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Third World Network
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Briefing Paper

March 2022

Addressing debt is critical to halting biodiversity loss

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Introduction

The Convention on Biological Diversity (CBD) is the primary international treaty that aims to ensure the conservation of biodiversity, the sustainable use of its components, and the fair and equitable sharing of the benefits arising out of the utilization of genetic resources. Parties to the CBD are currently negotiating a post-2020 Global Biodiversity Framework (GBF) that is meant to guide implementation of Parties' obligations for the decade post-2020 through specific goals and targets. Debt has not previously been on the CBD agenda, per se, but there is increasing urgency to address the structural causes of biodiversity loss, including patterns of trade, investment and finance, and other longstanding economic pressures that push countries into debt and drive inequality across racialized, gender, class and colonial lines.[1]

There are now proposals on the table to address one plank of these structural challenges: widespread indebtedness in developing countries. References are now found in the discussion on Resource Mobilization under the CBD's Subsidiary Body on Implementation (SBI), and in Target 19 of the first draft of the GBF, which outlines the financial resources that are needed, by 2030, to implement the GBF. These efforts to examine and address the impact of debt on biodiversity should be supported, as well as operationalized throughout the relevant decision adopting the GBF.[2] In particular, paragraph 8 of the decision, which is directed at developed country Parties, other Governments, international financial institutions, regional development banks, and other multilateral financial institutions, **should also call for addressing debt issues in order to enable the full implementation of the GBF.**[3]

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1 Dempsey et al 2021; McElwee et al 2020; Otero et al 2020

2 See the draft elements of a possible decision operationalizing the post-2020 Global Biodiversity Framework, CBD/WG2020/3/3/Add.3 (Second reissue, 13 December 2021).

3 "8. *Urges* Parties, in particular developed country Parties, and invites other Governments and international financial institutions, regional development banks, and other multilateral financial institutions to provide adequate, predictable and timely financial support to developing country Parties, in particular the least developed countries, small island developing States, as well as countries with economies in transition, to enable the full implementation of the post-2020 global biodiversity framework, and reiterates the view that the extent to which developing country Parties implement their commitments effectively under this Convention will depend on the effective implementation by developed country Parties of their commitments under this Convention in connection with financial resources and transfer of technology;"

Third World Network (TWN) is an independent non-profit international research and advocacy organisation involved in bringing about a greater articulation of the needs, aspirations and rights of the peoples in the South and in promoting just, equitable and ecological development.

Published by Third World Network Berhad (198701004592 (163262-P))
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In this briefing, we lay out the key reasons why debt is relevant to the CBD and should remain on the agenda of the SBI and in Target 19, as well as provide insights for Targets 15 and 16 (see Box for the current text of these targets). **There are three primary ways that debt should be considered in the upcoming negotiations.**

First, conditions on sovereign debt for developing nations often incentivize or require exports and extractivism in order to earn foreign currency, driving biodiversity loss. CBD Executive Secretary Elizabeth Maruma Mrema has affirmed that it will be difficult to achieve CBD objectives without addressing agricultural expansion in the Global South, driven by a need to "earn hard currency to pay their debts to international lenders".[4] **Second,** as a result of the conditions and repayment terms, these same debts form an impediment to public spending on public goods, including the conservation and sustainable use of biodiversity. This dynamic undercuts domestic public funding for biodiversity objectives and must be considered in the context of Resource Mobilization efforts, particularly in light of the finding by the Panel of Experts on Resource Mobilization that public funds will play a key role in achieving biodiversity targets.[5] **Finally,** ongoing ecological debts incurred to developing countries, including significant losses of biodiversity, have not been compensated for by developed nations. These debts should be recognized in how funds for CBD targets are raised and distributed, notably through the principle of common but differentiated responsibilities (CBDR). Currently, Target 19 calls for an increase in financial resources to at least $200 billion per year, of which only $10 billion per year is to go to developing countries, a far cry from what is owed. The CBD must address all these debts as significant barriers to progress on biodiversity targets.

BOX: Targets 15, 16 and 19 of the first draft of the GBF

Target 15. All businesses (public and private, large, medium and small) assess and report on their dependencies and impacts on biodiversity, from local to global, and progressively reduce negative impacts, by at least half and increase positive impacts, reducing biodiversity-related risks to businesses and moving towards the full sustainability of extraction and production practices, sourcing and supply chains, and use and disposal.

Target 16. Ensure that people are encouraged and enabled to make responsible choices and have access to relevant information and alternatives, taking into account cultural preferences, to reduce by at least half the waste and, where relevant the overconsumption, of food and other materials.

Target 19. Increase financial resources from all sources to at least US$ 200 billion per year, including new, additional and effective financial resources, increasing by at least US$ 10 billion per year international financial flows to developing countries, leveraging private finance, and increasing domestic resource mobilization, taking into account national biodiversity finance planning, and strengthen capacity-building and technology transfer and scientific cooperation, to meet the needs for implementation, commensurate with the ambition of the goals and targets of the framework.

Point 1. Debt is a driver of biodiversity loss. Conditions on sovereign debt for developing nations often incentivize or require exports and extractivism in order to earn foreign currency, driving biodiversity loss further. Small domestic lender bases in developing countries lead to a reliance on foreign-denominated debt, resulting in a reliance on foreign currency to make payments. The combination of this reality with unfavourable conditions on that debt (for example, short-term debt tenors that inhibit investment in long-term sustainable development projects) often force investments in commodity exports which allow for quicker debt repayment in foreign currencies. These patterns make up substantial indirect, underlying drivers of biodiversity loss that are only beginning to be fully understood and quantified. For example, one study of 65 nations found that "higher levels of debt service, structural adjustment, and primary sector exports are associated with higher numbers of threatened mammals and birds."[6] But while these conditions have been linked to biodiversity decline in general terms or specific case studies,[7] more research is needed to understand how such conditions undercut CBD objectives and how they might be remedied.

4 Contestabile 2021
5 Convention on Biological Diversity 2020
6 Shandra et al 2010
7 Kaimowitz et al 1998; Austin et al 2017

Key insights for negotiation:

> ***As such, the proposal for a report to be prepared on the relationships between public debt, austerity measures and the implementation of the Convention, should remain in the Resource Mobilization document under consideration by the SBI. The proposal, contained in paragraph 26(e) bis[8] of the document CBD/SBI/3/CRP.15, is currently in square brackets, indicating no agreement on the text has been reached. This proposal should be supported, and the square brackets lifted, so that the impediments that indebtedness poses to achieving biodiversity objectives can be understood and subsequently removed. For coherence, this same proposal could also be included as a new paragraph 18(b) bis in the relevant decision adopting the GBF (CBD/WG2020/3/3/Add.3).***
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> ***The recognition of this problem is also relevant to the GBF. Currently, Target 15 of the draft GBF recognizes that certain sectors, including finance, have a large impact on biodiversity, and seeks to address this issue through disclosure and risk-based frameworks for companies and investors. Likewise, Target 16 places emphasis on responsible personal consumption in line with biodiversity objectives. However, there are also equity aspects that are not addressed: that is, how developing countries often depend on extractive exports to developed countries in order to service foreign debts. Much more effort and creativity is needed by CBD negotiators to address these underlying drivers, including indebtedness, in the text of the GBF.***

Point 2. Unfavourable debt conditions breed austerity. The need for increased public funding for biodiversity targets is well established. The Third Report of the Panel of Experts on Resource Mobilization affirmed that *"many biodiversity-positive projects will need to be financed out of public funds, given the fundamental nature of public goods, and an understanding that, while it will be important to increase private sector finance, this alone will never be sufficient for meeting all of the challenges of achieving the post-2020 global biodiversity framework."*[9] We must therefore work to understand what is currently limiting governments from spending more on the sustainable use and conservation of biodiversity. A major limitation on public spending is austerity resulting from fiscal consolidation frameworks that access to lending and credit are often contingent on. Two other critical limitations are the channelling of public funds to external debt repayments (debt with often unfavourable conditions) and the evasion and avoidance of tax by private firms, which deny public financial resources to the countries and sites where production and profit are accrued.[10] To illustrate the scope of this issue: developing countries' debt is estimated at $11 trillion, and the servicing of that debt is estimated at $3.4 trillion annually;[11] one study concludes that developing country resources flowing towards foreign debt repayment tripled from 2011 to 2020.[12] These patterns correlate with falling domestic spending.[13]

These unfavourable debt conditions are also becoming more severe in the face of financial sector responses to projected environmental risk. Through the framework of climate risk, countries' climate vulnerabilities are now being assessed by credit rating agencies, leading to an increase in sovereign debt interest rates for the most vulnerable.[14] This leads to increased borrowing costs for those most vulnerable to climate impacts and therefore increased debt burdens for developing countries.[15] A 2018 report by the Imperial College Business School and SOAS University of London concluded that: "climate vulnerability has already raised the average cost of debt in a sample of developing countries by 117 basis points. In absolute terms, this translates into USD 40 billion in additional interest payments over the past 10 years on government debt alone." The perverse outcome of these climate risk-informed credit ratings is that they simultaneously hinder

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8 Proposed text requests the Executive Secretary: "To prepare a report on the relationship between public debt, austerity measures and the implementation of the Convention, with a view to removing specific impediments to the implementation of the Convention"

9 Convention on Biological Diversity 2020

10 Ghosh & Kvangraven 2021; Dempsey et al 2021

11 United Nations Conference on Trade and Development 2020

12 Munevar 2020

13 Jubilee Debt Campaign 2020

14 Dibley et al 2021

15 Buhr & Volz 2018; Cevik & Jalles 2020

the ability of these countries to pay for climate mitigation and adaptation; particularly significant given that the "impact of climate change is disproportionately greater in developing countries due largely to weaker capacity to adapt to and mitigate the consequences of climate change."[16] This debt trap forces developing countries to prioritize debt payments over protecting their citizens; one research group found that lower-income countries spend five times their climate adaptation budgets on external debt payments.[17] While efforts to rein in the financial sector's impact on biodiversity are welcome, the use of financial risk assessment approaches like the Taskforce for Nature-related Financial Disclosures (TNFD) could similarly trigger adjustments in credit ratings and therefore raise rates on countries who most need those funds to address climate, biodiversity and health needs.

Key insights for negotiation:

> ***As such, the proposal made by a Party for Target 19 of the GBF, to increase domestic resource mobilization through addressing sovereign debt in just and equitable ways, should be supported. Target 19 could also call for the continuation and scale-up of existing efforts to provide debt cancellation and to put in place a multilateral debt restructuring mechanism.***
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> ***Target 15 should place emphasis on government regulation of business and finance. As it relates to biodiversity risk, Target 15 could add language to safeguard against biodiversity risk assessment approaches reducing access to finance and increasing the cost of that finance and thus also countries' indebtedness.***

Point 3. While developing countries drown in unsustainable debt, developed countries' ecological debts grow larger by the year, far surpassing amounts laid out in Target 19.

Wealthy states have failed to live up to their obligations under Article 20 of the CBD, which operationalizes the principle of CBDR, or to come up with the agreed amounts pledged in Rio at the UN Conference on Environment and Development in 1992.[18] Since Rio, researchers have sought to understand not simply the incremental costs of CBD implementation, but also develop a more fulsome accounting of *responsibility for* ecological change between and within nations. That is, some are more responsible for environmental degradation than others, or, to put it in other terms, some are more in debt for their (over)use of resources which are extracted at the expense of ecosystems and biodiversity.

There is a growing body of work that characterizes these "ecological debts", which aims to better understand and at times quantify who is most responsible (e.g., in debt) for the use of the global commons, including biodiversity. The concept of ecological debt highlights the circulation of ecological value from developing countries to developed countries, pointing to the systematic extraction of commodities such as cotton, sugar, timber, and spices for mercantilist accumulation during the almost five centuries of colonization. The manifold harms of air pollution, soil erosion, desertification, deforestation and monocrops replacing a diversity of local production, are just a few examples of its destructive ecological effects. While the impacts of global trade are multifarious and differ across territories and scales, researchers have identified patterns of "ecologically unequal exchange" which effectively "allows high-income countries to simultaneously appropriate resources and to generate a monetary surplus through international trade".[19]

In the case of biodiversity impacts, one recent study found that of the 927 species projected to go extinct due to global land use change, 25% of these extinctions are directly resulting from production for exports.[20] One recent study in *Nature* concludes that developed countries are "major net importers of implicated commodities", with the USA, the European Union and Japan the primary final destinations of biodiversity-

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16 Cevik & Jalles 2020
17 Jubilee Debt Campaign 2021
18 Miller et al 2013
19 Dorninger et al 2021
20 Chaudhary & Brooks 2019

implicated commodities.[21] Similarly, another found that Europe, North America, and Japan imported far more biodiversity loss than they exported; and that half of the exported losses from environmental pressures in Africa was the result of European consumption.[22] Other research shows how some countries' domestic protection or increased forest cover is connected to increased imports of products that drive deforestation in other parts of the world.[23] Some of the hotspots of deforestation embodied in international trade are also biodiversity hotspots, such as in Southeast Asia, Madagascar, Liberia, Central America and the Amazonian rainforest.

In sum, the biodiversity of developing countries is more at risk from exploitation through exports to developed countries, even as developing countries have not historically, and do not presently, receive the benefits of this biodiversity use equally, and in fact may suffer biodiversity loss as a consequence. This situation is connected to the previous two points above on contemporary conditions of debt in developing countries; these relationships of unequal exchange and the current global production structure reproduce "historical relations of dependence", relationships that push "fiscally constrained developing countries to accumulate debt, contracted on terms that are typically much more costly than for governments in advanced economies".[24] And the cycle repeats, with countries pursuing short-term economic strategies that allow them to earn foreign currency to repay debts.

Key insights for negotiation:

> ***While this research does not monetize ecological debts, there is no doubt that the debts owed to developing countries far surpass the amounts currently laid out in Target 19. This research supports the need to urgently operationalize CBDR under the CBD, to vastly increase the ambition and justice aspects of Target 19, and in particular for the amounts flowing to developing countries, Indigenous peoples and local communities. Target 16 also holds potential to recognize these historical and contemporary patterns of inequitable production and consumption, and proposals to this effect should be supported.***
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> ***Debt cancellation by rich countries and multilateral financial institutions is another tactic to address ecological debts and could be used to advance CBDR and Article 20 under the CBD. As noted above, Target 19 could also call for the continuation and scale-up of existing efforts to provide debt cancellation and to put in place a multilateral debt restructuring mechanism. There is also room for expanding Special Drawing Rights on a regular basis (even annually) under the International Monetary Fund (IMF) with an emphasis on increased allocations to low- and middle-income countries, of which a proportion could be committed to biodiversity financing.[25]***

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21 Lenzen et al 2012
22 Wilting et al 2017
23 Hoang & Kanemoto 2021
24 Ghosh & Kvangraven 2021
25 Ghosh 2022; In the $650 billion Special Drawing Rights (SDRs) issuance of 2021 the majority of funds (or $354 billion) went to developed countries. About $275 billion went to emerging and developing countries, of which low-income countries received only $21 billion. The G7 had agreed at their 2021 Summit to re-channel $100 billion of their funds; however, this has not been fulfilled to date. Furthermore, the re-channelling of funds is taking place through conditional and debt-creating IMF loans. SDRs should be re-channelled in a manner that does not create debt or carry austerity-based conditions.

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