heavily Indebted Poor Countries (HIPC) and then Multilateral Debt Relief Initiative (MDRI) schemes. So far $120 billion has been cancelled for 32 countries, some of which are now due to receive new loans through the PPCR. This cancellation was only granted in return for countries taking on new loans and continuing to follow IMF and World Bank conditions. However, other countries in need of debt cancellation to meet the Millennium Development Goals have not received any relief because they are viewed as either not being poor enough, exporting too much or not having a high enough debt. Meanwhile, countries which have had debts cancelled are being leant to again and debt burdens are increasing.

5. Recommendations

The UK must pay its climate debt to countries in the developing world to help them adapt to the likely devastating impacts of climate change. The PPCR, the main institution through which the UK is providing finance for this adaptation, is fundamentally flawed and appears to be more focused on acting in the interests of rich donor nations and MDBs like the World Bank, than it does in meeting the needs of those most in need of adaptation finance. Furthermore, the UK cannot repay its climate debt with loans for adaptation. Rich countries must pay for the costs of adaptation and there is no indication that loans will generate the return necessary to repay them.

In order for the UK to effectively pay its climate debt, the UK government should:

5.1 Transfer the UK's PPCR capital contribution to a grant

The UK must stop using its own aid money to lock countries into further debt. The capital contribution that the UK has already made to the PPCR should be transferred to a grant so that it can be given as grants, not as loans.

5.2 Provide all future 'fast start' adaptation finance through the UN Adaptation Fund

All future 'fast start' adaptation finance should be given through the UN Adaptation Fund, rather than the PPCR.

The UN Adaptation Fund is a more legitimate and democratic institution than the PPCR. The UN Adaptation Fund was created through the UN climate negotiations in 2008 and therefore has the support of all 193 member states. Unlike the PPCR, it has a balanced governance of representatives of all UN regions and of Annex 1 (rich industrialised countries) and non-Annex 1 (countries in the global south) signatories to the Kyoto Protocol.

Instead of the PPCR's top-down country selection process, the UN Adaptation Fund is demand driven with all UNFCCC members able to apply to the fund for money for adaptation projects or programmes. The UN Adaptation Fund will always disburse all money to recipients as grants and never in the form of loans.

Whereas finance from the PPCR can only be delivered through MDBs, grants from the UN Adaptation Fund can be delivered by multilateral agencies such as the UN Development Programme (UNDP), or directly to national bodies. This is an innovative feature of the UN Adaptation Fund, which mirrors the highly regarded Global Fund to Fight AIDS, Tuberculosis and Malaria. So far eight multilateral and three national entities have been authorised to receive money from the adaptation fund. This helps to ensure country and local ownership of projects, ensures that funds are allocated to where they are needed, not prioritising MDB projects over others, and meets genuine demand rather than the interests of donor governments.

The UN Adaptation Fund has also been quicker at delivering money to projects and recipient governments. Despite receiving less than 10 per cent of the financial contributions the PPCR has received, the UN Adaptation Fund has already disbursed nearly $20 million, 50 times the amount the PPCR has given out in the same amount of time.[59,60]

The UK has yet to make a financial contribution to the UN Adaptation Fund. Finland, France, Germany, Japan, Monaco, Norway, Spain, Sweden and Switzerland have all made contributions to the fund (see appendix 2).[61] Providing future adaptation finance through the adaptation fund is wholly in line with both coalition parties' policies and would ensure that the UK's climate finance is being delivered through a democratic, accountable and legitimate institution.

5.3 Not promote the PPCR as a model for long-term climate finance

The UK government should learn the lessons from the failures of the PPCR and not promote it as the model for long-term climate finance through the UN's new green climate fund.

At the UN climate conference in Cancún in 2010, governments agreed to set up a new green climate fund for long-term climate finance, accountable to and under the guidance of the UN process.[62] This new fund must not replicate the model of the PPCR, which places the interests of donors and MDBs above those of recipient countries and will unfairly increase the debt of developing countries. To be legitimate and effective the new fund must be independent of any international financial institutions such as the World Bank and provide adaptation finance only in the form of grants. These calls on the transitional committee responsible for the design of the new fund have been supported by over 30 international civil society organisations.[63]

These demands have been driven by civil society groups in the global south. Lidy Nacpil, of Jubilee South Asia Pacific Movement on Debt and Development, argued that the new fund should consider climate finance as *"part of the reparations for climate debt owed by rich, industrialised countries to the peoples and countries of the south. It must be democratic, accountable, transparent, and governed by a board with a majority coming from southern countries, not countries who are responsible for the problem of climate change. The World Bank is not that institution and has no place in designing, setting up or running such an institution."* [64]

As a member of the transitional committee of the green climate fund, the UK could play a key role in ensuring this new fund is independent, trusted and is effective in meeting the needs of those most in need of climate finance. The UK government should learn the lessons from this report on the failures of the PPCR and not promote it as a model for the long term future of climate finance. Instead the UK should work to ensure that the new fund is independent, has a representative governance, does not deepen developing countries' debts and is designed around the needs of those affected by climate change, not the interests of rich donor countries.

5.4 Close down the PPCR

Once the new green climate fund is established the UK must ensure that the PPCR stops operations altogether.

When the PPCR was established it was agreed that it would not '*prejudice the on-going UNFCCC deliberations*' and that it would conclude operations once a new fund is established.[65] The ultimate decision making authority for stopping the activities of the PPCR lies with the countries on the board which includes the UK. If the PPCR continues taking donor nations financial contributions it will undermine the effectiveness of other UN funds such as the current UN Adaptation Fund and the green climate fund, leaving developing countries no choice but to accept loans from the discredited PPCR.

The UK must not undermine the green climate fund before it has a chance to prove itself and should call for the PPCR to conclude its activities as soon as the new green climate fund is established.

6. Conclusions

Rich industrialised countries are overwhelmingly responsible for climate change and 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.

But rather than paying back this debt, *Climate Loan Sharks* has shown that rich countries like the UK are instead pushing the burden of debt back onto the countries most in need of finance to deal with the impacts of climate change.

This report has also found that the PPCR, intended to build understanding for long term adaptation finance, has shown that the World Bank is incapable of managing climate finance to meet the needs of those most affected by climate change. Instead the traditional problems associated with the World Bank; unfair governance, lack of transparency and engagement and top-down dogmatic approaches that fail to understand or address the needs of poor people continue through its new role in climate finance.

Change is urgently needed to ensure that those most affected by climate change can get the finance they need through a just and effective institution, like the UN Adaptation Fund. Should the UK and other rich industrialised countries fail to do so, they will be continuing to sink the world's poorest and most vulnerable countries into further debt, forcing them to pay twice for a global climate disaster they did nothing to create.

Appendix 1

Breakdown of recipient country finance packages proposed through the PPCR[66]

Recipient country	PPCR grant ($m)	PPCR loan ($m)	Other World Bank Group loans ($m)	Other MDB loans ($m)	Other finance ($m) (*)	Total finance package ($m)	Total loans ($m)	Loans as % of total finance	MDB fees ($m)	MDB fees as % of total finance
Bangladesh	50	60	300	215	0	625	575	92%	1.2	0.2%
Cambodia	50	55	0	0	299	404	55	14%	1.1	0.3%
Grenada	8	12	10	0	0	30	22	73%	0.7	2.3%
Mozambique	50	52	110	40	80	332	202	61%	N/A	N/A
Nepal	50	60	tbc	tbc	tbc	110	60	55%	N/A	N/A
Niger	50	60	12	0	0	122	72	59%	1.2	1.0%
Samoa	25	0	0	0	15	40	0	0%	N/A	N/A
St Lucia	7	10	0	0	10	27	10	37%	N/A	N/A
St Vincent and the Grenadines	7	3	tbc	tbc	tbc	10	3	30%	0.4	4.0%
Tajikistan	50	0	6	45	20	121	51	42%	2.3	1.9%
Zambia	50	60	13.5	0	304	427.5	73.5	17%	1.7	0.4%
Total	**397**	**372**	**452**	**300**	**728**	**2,249**	**1,124**	**50%**	**9**	**0.4%**

(*) Includes contributions by recipient countries, private sector finance, MDB grants and contributions where the finance modality (e.g. grants or loans) are not detailed

Appendix 2

Donor contributions to the World Banks's PPCR and the UN Adaptation Fund[67]

	World Bank PPCR		UN Adaptation Fund	
Donor	**Committed ($m)**	**Grant / Capital**	**Committed ($m)**	**Grant / Capital**
Australia	33	Grant		
Canada	84	Grant		
Denmark	14	Grant		
Finland			0.07	Grant
France			0.05	Grant
Germany	69	Grant	14	Grant
Japan	112	Grant	0.01	Grant
Monaco			0.01	Grant
Norway	12	Grant	0.09	Grant
Spain	13	*Capital*	57	Grant
Sweden			15	Grant
Switzerland			0.07	Grant
UK	359	*Capital*		
USA	290	Grant		
Total*	**987**		**85.8**	

* Totals may not represent full sum due to rounding

Appendix 3

Debt of PPCR recipient countries

Bangladesh

The Bangladesh government's external debt is $21 billion; 25 per cent of its GDP. Bangladesh spends $1 billion a year on debt service, taking away 10 per cent of the government's revenue and 6 per cent of Bangladesh's export earnings. In comparison, the Bangladesh government spends $1 billion a year on healthcare.[68]

In response to campaigning by the World Development Movement and Jubilee Debt Campaign, Andrew Mitchell, the UK's secretary of state for international development, has said the IMF predicts that *"the amount that Bangladesh will spend on debt servicing is forecast to decline substantially in real terms in the coming years"*. This is not true. By 2013 the IMF predicts Bangladesh will be spending $1.2 billion a year on debt service; a slight increase to 1.1 per cent of GDP from 1 per cent today. The IMF assumes the Bangladesh economy will grow by 6 per cent a year; a higher rate than over the last decade.

Bangladesh was not included in the Heavily Indebted Poor Countries (HIPC) initiative because it did not have a large enough debt.

Cambodia

The Cambodian government's external debt is $3.2 billion; 30 per cent of GDP. The Cambodian government spends $50 million a year on debt service, taking away 4 per cent of the government's revenue and 1 per cent of Cambodia's export earnings.[69]

Cambodia was not included in debt cancellation schemes because its debt was not big enough (except for $80 million cancelled by the IMF to give Cambodia the same treatment as HIPC countries as required in IMF statutes).

Cambodia's debt has increased by 5 per cent of GDP in the last two years, and the IMF predicts it will continue to increase, reaching $5.3 billion by 2015. Debt service is predicted to increase to over $150 million a year. The IMF says this is manageable because it predicts the economy will grow by almost 7 per cent a year.[70]

Grenada

The Grenada government's external debt is $580 million, 87 per cent of GDP. The Grenada government spends $20 million a year on debt repayments, taking away 13 per cent of government revenues and 18 per cent of earnings from exports.[71]

Grenada has been considered too rich to qualify for debt cancellation through the HIPC process. Grenada's national income per person is around $6,000.

Grenada's debt is the result of several factors, including natural disasters and the global economic crisis. In 2004 Hurricane Ivan destroyed the equivalent of 200 per cent of Grenada's GDP. For example, 90 per cent of the housing stock was damaged. In 2006 rich country Paris Club creditors, including the UK, restructured Grenada's debt, giving it a longer time span to be paid over. But the total size of the debt was not reduced. At the time, the Paris Club told Grenada that if it implemented an IMF programme for three years, further debt reduction would follow. Grenada has kept on an IMF programme, but debt relief has not followed.[72]

In 2005 Grenada reached a deal to restructure its debt to commercial creditors. Under the terms agreed, the interest payments on this debt increase by 1 per cent every year, up to 9 per cent.

Currently one-third of the population are unemployed and almost forty per cent live below the poverty line.

During the global economic crisis Grenada's economy shrank by more than 8 per cent. As a percentage of GDP, Grenada's debt has therefore increased, even though the government has not made any further external commercial borrowing (it has taken new loans from the World Bank and IMF, though the IMF loans were needed if it is to get any further debt cancellation from the Paris Club).

The Grenada government's debt service is predicted by the IMF to rise to 15 per cent of government revenue from 2013-2015, increasing to 19 per cent by 2025.[73]

Mozambique

The Mozambique government's external debt is $3.4 billion, 35 per cent of GDP. Mozambique's government spends $40 million a year on debt service, taking away 2 per cent of the government's revenue and 2 per cent of Mozambique's export earnings.[74]

Mozambique had $4.3 billion of debt cancelled in 2001 under the HIPC process, and a further $2 billion in 2006 under the Multilateral Debt Relief Initiative (MDRI).[75]

Mozambique's debt increased by 5 per cent of GDP in just one year from 2008 to 2009 due to the global recession. Mozambique's debt is set to continue increasing; the IMF predicts Mozambique's debt service will rise dramatically over coming years, from 0.5 per cent of GDP in 2009 to 1.6 per cent of GDP by 2015.[76]

Nepal

The Nepal government's external debt is $3.6 billion, 30 per cent of GDP. The Nepal government spends $200 million a year on debt service, taking away 12 per cent of the government's revenue and 10 per cent of Nepal's export earnings.[77]

Nepal was not included in the HIPC initiative because its debt was not large enough.

The IMF predicts Nepal's external debt and repayments will fall over the next five years, based on predicted economic growth of more than 4 per cent a year.[78]

Niger

The Niger government's external debt is currently $1 billion, 17 per cent of GDP. The Niger government spends $40 million a year on debt service, taking away 6 per cent of the government's revenue and 3 per cent of Niger's export earnings.[79]

Niger had $1.2 billion of debt cancelled in 2004 through the HIPC initiative, and a further $1.1 billion through MDRI in 2006.[80]

The IMF predicts Niger's external debt as a percentage of national income will rise over coming years, reaching 27 per cent of GDP by 2019. This assumes Niger's economy will grow by 6 per cent a year; if it grows by less, the debt burden will increase more rapidly.

Samoa

The Samoa government's external debt is $350 million, 60 per cent of GDP. Samoa's debt has doubled in the last three years since the global economic crisis began. The Samoan government spends $10 million a year on debt repayments, taking away 7 per cent of government revenues and 6 per cent of earnings from exports.[81]

Samoa has not been included in the HIPC initiative because when the assessments were made its debt was not large enough. However, the UK government thinks Samoa does need multilateral debt relief. It has therefore given the Samoan government $610,000 (£380,000) so far to meet the UK's share of repayments by the Samoan government to multilateral institutions such as the World Bank.

The IMF predicts Samoa's debt repayments will continue at the current level of government revenue and exports for the next decade, whilst Samoa's total debt is predicted to start to decline from 2015. This is based on predicted economic growth of 3 per cent a year, higher than before the financial crisis. During 2008 and 2009 the Samoan economy shrank by almost 8 per cent of GDP.[82]

St Lucia

The St Lucia government's external debt is $425 million, 40 per cent of GDP. The St Lucia government spends $70 million a year on debt repayments, taking away 20 per cent of government revenues and 11 per cent of earnings from exports.[83]

With a national income per person of around $5,500, St Lucia is considered too rich to qualify for debt cancellation through HIPC.

The IMF predicts St Lucia's total external government debt should decline to 30 per cent of GDP by 2020. However, for the whole of the next decade up until 2020, the IMF predicts debt service as a percentage of government revenue will stay at 20 per cent, and payments as a percentage of exports will be around 12 per cent. The IMF predicts St Lucia's GDP growth will be 3.9 per cent a year, compared to a historical average of 1.7 per cent.[84]

St Vincent and the Grenadines

The St Vincent and the Grenadines government's external debt is $360 million, 60 per cent of GDP. St Vincent and the Grenadines external debt has increased from 35 per cent of GDP since the global economic crisis began. The government spends $40 million a year on debt repayments, taking away 20 per cent of government revenues and 17 per cent of earnings from exports.[85]

With a national income per person of around $5,000, St Vincent and the Grenadines is considered too rich to qualify for debt cancellation through HIPC.

In 2009, the IMF predicted the St Vincent and the Grenadines debt and repayments would continue to increase to 2019. However, it also predicted that debt would be 41 per cent of GDP in 2011, so its predictions are already well out.[86]

Tajikistan

The Tajikistan government's external debt is currently $1.9 billion, 34 per cent of GDP. The external debt of Tajikistan's private sector takes Tajikistan's debt to over 50 per cent of GDP. The Tajikistan government spends $100 million a year on debt service, taking away 8 per cent of government revenues and 10 per cent of Tajikistan's export earnings.

Tajikistan was not included in the HIPC initiative because its debt is not big enough (except for $100 million cancelled by the IMF to give Tajikistan the same treatment as HIPC countries as required in IMF statutes).

The IMF predicts Tajikistan's debt will increase over the next few years, reaching 37 per cent of GDP in 2012. This prediction is based on the economy growing by 5 per cent a year.

Zambia

The Zambian government's external debt is $1.2 billion, 10 per cent of GDP. The Zambian government spends $75 million a year on debt repayments, taking away 3 per cent of government revenues and 1 per cent of earnings from exports.[87]

Zambia had $2.5 billion of debt cancelled under HIPC in 2005, followed by a further $2.7 billion cancelled in 2006.[88]

The IMF predicts Zambia's debt will rise over coming years, to 16 per cent of GDP by 2014. This is based on the economy growing by almost 7 per cent a year.[89]

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