Climate change and capital together create eco-apartheid

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CYCLONE IDAI

On 14 March 2019, Cyclone Idai made landfall in Beira, Mozambique as a category 3 tropical cyclone (wind speed reached 194 km/hr). Winds and heavy rains caused flooding and severe devastation. More than 1,000 people died and the World Bank estimates that the storm destroyed over $2 billion in infrastructure. Three million people have been affected, with over 100,000 homes and at least a million acres of crops destroyed. A severe cholera outbreak has seen over 4,000 infected alongside rising cases of malaria. Idai is being described as the worst weather-related disaster in the southern hemisphere.

Malawi and Zimbabwe were also affected by the cyclone where 59 and 344 people respectively died. Just five weeks later Cyclone Kenneth made landfall surpassing the windspeeds of Idai and destroying another 70,000 homes.

The increased intensity of these cyclones is almost certainly the result of climate change[1] and while the initial cost of the storms was severe, it is the aftermath that will bring even higher costs. Idai and Kenneth offer a brutal case study of the multiplicity of the injustice of climate change, with private capital and traditional financial institutions playing a leading role.

THE INJUSTICE OF CLIMATE CATASTROPHES

Recently, there has been a dramatic increase in extreme weather events, with the United Nations (UN) now warning that climate disasters happen every week.[2] Reports such as this firmly dispel any notion that climate change remains an issue for the future. These events, usually storms or droughts, overwhelmingly occur in the Global South and in developing nations where populations are left vulnerable by underdeveloped physical and economic infrastructures.

This is despite the fact that many of the countries hit by climate disasters, with the exception of India, are negligible contributors to both current and historical carbon dioxide (CO2) and greenhouse gas (GHG) emissions. Bangladesh[3] and Mozambique – two countries that have recently experienced some of the most brutal episodes of climate breakdown – have the 17th and 4th lowest historical emissions respectively.[4]

Thus, there is a stark divide between the developed and developing world, with the latter experiencing devastating effects incommensurate with their contribution to the climate crisis.

This divide is increasingly being described as 'eco-apartheid'.[5]

The ability of these countries to respond to climate disasters is limited by insufficient physical resources, and degraded environmental infrastructure, as well as under-capacitated or non-existent emergency services. (Mozambique was largely reliant on the South African Defence Force and NGOs such as Gift of the Givers in the wake of Idai).[6] Funding for such services, along with a much wider portfolio of social and infrastructure spending are both crucial for climate adaption.

The latter could include retrofitting and constructing wind-resilient housing; erecting physical barriers to flooding alongside proper drainage systems; and improving the resilience of basic services infrastructure such as water, electricity and communications ›› systems, all of which were knocked out by Idai. These programmes would require substantial funding and what is currently available is hopelessly insufficient and absorbed by other priorities.[7] Consequently, countries such as Mozambique are required to take out emergency loans from international institutions such as the World Bank and International Monetary Fund (IMF) to cover their short-term relief efforts. These loans simply add to the crippling debt burden in developing economies and compound the deficit in social and emergency spending for the next crisis.

Mozambique offers a depressing example of how climate breakdown is exacerbating global inequalities and precipitating a deepening humanitarian crisis.

DEBT AND CAPITAL IN MOZAMBIQUE

In a familiar pattern, economic development in colonial Mozambique centred almost entirely on primary commodities intended for the metropole, in this case Portugal, and to a lesser extent to neighbouring Rhodesia and South Africa. The plantation-based economy was overwhelmingly dominated by a handful of companies with negligible investment in other sectors.[8] The only other significant income generators were fees and remittances from the large-scale dispatch of migrant labour to South African mines.[9]

After their victory in the war of independence, the Mozambique Liberation Front (Frelimo) inherited a country left destitute by the exodus of white settlers, who took what wealth they could and destroyed what they couldn't.[10] The racist regimes still in power in Pretoria and Salisbury punished the newly liberated country by constricting trade and finding other sources of migrant labour.[11]

These same regimes then supported the right-wing guerrilla movement of the Mozambican National Resistance (Renamo), which led a devastating campaign of terror in an attempt to destabilise the new government.[12] The civil war that ensued lasted more than 15 years.

By the early 1980s the economy of Mozambique had collapsed and the government was forced to rely increasingly on foreign aid. In just a few years, by the mid-1980s, Mozambique became the most indebted country in the world with foreign debt accounting for roughly 60% of GDP and servicing costs averaging 15% of revenue through the 1980s and 1990s. It continued to increase in the mid-1990s after the end of the civil war with Renamo.[13]

As a result of the significant debt burden and poor economic situation, Mozambique became heavily reliant on foreign aid. Writing in the early 90s, David Plank described the function of this foreign aid as equivalent to the, "seignorial obligations to vassals reminiscent of colonialism". [14]

Clearly the relationship of dependency left the government little room to negotiate with its donors and it largely accepted the structural adjustment policies (SAPs) prescribed by the IMF and World Bank. The SAPs included a range of measures such as privatisation and removal of subsidies, but were primarily focused on the reduction of public sector spending.[15] This significantly worsened living conditions in a country where approximately 47% of the population live in absolute poverty.[16] The comprehensive long-term failure of structural adjustment required debt cancellation for Mozambique of $4.3 billion under the Heavily Indebted Poor Countries Initiative, and in 2005 a further $2 billion under the Multilateral Debt Relief Initiative.[17]

Two decades of liberalisation under SAPs facilitated a new phase of foreign investment in Africa.[18] The Mozambican economy became one of the fastest growing in the world during the commodity boom that started in the early 2000s, yet by 2014, 22 million people were living on under $2 a day, an increase of 68% over 18 years. High growth was driven by extractive mega-projects such as the Mozal aluminium smelter, which is responsible for 30%

of Mozambique's exports. With 100% of the aluminium produced exported, the developmental impact has been strongly contested.[19]

The smelter was exempted from taxes on profit and VAT and a range of civil society organisations have estimated that for every $1 earned by the Mozambican government, $21 has left the country in profit or interest to foreign governments and investors.[20] By 2014, Mozambique's public and private sectors had amassed a net debt of USD$25 billion as result of liabilities owed for such megaprojects and, at 160% of GDP, the country has the highest debt burden in the world. The situation was also soon odiously compounded.

THE HIDDEN DEBT OF 2016

Foreign creditors accompanied the foreign investment drive, overtaking official sources as the largest lenders in Africa by 2010.[21] This has exposed the continent to new sources of financial risk. Private creditors almost always lend in dollars. As a result, debt repayments regularly increase through currency fluctuations while private creditors are not as forgiving of late-payments as traditional institutional lenders.

The on-going "Tuna Bond" scandal illustrates the immense risk of private lending in environments prone to corruption. In 2016, it was revealed that London branches of Credit Suisse and Russia's VTB Capital arranged for secret loans of $780 million to Mozambican state-owned enterprises which had no existing revenue or contracts in place to suggest future revenues. The loans were meant to be for a range of coastal and fishing developments, but after a default in 2016, a restructuring deal left the total outstanding debt at $2.2 billion.[22] Thirty-five percent of the money remains unaccounted for.[23] The loans were never approved by the Mozambican parliament and were not signed off by the Bank of Mozambique as required by law. Former Finance Minister Manuel Chang, who presided over the acquisition of the debt, was arrested along with three ex-Credit Suisse employees and the son of former Mozambican president Armando Guebuza.

Chang was arrested in South Africa. At first his extradition to Mozambique was halted by the South African Justice Minister Ronald Lamola, which prevented Chang from facing serious sanction in his home country. He now faces extradition to the US where could incriminate [24] further powerful figures. By the time of going to press Lamola had not yet made a decision.

Two of the former Credit Suisse employees have pleaded guilty in a US court to laundering funds – mostly illegal kickbacks to Mozambican officials and themselves – of up to $50 billion. Credit Suisse is laying the blame solely on the three ex-employees and refuting any responsibility. The illicit funds were provided by Privinvest, an Abu-Dhabi-based holding company, which supplied ships, services and supplies for the coastal developments.[25] Or, put more simply, a reputable Swiss Bank, based in London, facilitated an illegal loan for corrupt officials in Mozambique through kickbacks from a private company in Abu-Dhabi.

The case casts doubt on the notion that private lenders operate with propriety. It illustrates the role of private lenders in expanding the trans-national nexus for corruption in countries such as Mozambique.

The point is that the debt from these loans is owed to the UK-based bank, so despite the patent illegality of the whole transaction, the loans would only provide limited to no benefits for the people of Mozambique. As the creditors were well aware of this it is a clear-cut case of odious debt, which is defined as debt that is considered illegitimate and should be cancelled. However, according to UK law the debt's legality in the UK provides an entrepot for vulture funds, those private equity funds that invest in debt considered to be very weak or in default. Top legal firms in cities such as London, New York and Paris then sue developing nations.[26] As it stands, such funds are able to make a 270% profit on debt purchased in 2016.[27]

Fortunately, there is some resistance to the scandal from civil society. Campaigners from the Mozambique Budget Monitoring Forum (FMO) recently visited the UK with the Jubilee Debt Campaign,[28] where they highlighted the seriousness of the situation, noting:

> The London-based banks must be held to account for their role in this scandal. The loans have caused an economic crisis in Mozambique with rising prices for basic necessities, and now falling government spending. We are appalled that UK authorities have failed to take any action against Credit Suisse and VTB. We are coming to the UK to demand that they do so. The people of Mozambique had no say over, and no benefit from, these loans. We should not have to pay one cent on them. It is the individuals and companies inside and outside Mozambique that benefitted who should be made to pay.

FIRST AS A TRAGEDY

Mozambique's history has followed a cruel path and, as things currently stand, its future will offer no respite. The debilitating legacies of colonisation and under-development have been escalated by war, economic sabotage, incapacitating structural adjustment, narrow extractivism and now, blatant parasitic financial practices compounded by the ravages wrought by climate change. Yet, when the country experiences devastating natural disasters it does not qualify for debt relief. Instead the IMF has provided

yet another loan (albeit at 0% interest) despite it holding over $30 billion in its reserves. The millions of people in the 6th poorest country in the world[29] did not cause the climate crisis, but they will continue to pay for it, increasingly with their lives.[30]

This gross injustice demands that loans must become grants. Funding is urgently required for developing nations to adapt to, and mitigate, impending climate disasters and it should be taken for granted that such funding should be sourced by governments historically accountable for greenhouse gas emissions.

The World Bank and the IMF in particular, whose major contributors are such governments, should not be allowed to continue to offer "aid" to indebted countries in the form of loans. In a break with the neoliberal nature of SAPs, the grants could come with strict conditions for investing in critical infrastructure and public services required for adaptation and mitigation. However, under the current system where the size of member contributions is proportional to voting power, it raises the question as to whether an institution like the IMF could ever become such an ethical global force. Yet, without such a shift in the political economy of international aid and its institutions, climate change will rapidly intensify our existing state of global eco-apartheid.

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