

Resolving debt issues while financing the green transition in the Global South

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In 2021, global debt peaked at a record high of \$303 trillion. Debt levels of developing countries remain persistently high: emerging markets accounted for \$95 trillion, or 248% of GDP of debt – 20 percentage points higher than before the pandemic¹. Meanwhile, the world is facing huge challenges. The post-pandemic recovery, the economic shock waves spurred by the war in Ukraine, urgent climate mitigation and adaptation needs, the loss of biodiversity and endemic poverty are calling for strengthened shock absorbers and massive public investments. Resolving the Global South's debt issues while enabling countries to conduct a green and just transition should go hand in hand.

The effects of climate change hit countries in the Global South disproportionately. While the physical and economic impact of extreme weather in areas such as Sub-Saharan Africa, South and Southeast Asia and Latin America is the strongest, these regions often lack the means to deal with it. Additionally, most developing countries still strongly rely on the export of raw materials and products, while their domestic industries and financial markets remain underdeveloped. Simultaneously, many of the world's ecological systems are located in those regions, lacking the means to protect them. Without the ability of the Global South to invest, environmental goods such as a stable climate and preserved nature will continue to be under permanent pressure.

The global financial system is key for achieving environmental protection by providing states with sufficient and effective financial means and instruments. Currently however, this is not the case. Each year hundreds of billions flow out of the Global South, while sufficient capital controls, taxes and financial regulation are lacking. Financialization, deregulation and unrestrained capital flows have contributed to high private and public debt levels in the Global South. Debt has been increasingly passed on from domestic (central) banking systems and foreign official creditors to the foreign and domestic shadow banking system. As such, the international financial system is hindering the Global South's development, destabilizing economies and increasing debt levels with dramatic consequences for the global environment.

Instead, the global financial system should be redesigned in such a way that it supports what the UNCTAD calls "a transformative approach"² to the risks of climate change, aiming for an integrated, system-based vision delivering socio-economic resilience and diversified economies. Green developmental states are at the centre of this process. In the below, a few proposals addressing debt, capital flows and the green energy transition are put forward, aimed at strengthening the global financial system as a public good.

Proposals for dealing with debt:

- Debt moratoria and jubilees: immediate moratoria on repayment are required, both bilaterally and on the multilateral level. A substantive debt-jubilee is needed to relieve the most immediate pressure of indebted developing countries to prevent another lost decade
- A more coordinated and centralized debt restructuring system: the current system of debt restructuring, which is decentralized, nontransparent, complex and often ruthless, should be

1 Institute of International Finance: Global Debt Monitor – EM Debt: The Good, the Green and the Ugly (February 2022) <https://www.iif.com/Research/Capital-Flows-and-Debt/Global-Debt-Monitor>

2 UNCTAD (2021): Trade and Development Report 2021 – From recovery to resilience: the development dimension <https://unctad.org/webflyer/trade-and-development-report-2021>

redesigned. An interesting proposal to look at in this respect is the UNCTAD's idea of global principles based on international public law³. This could imply the introduction of a multilateral debt resolution framework and an international public agency advising countries on their debt restructuring

Proposals for regulating capital flows:

- Targeted capital controls: much stronger regulation of global financial markets is required, taming pro-cyclical free flows of private capital. Capital controls are vital for countries in order to protect their economies from disruptive in- and outflows of capital. They can take many different forms, such as capping outflows or portfolio restrictions
- (Capital) taxes: progressive domestic and international capital taxes can strengthen the tax base of developing countries
- Mapping capital flows: capital taxes require increased transparency of capital flows and the fight against illicit flows, as well as regulation of the global and domestic shadow banking systems
- Rethinking the International Monetary System: as some scholars have argued⁴, there exists a strong link between monetary dominance and ecological hierarchies, referring to the unequal flow of cheap resources from the Global South to the North. To make the International Monetary System fit for the global green transition, this interlinkage and its consequences should be acknowledged and further explored

Proposals for financing a green and just energy transition and biodiversity restoration:

- SDRs: the IMF should issue a sufficient amount of SDRs aimed at post-pandemic recovery that contributes to green developmental states. These SDRs could be re-channeled to (multilateral) development banks to maximize their impact or allocated through the proposed Resilience and Sustainability Trust
- Global reward mechanisms for contributing to global environmental goods: these mechanisms are aimed to foster the implementation of the Paris Agreement and reward countries that cut on carbon emissions. Promising examples are the Climate Coin⁵ promoted by Frank Van Gansbeke and Delton Chen's Global Carbon Reward⁶
- Conservation debt swaps: debt swaps in exchange for the protection of environmental goods should be widely applied, globally. A good example is the creation of a marine protected area by Ecuador in exchange for debt relief. However, these initiatives have been modest and hard to negotiate up till now. International institutions should come up with a coordinated plan how the speed and scale them up

Further reading:

<https://www.tni.org/en/article/time-to-resolve-debt-issues-in-the-global-south>

3 UNCTAD (2019): Trade and Development report 2019 – Financing A Global Green New Deal

<https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=2526>

4 Romain Svartzman & Jeffrey Althouse (2020) Greening the international monetary system? Not without addressing the political ecology of global imbalances, Review of International Political Economy, DOI: <https://www.tandfonline.com.proxy.library.uu.nl/doi/full/10.1080/09692290.2020.1854326>

5 <https://www.forbes.com/sites/frankvangansbeke/2021/01/17/time-for-imf-climate-coin-23/>

6 <https://globalcarbonreward.org/>

