BREAKING THE CYCLE OF UNSUSTAINABLE FOOD SYSTEMS, HUNGER, AND DEBT

A Special Report

iPES FOOD
INTERNATIONAL PANEL OF EXPERTS ON SUSTAINABLE FOOD SYSTEMS

BREAKING THE CYCLE OF UNSUSTAINABLE FOOD SYSTEMS, HUNGER, AND DEBT

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This is the third in a series of Special Reports on food systems in crisis. The first Special Report, COVID-19 and the Crisis in Food Systems (April 2020), examined food system vulnerabilities in light of the COVID-19 pandemic. The second Special Report, Another Perfect Storm (May 2022) examined the underlying drivers of the global food price crisis triggered by the Russian invasion of Ukraine.

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SUMMARY

As 2023 begins, the world is on the brink of a devastating debt crisis. Following a decade of steadily rising debt levels, public finances in low-income countries have been strained by the COVID-19 pandemic and the economic disruptions ensuing from the Ukraine war – particularly sky-high import costs for food, fertilizer, and energy, and rapidly-rising interest rates.

Although food prices have come down from Spring 2022 peaks, debt servicing costs are projected to rise further this year and next, and the worst impacts are surely still to come. About 60% of low-income countries, and 30% of middle-income countries, are now considered at high risk of (or already in) debt distress. As debts spiral out of control and the world's poorest countries struggle to meet the basic needs of their populations, today's rapidly rising rates of hunger and poverty could soon become a tidal wave, reversing decades of progress, and sparking further instability and conflict.

The unsustainable debt accrued by low-income countries is typically blamed on economic mismanagement, corruption, and external shocks. But these factors do not tell the whole story, and fail to acknowledge the bind many low-income countries are in. Although rarely acknowledged by policymakers, today's unsustainable and inequitable global food systems are a key contributor to the debt crisis. In this Special Report, IPES-Food identifies four ways in which food systems are deepening today's debt crisis: #1. Import dependencies and dollar dependencies; #2. Extractive financial flows; #3. Boom-bust cycles and corporate consolidation; and #4. Climate breakdown. Further, we show how unsustainable debt leaves countries critically exposed to shocks and undermines their ability to invest in climate-resilient food production and food security. The result of this vicious cycle is rising hunger and poverty in the world's poorest countries.

In the concluding section, we argue that comprehensive debt relief must go hand-in-hand with food system transformation, to build a basis for sustainable public finances in low-income countries and durable progress in the fight against hunger and poverty.

1

INTRODUCTION: A RAPIDLY UNFOLDING HUNGER CRISIS AND DEBT CRISIS

In 2022, the world found itself in the midst of a severe **food security crisis**. Food prices rose steadily through 2021, following the COVID-19 pandemic and supply chain disruptions. By January 2022, food prices were already matching the peaks of the 2008 food price crisis. In March-April 2022, following Russia's invasion of Ukraine and the interruption of grain exports from the Black Sea region,[1] world food prices surged to record highs. Over the year, the world's poorest countries saw their food import bills increase by nearly $5 billion.[2]

By November 2022, some 349 million people were facing acute food insecurity, with 49 million on the brink of famine, and 45 countries in need of external food assistance.

By the beginning of 2023, global food commodity prices had returned to November 2021 levels. However, there has been little respite for food insecure populations and malnutrition continues to rise. Prices are still high in historical terms, with consumer food prices continuing to outstrip general inflation rates.

[1] Data published by Reuters from January 2023 suggests that Ukrainian grain exports for 2022-2023 are approximately 10 million tonnes below levels at the same stage of the 2021-2022 season.

[2] See Section 2.1: data from Food and Agriculture Organization (FAO), November 2022.

Meanwhile, difficulties accessing fertilizer[3] could constrain the production of staple food crops over 2023, causing prices to spike again.

A year on from Russia's invasion of Ukraine, it has also become clear that **the world is on the brink of a debt crisis**. Following a decade of steadily rising debt levels, public finances in low-income countries have come under severe strain. From 2020 onwards, the COVID-19 pandemic sparked a global economic downturn and placed major demands on public expenditures. In 2022, low-income countries were buffeted not only by food price spikes but also soaring import costs for fertilizer and energy. Rapid interest rate hikes in wealthy countries have played a key role in turning those pressures into an emerging debt crisis. By January 2023, US federal reserve rates had risen from 0.08% to 4.33% in less than a year, with over a third of developing countries seeing their currencies depreciate by more than 10% against the dollar – and dollar-denominated debts suddenly more costly to service.

As a result, global public debt is at its highest levels in almost sixty years, with the world's poorest countries having seen debt servicing costs surge by 35% in 2022. About 60% of low-income countries, and 30% of middle-income countries, are now considered at high risk of (or already in) debt distress. Although the UN Global Crisis Response Group has warned that continued monetary tightening will "increase the risk of a systemic debt crisis", Federal Reserve officials expect rates to rise above 5% and stay there into 2024.

As debts spiral out of control and countries struggle to meet the basic needs of their populations, today's rapidly rising rates of hunger and poverty could soon become a tidal wave. The UN Global Crisis Response Group highlighted this stark reality in warning that "just as a family may skip a meal to pay for a minimum of electricity, a country may be forced to reduce food imports if their currency devalues, or debt service payments increase". Lebanon, Sri Lanka, Suriname, and Zambia already defaulted on sovereign debts between 2020-2022, raising concerns that another 12 governments could also be close to default. And by February 2023, Ghana had requested urgent restructuring of its foreign debt, while Pakistan's foreign reserves had reportedly run dry, leaving food shipments sitting in its ports and sparking emergency talks with the International Monetary Fund (IMF).

With debt servicing costs projected to keep rising into 2024 (see Box 1), the worst is surely still to come. Even if countries avoid protracted debt distress and defaults, higher debt servicing costs over the coming years are likely to deprive them of urgently-needed funding for social protection, climate resilience, food system transformation, and other critical investments to meet the Sustainable Development Goals (SDGs). Following several years of stagnating progress, the shocks of the last three years have sent poverty and hunger rates soaring upward. Decades of progress are now at risk, and could be completely undone by a protracted debt crisis.

[3] Fertilizer prices rose approximately 66% in 2022. In August 2022, the Financial Times reported that farmers in Africa are struggling to access fertilizer and are reducing or foregoing treatments, citing one study that has projected that fertilizer shortages will reduce global production of corn, wheat, rice and soybean by 1.8% in 2022-2023, and by as much as 12% in Africa.

BOX 1

An emerging debt and hunger crisis: which countries are most at risk?

- Estimates from Finance for Development Lab suggest that total debt servicing costs will peak at $377 billion in 2024, and slightly decline to $361 billion in 2026, close to 2021 levels. However, in three regions – East Asia & Pacific, Middle East & North Africa, and Sub-Saharan Africa – debt servicing is projected to keep rising through 2026. These estimates assume similar borrowing terms to 2015-2019 and are therefore likely to be conservative.

- Some 21 countries could be nearing simultaneous debt and food crises, including Afghanistan, Cameroon, Ethiopia, Haiti, Lebanon, Somalia, Sri Lanka, Sudan, and Zimbabwe, based on IMF and World Bank data for countries at high risk of or in debt distress, and FAO and World Food Programme 'hunger hotspots' (see Figure 2).

- According to a recent report by the IMF, of the 48 countries most vulnerable to food insecurity, up to 20 are highly vulnerable as they simultaneously suffer from limited policy buffers, weak economic governance, and fragile social and political environments in addition to debt. These include Mozambique, Somalia, Chad, Sudan, and Yemen. It is worth noting that a number of these countries are facing severe climate impacts and are embroiled in conflict of various forms.

- According to assessments of the UN Global Crisis Response Group, some 69 countries – home to 1.2 billion people – are severely or significantly exposed to food, energy, and finance-related instability.

FIGURE 1

Rising debt distress among low-income countries

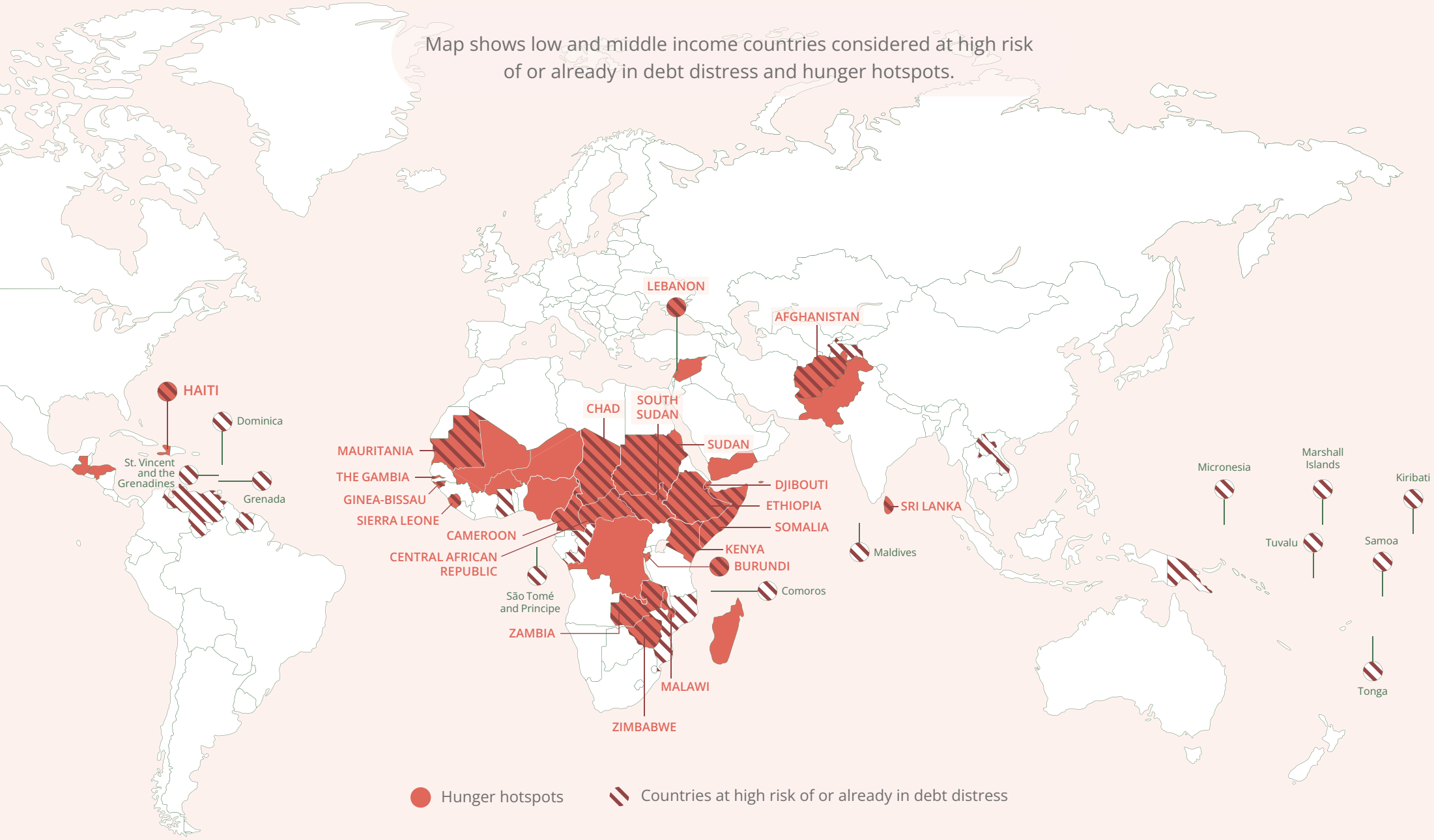
The graph shows the percentage of low income countries at or near debt distress. Since 2013 the number has nearly tripled.

Source: Based on IMF and World Bank low-income country Debt Sustainability Framework.

FIGURE 2

Debt and hunger crises in developing countries

Map shows low and middle income countries considered at high risk of or already in debt distress and hunger hotspots.



Source: Based on January 2023 IMF Debt Sustainability Framework and 2022 World Bank income classification.
Countries classified as suffering from acute food insecurity by the FAO and WFP or in a major food crisis by the UNGRFC.

Credit: Fábio de Sousa - ©FAO

2

HOW ARE FOOD SYSTEMS CONTRIBUTING TO THE DEBT CRISIS?

The debt burden accrued by low-income countries is typically blamed on economic mismanagement, corruption,[4] and external shocks – including the COVID-19 pandemic and the 2022 food price crisis. But these factors do not tell the whole story, and fail to acknowledge the bind many low-income countries are in. Historically and still today, **persistently high debt in the world's poorest countries is in large part a result of global economic systems designed to suit the interests of powerful governments and creditors in the Global North**.

In particular, today's global food systems are a key contributor to macroeconomic imbalances and unsustainable debt in low-income countries. The soaring costs of food imports in 2022 clearly demonstrated these linkages – but it was only the tip of the iceberg. As we explore below, unsustainable food systems and unsustainable debt reinforce one another through a variety of mechanisms. The result of this vicious cycle is rising hunger and poverty in the world's poorest countries.

[4] For example, coverage of Pakistan's debt crisis has forefronted government corruption, with little focus on climate change and structural barriers to development. See for example CNBC coverage, "Blackouts, currency dives and corruption: Pakistan's economy is on the brink of collapse."

The connections between unsustainable food systems and unsustainable debt[5] are longstanding but under-recognized, and IPES-Food hopes to draw greater attention to them. In the early 1980s, a major debt crisis reshaped food systems in the Global South, unleashing policies whose legacies can still be felt today. Under the 'structural adjustment' programmes introduced by the IMF and World Bank, developing countries were required to cut state expenditures, liberalize their economies, and prioritize export-led growth in sectors like agriculture to earn foreign exchange that could be used to repay debts and pay for imports. But despite these policies originating in a balance of payments crisis, persistent macroeconomic imbalances and unsustainable debt have become a key legacy of structural adjustment: liberalization policies have failed to translate into broad-based development and sustainable public finances, while critically undermining food security in many of the world's poorest countries (see Box 2).

Since the turn of the century, the World Bank and IMF have rebranded their lending operations and debt restructuring efforts have been undertaken, notably through the Highly Indebted Poor Countries (HIPC) initiative. Nonetheless, debt-to-GDP ratios have risen again over the last decade, with low-income countries encouraged to take on new loans to finance basic expenditures,[6] other developing countries struggling to service long-standing debts,[7] and new lenders arriving on the scene (see Box 3). Over the same period, developing countries became increasingly reliant on volatile commodity export markets and imports of staple foods (see Section 2.1). With countries facing a rising debt burden, and the space for critical investments shrinking, progress on hunger started to stagnate around 2015.

Low-income countries, therefore, came into the economic disruption of 2020-2022 highly exposed to volatility in global commodity markets and financial markets, and with large swathes of their populations highly vulnerable to food insecurity. The vulnerabilities underpinning today's debt crisis are a result of longstanding imbalances and injustices in the global economy, extending well beyond agriculture and food systems.[8] Some of the drivers of hunger, impoverishment, and indebtedness – including climate change and conflict – are vast, cross-cutting problems.

Nonetheless, **today's inequitable and unsustainable food systems play a key role in this nexus and are a critical part of the macroeconomic imbalances and the debt crisis facing low-income countries**. Below, we explore these connections, identifying four drivers of the debt crisis with their roots in food systems:

- **Driver #1.**
  Import dependencies and dollar dependencies
- **Driver #2.**
  Extractive financial flows
- **Driver #3.**
  Boom-bust cycles and corporate consolidation
- **Driver #4.**
  Climate breakdown

[5] In this report, *unsustainable debt* is used broadly to refer to debt that is handicapping countries' development prospects. This is distinct from more technical definitions whereby debt is considered unsustainable only insofar as countries are at risk of default or require exceptional financial assistance (see for example, IMF).

[6] As described by Debt Justice/CAN International (2022), "Low interest rates in the western world following the 2008 financial crisis led financiers to seek to lend to Global South governments who they charge higher interest rates for loans, and thus potentially make high profits. Meanwhile, Global South governments, continue to be encouraged to take on more debt to fund their development efforts by key institutions like the World Bank and IMF."

[7] For example, by the time new IMF loans were agreed in 2013, Jamaica had repaid more money ($19.8 billion) than it had been lent ($18.5 billion), with the government still owing $7.8 billion as a result of interest payments. As a middle-income country, Jamaica was ineligible for previous rounds of debt relief.

[8] Many of the trends described in Section 2 also pertain to mining, forestry, oil and gas, natural resources, and other primary commodities and extractive sectors, i.e. sectors with the capacity to generate foreign reserves, and whose heavy environmental footprint has impacted on the poorest populations and contributed to trapping countries in unsustainable development models.

BOX 2

The long shadow of structural adjustment

The IMF and World Bank have long imposed conditions on their loans. However, the 1980s saw a concerted push to turn lending to crisis-stricken developing countries into reform programmes. The structural adjustment programmes that ensued typically involved some combination of: withdrawal of subsidies on basic products and services (including foodstuffs and agricultural inputs); major reductions in social expenditures (in particular public health, education, social protection, and pensions); devaluation of the local currency to prioritize exports; privatization of state-owned enterprises and infrastructures; trade liberalization; and removal/reduction of capital controls.

The impacts of structural adjustment are hard to generalize across the dozens of affected countries, difficult to parse from broader developments, and thus highly contested. Nonetheless, comprehensive reviews – including internal IMF evaluations – have found significant shortcomings, and failure to achieve the stated goals of development and poverty reduction. A comprehensive review on food insecurity, an Africa-focused FAO study, and a multi-country participatory assessment are among a large body of evidence showing that structural adjustment programmes have undermined developing countries' capacity to meet domestic food needs without dependence on imports, particularly by marginalizing small-scale food producers and displacing traditional diets. These impacts have become particularly acute in the wake of multilateral trade liberalization under the 'Uruguay Round', which concluded in 1993 and gave birth to the World Trade Organization. Further, a review by UNCTAD finds that structural adjustment-based strategies have generally failed to make the poorest countries competitive in new sectors, in some cases leading instead to 'de-industrialization', while providing few long-term spillover benefits (e.g. tax revenue, broad-purpose infrastructures, skills). Furthermore, the devaluation policies undertaken in the interests of promoting exports have sometimes had rapid and disastrous impacts on purchasing power in developing countries – in some cases sparking political instability.

In 1999, with concerns growing over their negative impacts, the Structural Adjustment Facility and Enhanced Structural Adjustment Facility were replaced by the Poverty Reduction and Growth Fund, while lending to developing countries was made conditional on the submission of a 'country-led' Poverty Reduction Strategy Paper. While formal conditionalities declined in number over the subsequent years, basic policy prescriptions remained largely unchanged, with institutional reform imperatives added alongside privatization and liberalization goals, and the IMF arguably able to shape an even greater range of policies.

BOX 3

The changing composition of debt in developing countries

According to the World Bank, the total external debt held by developing countries is at its highest level on record, reaching $9 trillion at the end of 2021, a nearly fivefold increase over 20 years. The composition of creditors has also shifted markedly.

- The share of external debt owed to **multilateral creditors** has declined from 59% of gross external debt stocks in 2010 to 47% in 2021.

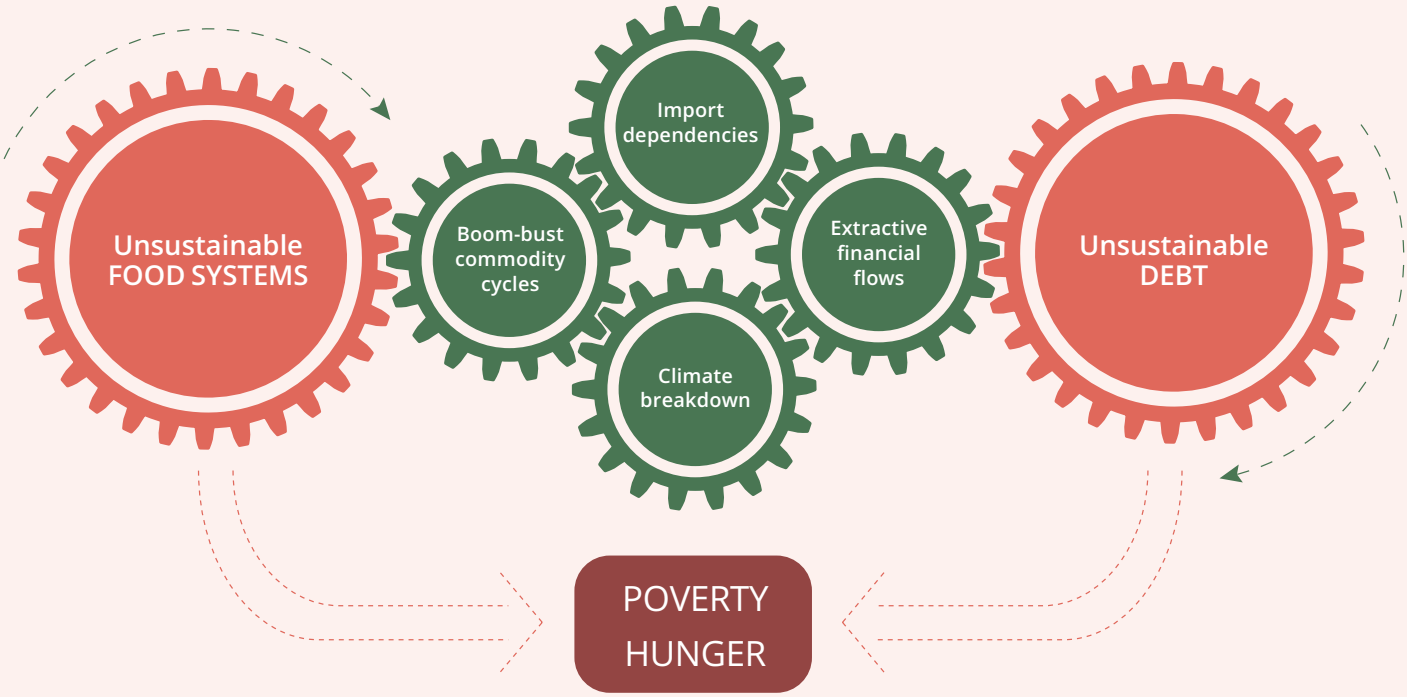
- **Bilateral donors** are on the rise and hold 32% of external debt, with China now holding as much as 21% of developing countries' external debt – although the exact figure is unclear due to limited Chinese data disclosure.

- The external debt owed to **private creditors** (e.g. banks, bondholders, and companies) has also increased from 5% in 2010 to 21% in 2021, with global bond markets alone holding 13% of developing countries' total external debt.

But external debt is now only part of the picture. Over recent decades, a number of developing countries have built substantial domestic debt markets, with **domestic debt servicing** (typically at higher interest rates) now exceeding external debt servicing for 90% of low- and lower-middle-income countries. Overall, private creditors (domestic and international) tend to charge much higher interest rates than other lenders, with 47% of total debt servicing payments due to private lenders in 2022.

FIGURE 3

What's driving the vicious cycle of unsustainable food systems and unsustainable debt?



DRIVER	DESCRIPTION
IMPORT DEPENDENCIES AND DOLLAR DEPENDENCIES	Dependency on imports of food and fertilizers generates high debts and prevents countries investing in diversifying their food systems and economies. Countries are increasingly locked into generating dollars, often through cash crops, to pay off debts and import basic necessities.
EXTRACTIVE FINANCIAL FLOWS	Over decades, governments have cut social spending and outsourced food system investment to corporate actors and creditors, resulting in uneven development, persistent hunger, and the depletion of state capacity – and ultimately funneling resources out of the Global South.
BOOM-BUST CYCLES AND CORPORATE CONSOLIDATION	When food prices rise, powerful and highly concentrated agribusinesses benefit while farmers get squeezed. And when prices crash, many farms and food businesses fail, leading to further corporate consolidation, undermining investment in resilience.
CLIMATE BREAKDOWN	Climate change is decimating harvests, destroying livelihoods, and creating instability in countries least responsible for the crisis. With climate finance failing to materialize, it is becoming harder for low-income countries to repay debts and invest in climate-resilient food systems.

2.1 DRIVER #1: IMPORT DEPENDENCIES AND DOLLAR DEPENDENCIES

Dependency on staple food imports has been a key driver of the 2022 food security crisis – and is a crucial link between unsustainable food systems and unsustainable debt. **Today's food import dependencies are a legacy of increasingly specialized, concentrated, industrial commodity chains**, and the flawed (agri-) development pathways prescribed for low-income countries over recent decades.

Where previously countries had deployed 'import substitution' policies to build up their agricultural and industrial production base and reduce reliance on imports, **export orientation was heavily prioritized through structural adjustment programmes** – in particular the promotion of cash crop exports and cheap grain imports, and the withdrawal of state subsidies for purchasing food, fuel, etc.[9] These reforms took place alongside multilateral trade liberalization that exposed developing world agriculture to unfair competition with highly-subsidized production in the Global North (see Box 2). The effects of these policies have been particularly acute in Africa, with staple food production declining and the continent's food import bills more than tripling over recent decades.

Agricultural exports have grown in parallel. In particular, **many developing countries have specialized in cash crops, often at the expense of diverse food crops traditionally consumed by local populations.**[10] Despite food security concerns, these exports have been prioritized as a critical source of foreign currency reserves (see Box 4).

This trend accelerated from 2000 onward, with growth in low-income countries driven by agricultural/mineral commodity exports and a commodity price boom. Debt-to-GDP ratios crept up over this period, as development aid declined, grants were replaced by loans, and countries drew significantly on financial markets for the first time. Many invested heavily in export-oriented, chemical-intensive agriculture: by 2010, ten of the biggest African countries were channeling 14-26% of public agricultural expenditure to fertilizer subsidies.

Low- and middle-income countries were then buffeted by the commodity price crash of 2014-2016, which set Debt-to-GDP ratios on a steeper upward trajectory. But unlike previous crises, interest rates stayed low, allowing countries to continue borrowing and avoid major restructuring.

Low-income, net food-importing countries are therefore critically exposed to the current crisis. Global commodity price spikes in 2022 translated into sudden upsurges in the cost of basic foods, and in some cases even food shortages, as a result of countries' reliance on imports of staple foods like wheat and maize from Ukraine, Russia, and a handful of other suppliers.[11] As prices spiked over the past year, countries in Sub-Saharan Africa spent an additional $4.8 billion on food imports, despite a decline in total volumes, while the world's 77 'net food-importing developing countries'[12] faced a crippling $21.7 billion in additional costs for only slightly higher import volumes.

Higher global food commodity prices have brought some gains for agricultural export sectors, but farmers have generally failed to benefit in a context of corporate consolidation (see Section 2.3). Moreover, for the finances of developing countries, **any gains have generally been offset by costly fertilizer import dependencies**, alongside rising costs for fuel and other agricultural inputs.

[9] In foundational thinking around structural adjustment (see for example World Bank), agriculture was in fact seen as a sector that could generate trade surpluses and lead countries out of debt.

[10] As described in IPES-Food's Special Report, *Another Perfect Storm*, traditional and nutritionally-important crops and foods have been in decline in many countries thanks to trends dating back to the colonial period, and accelerated through the 'green revolution' and structural adjustment programmes. More recently, millet production has declined in Africa, falling by 24% in the 13 Alliance for a Green Revolution in Africa (AGRA) focus countries from 2006-2018 (see the multi-partner 'False Promises' study, 2020).

[11] In Eastern Africa, for example, as much as a third of average cereal consumption is wheat-based, 84% of which is imported (largely from Ukraine and Russia). In Egypt and Djibouti, wheat accounts for as much as 35% of caloric intake, and they are reliant on imports to meet 79% and 100% of needs, respectively. See IPES-Food, *Another Perfect Storm?*

[12] The FAO classifies 77 countries as net food importing developing countries; most of these are in Sub-Saharan Africa.

BOX 4

Dollar dependencies

Developing countries need foreign currency reserves to import food and other essential goods, as well as to service debts – all of which are typically denominated in 'hard currencies', and most often the US dollar. Growing and exporting cash crops and other agricultural commodities is one of the limited options low-income countries have for earning foreign currency reserves. But import dependency and dollar dependency come with high risks. In the face of a global economic downturn, wealthy countries have raised interest rates (see Section 1). Higher interest rates have increased the face value of debt subject to variable rates. Furthermore, developing economy currencies have depreciated dramatically against the US dollar, making all of their dollar-denominated debts more costly to service. As observed by the Centre for Global Development, "even if global commodity prices fall in dollar terms,... the dollar's strength prevents this dynamic from trickling down to the country level in (developing countries) facing the most severe devaluations".

New credit lines are a sticking plaster at best: since the beginning of the war in Ukraine, net food-importing countries are facing above-average spikes in borrowing costs, and some developing countries are unable to borrow at all from international markets. These factors combine to deprive countries of foreign reserves just when they need them the most, forcing countries into painful choices between two rapidly rising costs – servicing debts, and importing staple foods and other basics. Cash crops and other exports become even more critical as sources of foreign currency reserves, particularly when those reserves are required rapidly as a result of short-term debt tenors or other unfavourable conditions. This makes it difficult for low-income countries to move away from current agricultural production patterns despite their long-term impacts.

By October 2022, the World Bank's fertilizer price index had risen 66% for the year, with energy import costs surpassing 25% of GDP for some emerging economies. A number of countries are now stuck in what has been described as a 'fertilizer trap': India (with $26 billion budgeted in 2022), Kenya, and the Philippines are among a host of governments ramping up fertilizer subsidies in the face of the crisis, alongside rising fuel import costs.

By the outset of 2023, global food commodity prices had come down from their 2022 peaks. Fertilizer prices are also projected to fall back by 12% in 2023 as supply restrictions ease and new production capacity starts to come on stream – including in developing countries.[13] Nonetheless, food and fertilizer import costs remain high in historical terms, and debt servicing costs are still rising (see Box 1).

In the near term, net food-importing developing countries face a continuation of **unfavourable terms of trade, steadily mounting macroeconomic imbalances, and high risks of further price volatility** (for agri-food imports/exports, fertilizer, energy, etc). Sri Lanka's economic collapse and debt default over 2021-2022 demonstrates the disastrous consequences of allowing debt and dependencies to accumulate – and the subsequent dangers of rushing to eliminate agri-chemicals without a transition plan (see Box 5).

It is clear, therefore, that import dependencies and dollar dependencies are a major driver of the debt crisis facing dozens of countries – and must be addressed if they are to put their finances on a sustainable footing.

[13] As noted by the World Bank (2022), "Significant new capacity outside Europe and Russia is expected to come online within the next two years, eventually restoring global supplies". It is worth noting that although new fertilizer production capacity in developing countries is likely to reduce the economic burden of fertilizer imports, it does not address other dependencies associated with fertilizer, including systemic cost pressures for farmers, and the treadmill of declining fertility in degraded ecosystems.

BOX 5

The dangers of acting too late on dependencies and debt: the example of Sri Lanka

In Sri Lanka, macroeconomic imbalances and food insecurity have increased in severity over the years, coming to a head in 2021. A colonial legacy, neoliberal orthodoxies, and mismanagement of the country's economy have all contributed to Sri Lanka's under-investment in domestic food production, growing reliance on imported staple foods (such as wheat flour, rice, and milk), and the development of a chemical input-reliant agri-export sector (particularly tea plantations). This fragile system was crippled by the 2007-2008 global food crisis and the 2008-2009 global financial crisis. Buoyed by victory in the nearly 30-year-long civil war, the 2009 Rajapaksa regime embarked on significant reconstruction programmes, but most investments were channeled into infrastructure projects that had little impact on people's lives. Successive governments failed to diversify the economy, invest in domestic agriculture, or create social safety nets. As a middle-income country, Sri Lanka was not eligible for international debt relief mechanisms. Its creditors also failed to sound the alarm about the need for economic restructuring, allowing economic imbalances and a high debt-to-GDP ratio to grow to dangerous proportions.

When the government did act, it did so too late and with too little planning. In 2021, facing a shortage of foreign currency reserves following the COVID-19 pandemic, the government cut fertilizer imports by imposing a sudden ban on agricultural chemicals – without country-wide farmer training, the scaling up of organic inputs, or other essential transition supports. Yields rapidly dropped, a third of farmland was left fallow, prices spiked, and food imports increased. Nor were the savings sufficient to prevent default on Sri Lankan debts, and with it an upsurge in poverty and hunger – amid already-rising food insecurity in light of the 2022 food price spikes. Although Sri Lanka ultimately defaulted in May 2022, its government prioritized debt service obligations well into the year, leading to restrictions on fresh fruit, fish, dairy, and other food imports. The case sparked global debates about how to address debt obligations in a just manner, and the challenges of transitioning to chemical-free farming. Sri Lanka's rushed, top-down transition in fact stands in contrast to the many promising experiments with food system transformation around the world (see Section 3).

2.2 DRIVER #2: EXTRACTIVE FINANCIAL FLOWS

Over decades, **unsustainable models of (agri-) development financing, and the funnelling of wealth out of the Global South, have hollowed out the state's role in delivering food security and created persistent cycles of austerity and debt**.

Structural adjustment programmes typically entailed massive reductions in public expenditures, from infrastructure investments to social programmes, as key state functions were outsourced to the private sector, and countries turned to new sources of finance – including Foreign Direct Investment (FDI) – to drive export growth in agri-food and other sectors and help pay off debts.

With initial policy reforms failing to deliver the desired results, and public resources perpetually strained in low-income countries, **governments have increasingly turned to public-private partnerships (PPPs) to finance development projects**. Agriculture-focused PPPs have become particularly prominent in the wake of the 2007-2008 food price spikes, coming alongside (and sometimes enmeshed with) development aid. In particular, agri-development funding has been channelled through corporate-friendly partnerships with a focus on ramping up productivity via chemical inputs, and developing agri-exports and growth corridors, including

the Gates Foundation-led Alliance for a Green Revolution in Africa (AGRA), the US government-led Feed the Future initiative, and the now-defunct G8 New Alliance on Food Security and Nutrition.[14] Over the past decade, China's Belt and Road Initiative has also brought huge investment to the 130+ countries in its orbit, with a similar focus on infrastructure-led growth and commodity export chains. Chinese private companies alone have invested some $43 billion in agriculture over the past ten years through the initiative.

Although they were meant to boost the growth and economic competitiveness of low-income countries, **PPPs and other agri-development financing vehicles have contributed to further erosion of state functions and accountability mechanisms, and are arguably undermining public finances in the longer term**. PPPs tend to be an expensive and risky type of financing.[15] Furthermore, as a type of liability that is 'off the books',[16] they are less visible to citizens and tend to escape accountability for delivering on their headline promises. For example, the Gates-funded AGRA partnership continues to receive millions of dollars of funding despite failing to deliver on stated hunger and poverty reduction goals. Similarly, the US-led Feed the Future programme has offered limited returns on huge private sector investment to date and may face further challenges in the face of soaring fertilizer prices. Meanwhile, the failure to build accountability and genuine country ownership into the G8 New Alliance was among the reasons for its abandonment.[17]

With as much as 21% of developing countries' sovereign debt now owed to China, liabilities related to Belt and Road Initiative investments are a growing concern for low-income countries. Accountability is particularly weak, with a number of mothballed projects in Africa since loans from Chinese state banks fell away post-pandemic. Furthermore, recent Belt and Road expansions have been critiqued for their heavy focus on developing high-tech agri-export sectors (based on Chinese hardware) to supply China with food imports,[18] sometimes at the expense of traditional livelihoods and farming systems.

Crucially, **financial transfers from the Global North are dwarfed by the funds funnelled out of developing countries**. In 2021, developing countries owed $356 billion in debt service on external public and publicly guaranteed debt, far outstripping the $185.9 billion received in development aid. Furthermore, ongoing attempts to liberalize the economies of developing countries and ensure a friendly environment for multinationals have kept tax revenues perennially low. The Tax Justice Network estimates that low-income countries lose $36 billion per year as a result of tax avoidance and evasion by private firms. The agri-food sector is a major source of fiscal leakage, with tax exemptions regularly attached to agri-export corridors, and leading agribusinesses found to be engaging in aggressive tax avoidance.[19]

Capital flight is also a major risk in the current crisis, with relatively high interest rates on offer in wealthy countries. While some low-income countries are trying to revalue their currencies through higher interest rates and aggressive purchasing,[20] others cannot, either due to the negative impacts it would have on much-needed exports (see Box 4) or because of a lack of control over their monetary policies[21] – a neocolonial legacy that places major constraints on their development.

[14] The initiative appears to have been dropped (D. Praskova and J. Novotny's article in Third World Quarterly) and replaced by a new Global Alliance for Food Security launched in 2022 by the G7 (German Federal Ministry for Economic Cooperation and Development).

[15] With funders typically expecting 15-20% annual returns, these types of financing are about three times as expensive as public financing: governments often end up subsidizing projects at great expense and ultimately bear the costs as public debt if projects go wrong. Norwegian Church Aid (2022).

[16] Opaque, unnavigable – and sometimes publicly unavailable – data and documentation of PPPs has been widely recognized as a problem vis a vis accountability.

[17] The initiative was heavily criticized from the start for pushing structural adjustment style policy conditionalities, and failing to involve civil society and farmers' groups in the target countries. France withdrew from the initiative in 2018; there was subsequent criticism of its metrics (see Oakland Institute).

[18] Kazakhstan is being eyed by Chinese investors as a new source of wheat, sugar, meat, and vegetable oil; China intends to include West Africa in the Belt and Road Initiative, with Senegal as a springboard for Chinese industry throughout West Africa; since 2015, programmes related to the Belt and Road Initiative have connected China to Balochistan, and the long-term plan is to replace traditional Pakistani farming with high-tech farming, marketing systems, and a large-scale agro-industrial complex. See 'A Long Food Movement', IPES-Food & ETC Group (2021).

[19] For example, a Guardian and Lighthouse investigation revealed that two subsidiaries of JBS, the largest global meat conglomerate, have been able to pay only 0.19% in tax on $160 million of profits through aggressive tax avoidance.

[20] As R. Carson and S. Mohsin wrote in Bloomberg, "Collectively, developing economies are burning through the equivalent of more than $2 billion of foreign reserves every weekday to bolster their currencies against the greenback, and strategists anticipate efforts to ramp up."

[21] Further, the need to maintain an enabling environment for investors, in a context of FDI-reliance and high debts, has required developing countries to abide by 'rulebooks', such as the EU Maastricht Treaty, regarding fiscal deficits, inflation targets, foreign exchange requirements, and interest rates – thereby reducing control over their own economies.

BOX 6

Brazil's debt-austerity nexus

In Brazil, pressures on public finances have built over the past decade, as higher interest rates coincided with lower tax revenues (which are perennially low in the agri-food sector as a result of exemptions for exporters). In 2016, the government responded with austerity measures, adopting a spending cap that prevented any real-term increase in public expenditure over the next 20 years – a measure the UN's poverty envoy called a breach of human rights. Anti-hunger programmes and other social policies were defunded, despite their proven success in reducing hunger and social inequalities. Those cuts have had major human costs, with nearly 60% of households now facing some degree of food insecurity. Despite being promoted as necessary to balance the budget, austerity measures have in fact contributed to Brazil's debt problems. The rapid fiscal adjustment, in an already fragile economy, helped to turn an economic slowdown into a deep recession. Debts continued to rise steadily from 2016-2020 and then spiked in 2020-2021 as public expenditures and debt servicing costs rose in the face of the COVID-19 pandemic and accompanying economic disruption. Given the negative impacts of austerity, anti-hunger measures and other social policies were restored in December 2022, and the incoming government appears to be reinvesting in food security – raising hopes that Brazil's debt-austerity nexus can be broken.

For many developing countries, the result is a **perpetual strain on public finances, low capacity for state action, and insufficient investment in resilience and social policies – including critical anti-hunger programmes**. As Brazil has discovered since 2016 (see Box 6), austerity policies have had brutal impacts on hunger and poverty, while failing to provide a basis for sustainable public finances. In some countries, particularly in the Sahel, food security has been further undermined by perpetual underinvestment in strategic grain reserves, in a context of low government expenditures and global market orientation.

In the face of the economic disruptions of 2020-2022, countries facing budgetary strains are once again responding with further austerity and foregone investments. Shockingly, 64 developing countries spent more on debt payments than on healthcare during the first year of the COVID-19 pandemic.

Furthermore, high levels of debt are crowding out critical investments in meeting the SDGs, with debt servicing costs estimated to exceed climate spending in 94% of countries,[22] health, and social protection spending in 80%, and education in two-thirds. Delaying investment in food system transformation is particularly short-sighted, given that equitable and climate-resilient food systems are key to meeting almost all of the SDGs.

Today, therefore, the financial flows in and out of food systems are contributing to the macroeconomic problems dozens of countries are facing, and critically undermining the ability of governments and societies to respond to challenges like food security and climate resilience. Breaking these cycles is therefore key to addressing the debt crisis – and would unleash huge benefits.

[22] The limited data available suggests the mismatch may be huge. Norwegian Church Aid observes that for a smaller group of countries reporting climate spend in their UNFCCC NDCs, debt service is 32 times as high as climate spending.

2.3 DRIVER #3: BOOM-BUST CYCLES AND CORPORATE CONSOLIDATION

Boom-bust cycles in agriculture are another key element of today's unsustainable and inequitable food systems. Historically and again today, these cycles contribute to economic inequalities, the marginalization of small-scale food producers, and ultimately to unsustainable debt. Furthermore, **corporate consolidation through 'boom and bust' shapes the whole political economy of food systems** and thereby reinforces the dominant industrial model.

'Boom-bust cycles' have long been a feature of the agricultural sector, with price spikes typically followed by painful readjustments.[23] Following commodity price booms in the 1970s, food prices collapsed in the early 1980s, contributing to a farm depression that coincided with the developing world debt crisis.[24] In North America and other agri-exporting regions, farmers had taken on huge debts to invest in new machinery and struggled when prices fell – leading to widespread consolidation across the agriculture, farm machinery, and fertilizer sectors.

When global food prices spiked in 2007-2008, the initial boom was followed once again by a commodity crash, starting around 2013-2014. The downturn that followed saw a decline in export earnings and a steady increase in debt-to-GDP ratios for many developing countries (see Section 2.1), alongside grain import surges that undercut small-scale producers in the Global South.

It also hit agribusiness profits and drove an unprecedented wave of agribusiness consolidation from 2015-2018 – particularly in the inputs sector.[25]

At the outset of 2023, with farmgate prices already coming down from the spikes of Spring 2022, another damaging boom-bust cycle may now be underway. **The ability of agribusinesses to consolidate their power through previous crises is having an impact on the current cycle**. For example, farmers in the US drew limited benefits from the 2022 price boom due to sky-high input costs (including soaring energy and fertilizer costs) and the squeezing of their margins by powerful agribusinesses and corporate buyers. Meanwhile, soaring farmland prices in the US – up 23% from mid-2021 to mid-2022 – are making it harder for small-scale farmers to gain or maintain access to land while guaranteeing that the benefits of higher prices accrue to incumbents (including large land-owning agribusinesses). Similarly, in Argentina, farmers are failing to benefit from the agricultural commodity boom, thanks to a combination of high input costs, tight margins, and government restrictions (e.g. export quotas). Meanwhile, high prices have exacerbated food insecurity, which is rife despite Argentina being a leading agricultural producer and exporter.

For the world's poorest rural communities, many of whom are net food buyers and have little access to state support,[26] there is no upside to global price volatility. As observed by the UN Global Crisis Response Group, working animals are being sold and families are taking on increasing household debt in response to the current food price crisis.

[23] As noted by Henderson, J., Gloy, B. and Boehlje, M. in Agriculture's Boom-Bust Cycles: Is This Time Different?, "Past golden eras in agriculture quickly faded. The promise of sustained global demand shifted with economic conditions, and capital investments in agriculture led to increased agricultural supplies that trimmed farm prices and incomes. At the same time, leaner farm incomes were unable to support the record-high farmland prices, especially at higher interest rates. As a result, many farmers that worked to seize the emerging opportunities were left empty-handed as market and financial conditions changed."

[24] It is worth noting that high US interest rises contributed to the developing world debt crisis and farm bust. The boom leading up to it saw over-lending in the Global South, often at negative interest rates due to inflation; attempts to curb inflation through higher rates then made debt payments soar, while the rising dollar made US grains less attractive on global markets and sparked demand for diversified grain sourcing.

[25] A Special Report commissioned by the Family Farm Action Alliance highlights how these developments increased the combined market share of the top 4 firms, or concentration ratio 4 (CR4) across the food chain, following patterns of consolidation that typically occur after 'busts'.

[26] As observed by IISD: "While developed country producers are supported by subsidies and social safety nets, developing countries and smallholder producers feel the extent of commodity price volatility much more directly. In effect, many developing countries are becoming locked into the production and export of primary commodities whose volatile prices are declining over the long term and over which they have very little control."

By contrast, **today's highly-consolidated agribusiness giants are profiting from the endemic price volatility in global food systems**. As reported in the Financial Times: "Grain trading giants such as Cargill are getting rich, as are many multinational energy companies. But growers themselves are barely in the black." As acknowledged by the White House, industrial meat processors are also taking advantage of the crisis to increase their profits. Agrichemical firms, meanwhile, are more than recouping higher production costs by hiking up seed and pesticide prices. Perhaps most egregiously of all, 9 top fertilizer companies were expected to quadruple their profits in 2022 (relative to 2020), with governments in the Global South depleting public finances to subsidize their farmers' access to fertilizer (see Section 2.1).

The benefits accruing to corporations are rarely recycled back into critically-needed investments in food system resilience or other public interest expenditures: since the pandemic, agribusinesses and grain traders have in fact been able to benefit from bailout funds[27] and fiscal advantages, while avoiding the windfall taxes introduced by some governments on the energy sector (see Section 3).

Through these cycles, economic inequalities and power imbalances are growing – within agriculture, between farmers and agribusinesses, and among world regions. **Consolidation of power allows corporations to shape food systems to their continued benefit**: ensuring fiscal advantages, shaping research (in ways that often stifle innovation in the public interest), and influencing agri-development trajectories and food system governance through an array of channels.[28]

Cycles of boom, bust, and corporate consolidation are therefore undermining the very basis for sustainable food systems and sustainable finances to be built – and must be broken in order to find definitive answers to the debt crisis.

[27] For example, a $28 billion bailout during the Trump administration's trade war with China is being investigated for disproportionately supporting large farms and agribusiness, including a $67 million grant to JBS. See The New York Times.

[28] IPES-food will soon publish a report on this topic, *Who's Tipping the Scales? The growing influence of corporations on the governance of food systems, and how to counter it*. See also IPES-Food. Too Big To Feed (2017).

2.4 DRIVER #4: CLIMATE BREAKDOWN

Climate breakdown is a major driver of debt, poverty, and hunger in and of itself – and many are now demanding that climate justice and debt justice be addressed hand-in-hand (see Section 3). Food systems are also a key part of this nexus, and a critical part of the solution in terms of building climate resilience and sustainable finances.

The Intergovernmental Panel on Climate Change (IPCC) estimates that climate change has reduced global agricultural productivity growth by 21% since 1961, and by up to 34% in Africa and Latin America. Today, **climate impacts are proliferating[29] and combining with other food supply shocks to devastating effect**. In addition to the loss of Black Sea grain exports in 2022, global market supplies were undermined by the worst droughts for decades, with production losses in 'breadbasket' regions like Argentina, the North American Midwest, and France. Drought also decimated harvests and undermined access to food in some of the world's poorest regions, including the Horn of Africa and whole swathes of North Africa and West Asia, while record-breaking floods in Pakistan in October 2022 destroyed crops and vital infrastructure, affecting 33 million people and inflicting more than $30 billion in damages.

In addition to the devastating immediate impacts on food security, **climate change is undermining the economic solvency of the worst affected regions** – those who have contributed least to the climate crisis. Already today, the majority of highly indebted countries are those facing severe climate vulnerability as a result of their "special situations", i.e. Least Developed Countries, Landlocked Developing Countries, and Small Island Developing States.

Debt, in turn, reduces their resilience to climate shocks, with high debt stocks/servicing costs depriving countries of immediate liquidity buffers (e.g. foreign exchange, budget reserves) and contingency funds.

As climate change further impacts food production, these and many other countries could face an even more perilous situation, with major risks of economic collapse. In West Africa for example, where temperatures are rising 1.5 times faster than global averages, agriculture, livestock and fisheries contribute 35% of GDP, and the food economy accounts for 66% of total employment. Indeed, Sahel countries (Burkina Faso, Mali, and Niger particularly) were among those already experiencing climate-related shocks and socio-economic instability before the Ukraine war, and therefore highly vulnerable to the price shocks of 2022. Bigger developing countries like Pakistan are also at risk of sliding into economic collapse, as debt, climate change and food insecurity intersect (see Box 7).

Despite these critical threats, **transforming food systems to build climate resilience has been insufficiently prioritized and critically underfunded**. Back in 2009, $100 billion per year of 'climate finance' was promised to developing countries by 2020, but the pledge was never fulfilled. At the 2022 global climate conference in Egypt ('COP27'), a 'Loss and Damage' fund was agreed but there is no guarantee that it will deliver finances on the scale and of the type needed (see Box 7).

In most low-income countries, debt servicing costs continue to exceed climate spending. Meanwhile, only 3% of public climate funding is being channeled to food systems, and little of that is addressing the burgeoning emissions of industrial food systems,[30] or supporting food system transformation and adaptation where it is urgently needed.[31]

[29] The latest IPCC report confirms that impacts are occurring, inter alia, through more frequent and extreme droughts and floods, changing precipitation patterns, and loss of biodiversity and ecosystem services.

[30] The latest estimates by the IPCC show that food systems account for approximately 1/3 of global greenhouse gas emissions, with 70% of emissions coming from land use change (particularly tropical deforestation) and industrial agriclutural practices, and 30% coming from processing, retail, transport, and waste management.

[31] An IIED report found that "only $5.9 billion of climate adaptation finance was invested in LDCs over a five-year period where climate adaptation was the primary objective. This means less than 20% of the adaptation finance received by LDCs is invested in projects most likely to deliver transformative adaptation. If this trend continues, this would equate to less than 3% of (poorly) estimated LDCs annual adaptation finance needs between 2020–2030."

Today, Green Revolution-style partnerships continue to attract funding (see Section 2.2), while only a fraction of agricultural research funding goes towards transformative, agroecological approaches in the Global South.[32]

The lack of public funding leaves low-income countries increasingly reliant on further debt to address climate resilience – but **instead of being able to access low-cost capital, countries are being penalized for their climate vulnerabilities in the shape of higher interest rates**.[33] Some funds are accruing to developing countries through *carbon offsets/removals* and *carbon farming*, but these schemes risk reinforcing large-scale commodity production,[34] undermining food security,[35] constraining development, and thus perpetuating macroeconomic challenges for low-income countries – as well as failing to deliver emission reductions.[36]

Debt-for-nature swaps are also gaining renewed attention as an integrated solution to the climate crisis and the debt crisis. However, these solutions also require careful scrutiny in terms of their implications for food security, and their suitability to the current crisis (see Section 3).

In sum, climate breakdown is a huge driver of indebtedness and suffering in the Global South. While food system transformation could be the key to climate resilience and reduced indebtedness, instead today's unsustainable food systems are exacerbating the problem and leaving countries increasingly vulnerable to climate impacts.

BOX 7

The climate-debt-food insecurity nexus in Pakistan

Following devastating floods in 2022, Pakistan's economy is on the brink of collapse. Its total debt stands at $270 billion, around 79% of GDP. Pakistan is one of the ten most climate-stressed countries on the planet, yet it contributes a mere 0.8% of global greenhouse gas emissions. By the end of 2022, after incurring over $30 billion in damages from flooding, foreign exchange reserves shrunk to $3.7 billion, equivalent to just three weeks' worth of imports. The social costs have been staggering, with food production also lost to flooding and 26% of the population (4.7 million people) suffering from hunger. Comprehensive debt relief and climate finance are urgently needed in countries like Pakistan to deal with climate disasters, adapt to future extremes, and ensure sustainable development. Pakistan in fact led developing countries in demanding climate justice at the 2022 global climate conference in Egypt ('COP27'), culminating in a landmark Loss and Damage Fund through which developed countries have pledged to fund the recovery efforts of frontline states hit hardest by climate change. Funds and details remain scarce, however, suggesting a repeat of the broken promises of 'climate financing' (see above), and fuelling concerns that Pakistan and other countries in similar situations will remain critically exposed to a spiral of climate breakdown, debt, and hunger.

[32] Research by Biovision & IPES-Food found that only 3% of Africa-focused agricultural research projects funded by the Gates Foundation have agroecological components, and only 2% of funding goes to research institutes based in Sub-Saharan Africa.

[33] Credit Rating Agencies have identified climate vulnerability as a risk factor that increases liabilities or costs. This leads to higher borrowing costs, meaning higher interest payments or shorter maturities to access money from international lenders, and ultimately higher debt. See for example Debt Justice/CAN International.

[34] Research by GRAIN found that most carbon farming programmes worldwide are led by or connected to multinational agribusiness corporations such as Yara and Cargill, are generally located in large-scale commodity production zones, and focus almost entirely on rotations with cover crops and reduced or no-tillage – often requiring the use of broad-spectrum herbicides.

[35] As noted in the Land Gap report, "The total area of land needed to meet projected biological carbon removal in national climate pledges is almost 1.2 billion hectares – equivalent to current global cropland."

[36] A 2023 investigation by The Guardian has revealed that some 90% of existing carbon credits from the leading issuer are essentially worthless in emissions terms.

Credit: Likati Thomas

3

HOW CAN WE BREAK THE CYCLE OF UNSUSTAINABLE FOOD SYSTEMS, HUNGER, AND DEBT?

Unsustainable food systems are a key contributor to the debt crisis now facing dozens of countries in the Global South. Import dependencies, extractive financial flows, boom-bust commodity cycles, and climate-vulnerable food systems are combining to destabilize the finances of the world's poorest countries. In turn, unsustainable debt leaves countries critically exposed to shocks and undermines their ability to make urgently-needed investments in climate-resilient food production and food security.

Unlike the sovereign debt crisis of the early 1980s, today's debt build-up may not lead to a single tipping point. But its impacts could be just as severe.

Facing structurally higher import costs and debt repayments for the foreseeable future, dozens of countries will gradually lose any capacity to address the burgeoning crises they face. As the UNCTAD Secretary-General has warned, their debts are *unsustainable* in any meaningful sense. Left unaddressed, the growing debt burden will critically hamper the development prospects of the world's poorest countries, completely undoing decades of progress on hunger and poverty, and leaving the SDGs in abject failure.

What can be done to break the cycle of unsustainable food systems, hunger, and debt, and avert catastrophic impacts in the world's poorest countries?

In mid-2022, as the effects of the Ukraine war rippled out, the UN Global Crisis Response Group called for emergency debt relief to "prevent a continued unsustainable build-up of debt in vulnerable countries before the world stumbles into the next round of country debt crises". Nearly a year on, with the crisis steadily worsening, the world is gradually waking up to the reality of an emerging debt crisis. Powerful governments and multilateral organizations have put a number of solutions on the table, including IMF bailouts, liquidity support, and limited forms of debt relief (including restructuring, and debt swaps) for countries facing the most critical situations (see Box 8).

However, **today's responses to the debt crisis are failing to address the severity of the situation, the breadth of countries at risk, and the structural causes of indebtedness** – particularly the role of food systems. In other words, these solutions risk repeating the same shortcomings of previous efforts at debt relief. The HIPC initiative, launched in 1996, delivered significant debt relief for the world's poorest countries, in the form of lower principle or interest payments, rescheduling, and ultimately debt cancellation.[37] But it had only modest impacts in terms of building sustainable finances[38] and supporting development in the longer term,[39] with some critics attributing these shortcomings to persistent structural adjustment-style conditionalities, and failure to address the structural causes of indebtedness.[40] Furthermore, debt relief under HIPC was only available to a fraction of the countries arguably needing it,[41] while covering only debt owed to the IMF, World Bank, and the African Development Fund. As described in Box 8, 'debt-for-nature swaps' and other evolving forms of green financing are also a longstanding part of the mainstream response to debt and have failed to address the root causes of debt, arguably creating further obstacles to sustainable food systems and food security.

By recycling the prescriptions of the past, the debt relief and refinancing options on offer today will surely be too little too late. The G20 Common Framework, in particular, mimics the narrow focus of previous initiatives, thereby excluding many of the countries facing structural barriers to debt sustainability, including some middle-income countries. Meanwhile, the failure to build effective multi-creditor responses will be even more of a handicap today than it was in the past, in light of the rising share of debt now owed to private, domestic, and newer bilateral creditors like China.[42]

And crucially, global responses to the debt crisis are failing once again to pay attention to food systems – as a root cause of indebtedness in the Global South, and a key part of the solution. Around the world, **a fundamental transformation of food systems, and a paradigm shift away from industrial agriculture, is urgently needed**, as recognized by the FAO, the Committee on World Food Security (CFS), landmark reports from the IPCC, IPBES, the World Bank and UN-led 'agriculture assessment' (IAASTD), and countless scientists and civil society groups.

For countries in the Global South, food system transformation is critical to escape from cycles of debt and hunger, and could potentially unleash huge benefits. **By shifting from input-intensive, export-oriented, industrial agriculture to diversified, agroecological food systems, low-income countries can cut crippling food, fertilizer, and energy dependencies**. The ability of agroecology to deliver a pathway toward food security, sustainability, and resilience has become increasingly clear in the face of COVID-19

[37] In 2005, the HIPC Initiative was supplemented by the Multilateral Debt Relief Initiative, paving the way for 100% relief on eligible debts by three multilateral institutions—the IMF, the World Bank, and the African Development Fund — for countries completing the HIPC process

[38] As the IMF underlines, the 36 countries receiving debt relief through the HIPC initiatives saw debt service payments decrease by about 1.5% of GDP from 2001-2015; and despite increasing debt in low-income countries over the past decade, debt service burdens were still 1% below pre-HIPC levels in 2017.

[39] According to D. Essers and D. Cassimon (2021) in an IOB Working Paper, there is some evidence of initially increased fiscal space in participating countries, but it remains unclear how much of this fed into additional spending related to the Millennium Development Goals and higher economic growth.

[40] HIPC participation is conditional on what the IMF refers to as "a track record of reform and sound policies", and thus alignment with the orientations of structural adjustment in its various iterations. Further, critics have underlined that the World Bank/IMF have refused to cancel any debt unless debtor countries reached the completion point, leaving countries struggling to undertake structural reforms while managing debt payments.

[41] Only 40 countries were deemed eligible for HIPC debt relief (1996-2010), with eligibility based on high thresholds of debt sustainability (debt-to-export and debt-to revenue ratios), narrow (IDA-only) indicators, and insufficient attention to other sources of macroeconomic vulnerability such as export concentration/ export price volatility.

[42] For example, a Financial Times article highlights that in Ghana, one of the countries now engaged in debt restructuring talks, some 75% of debt servicing costs pertain to domestic creditors, including pension funds and trade unions. But in Zambia, another country also engaged in restructuring negotiations, China is the largest creditor, holding more than a third of the country's debt.

BOX 8

Kicking the can down the road: insufficient solutions to the debt and food security crises

- In May 2022, the G7 launched a new Global Alliance for Food Security, and some $5 billion was committed at the subsequent G7 summit. However, most of this funding was earmarked for **humanitarian support/food assistance**. Responses to the food security crisis at the G7 and multilateral levels have also focused on ensuring **access to fertilizer**. For example, as part of a $1.5 billion emergency food production facility approved in 2022, the African Development Bank will provide fertilizer to 20 million smallholders across the continent over the next four growing seasons. A parallel focus has been on **facilitating food imports by boosting liquidity**, e.g. through extended IMF 'Special Drawing Rights', and new import financing loan facilities. While forming a critical part of the short-term response, these approaches leave underlying problems unchallenged and may simply delay crucial actions to re-diversify food production and trade systems (see IPES-Food, Another Perfect Storm).

- A G20 **Common Framework for Debt Treatments** was established in 2020 to reduce debt burdens in the face of COVID-19 and bring together traditional 'Paris Club' creditors with newer lenders like China – which has traditionally engaged in debt restructuring on bilaterally negotiated terms (including recent 'forgiveness' of some Belt and Road Initiative-related debt via interest-free loans). To date, few countries have drawn on the Common Framework, and it has not led to debt cancellation for any of them. The scheme has been criticized for slow implementation and exclusion of middle-income countries by the Managing Director of the IMF and the Secretary-General of UNCTAD, with the latter calling for debt payments to be suspended during negotiations. Difficulties remain in bringing private creditors to the table and in coordinating responses between leading governments. For example, following Zambia's debt default, China – the main debt holder – agreed in principle to offer coordinated debt relief through the Common Framework, but delays have ensued, with China blaming multilateral and commercial creditors for failing to come to the table, and the US government suggesting that Chinese terms are the barrier to progress.

- **'Debt-for-nature' and 'debt-for-climate' swaps** emerged in the 1980s and are now gaining renewed attention as an integrated solution to the climate crisis and the debt crisis. For example, in January 2023, the Portuguese government announced that an initial 12 million euros of debts owed to it by Cape Verde would be converted into investment in nature protection. However, critics – including Debt Justice/CAN International and the Climate and Community Collective – have argued that debt swaps should not be seen as a leading response to today's crisis, warning that swaps have provided minimal amounts of debt relief to date, while they risk exacerbating the dispossession of smallholders and Indigenous peoples, introducing new conditionalities, legitimizing existing debts, and distracting from the urgent need for new sources of financing to flow from North to South. **'Green bonds'** and other green financing options are also gaining traction, and generating similar concerns (see for example Debt Justice/CAN INTERNATIONAL).

and climate shocks.[43] Furthermore, emerging examples from around the world suggest that major food system shifts are possible without compromising food security – and with major economic benefits. In contrast to Sri Lanka's botched top-down organic transition, the Indian state of Andhra Pradesh has engaged some 620,000 farmers in a sequenced transition to chemical-free, 'natural farming', with initial data suggesting higher household incomes, yield increases, cost savings, improved quality of soils and crops, as well as reduced stress and better health.

There is no one-size-fits-all recipe for food system transformation. Some countries face more constraints than others in rebuilding production of key staple foods, while agri-export revenues will remain critical for many countries – even as they rebalance toward domestic needs. It is therefore essential for countries to understand and consider these trade-offs,[44] and to redesign food production systems alongside steps to re-diversify food consumption and restructure trade flows, ensuring a diverse mix of local and global supplies.[45]

Overall, it remains clear that a different way of addressing debt is needed. This time around, solutions should not be limited to the countries facing immediate debt distress and default risks – and should not be limited to 'debt relief' as we know it. For dozens of countries across the Global South, **public finances will only be sustainable in the longer term if the structural drivers of debt are addressed, in food systems and beyond**.

The current crisis must be used to build a new economic order and a new apparatus to equip countries for this century of crises. **Comprehensive debt relief must be coupled with a broader economic resettlement between the Global North and South, a renewed commitment to fight poverty and hunger, and must go hand-in-hand with the transformation of food systems.**

This is a major and complex work program but it can no longer be delayed. The upsurge of hunger and poverty in 2022 has driven a realization that the converging crises we are facing cannot be addressed with the existing apparatus – and the injustices and power imbalances underpinning it. This new reality was captured by the UN Secretary-General in his bleak outlook on 2023: "When we see poverty and hunger on the rise around the world....When developing countries are forced to pay five times more in borrowing costs than advanced economies ... When vulnerable middle-income countries are denied concessional funding and debt relief...(...) When we see all these gaping flaws and more... Something is fundamentally wrong with our economic and financial system."

It is therefore critical to bring together different threads and find commensurate, connected solutions – to **bring together the conversations on debt relief, climate justice, and food system transformation,** and the various actors of relevance, including dispersed creditors and finance providers. There are clear building blocks to work from, notably the efforts of civil society groups to promote a 'multilateral sovereign debt restructuring' framework, and to develop proposals linking debt justice and climate justice in the run-up to COP27.

To build transformative, cross-cutting responses to the debt crisis, each country will need to follow its own, self-determined path. But some key principles are identified below, drawing on historical and present-day efforts to radically rethink developing world debt and redress global injustices, and focusing on how to address structural drivers of debt in food systems.

[43] Agroecology is a proven climate mitigation and adaptation strategy that increases productivity. As highlighted by IPES-Food in the wake of COVID-19, agroecology is also an effective form of crisis response, and a low-cost way to hedge against various shocks.

[44] A number of studies are yielding important data in this regard. For example, the 2016 Changing Course in Global Agriculture project examined the impacts of fertilizer subsidies and related alternative policies for small-scale farmers in Kenya. Despite the 'sustainable agriculture training scenario' requiring more time (five years) to take effect than the fertilizer subsidy scenario, it delivered higher yields and better overall achievement of economic, social, and environmental development indicators (including higher resilience to shocks), at approximately half the cost. Although situated in a Global North context, IDDRI's 2018 report, An agroecological Europe in 2050, also provides useful insights on the macro impacts of agroecological transformation, forecasting healthier diets, consistent export capacity, reduced greenhouse gas emissions, and biodiversity restoration in an agroecological scenario.

[45] These questions are explored further in IPES-Food's previous Special Report, *Another Perfect Storm*.

RECOMMENDATION 1

Provide debt relief and development finance on the right scale for a century of crises.

To be effective, debt relief must be commensurate to the immensity of the challenges we face and the breadth of countries facing them. The World Bank estimates that building climate-resilient food systems globally will require $300-400 billion of additional investment per year, while $4–$6 trillion is the estimated annual cost of achieving climate goals. For many low-income countries, the main barrier to food system transformation is today's high debt burdens, with debt servicing displacing critical government expenditures. Although wholesale debt cancellation may not be viable in the current context,[46] **debt relief is clearly needed on an unprecedented scale, corresponding to "financing needs for recovery, climate action, and the SDGs,"** as stated by the UN Global Crisis Response Group.

Civil society groups have underscored the need for wide-ranging debt relief *and* **massive injections of new climate and development finance** – ideally in the form of grants to avoid further debt build-up.[47]

Mechanisms to suspend debt obligations in the face of shocks are also required, and should be urgently explored (see Box 9). Whatever the specific funding vehicles, it is clear that **financial flows to the Global South must be sufficient in volume to address food system transformation, and targeted to this effect** – given the role of food systems in driving debt and their centrality to meeting nearly all of the SDGs (and especially building climate resilience). **Funding for agroecology must be scaled up**, given its potential to deliver food security, climate adaptation, and macroeconomic viability.

It is also crucial to **rethink the parameters and formal definitions of 'sustainable debt'** in line with the vulnerabilities so many countries are facing – particularly exposure to volatile agricultural commodity markets. To ensure countries have access to adequate debt relief/financing regardless of income status, **realistic debt sustainability analysis** must be undertaken, drawing on proposals from civil society groups for human-rights based assessments (see Box 9) and a 'multidimensional vulnerability index'.

RECOMMENDATION 2

Repair historical food system injustices and return resources to the Global South.

It is also critical to address the debt crisis in a broader context of global justice, taking into account all financial flows between Global North and South, and the historical injustices that have mired countries in unfavourable economic conditions, particularly in extractive global food systems. **Tax justice** is a key piece of the puzzle.

Windfall taxes have been introduced on energy firms in 2022, but there is an urgent need to expand the lens and implement **windfall taxes on global grain traders and other agribusiness beneficiaries of food price spikes** – and to redistribute the benefits to food insecure communities globally, in line with proposals from UNCTAD, Oxfam, and others.[48]

[46] The IMF and other creditors have raised longstanding resistance to full debt cancellation, arguing that it would undermine further lending capacities of the multilateral agencies while failing to incentivize governance reforms; more recently, the viability of debt cancellation in countries like Ghana has been questioned in today's context of diversified creditors, including large shares of domestic private debt linked to taxpayers.

[47] Debt Justice/CAN International have warned that "climate finance itself continues to push vulnerable countries into debt as over 70% is provided as loans".

[48] The UNCTAD 'Trade and Development 2022' Report on the debt crisis recommends: 'Governments to deploy a pragmatic strategy, including price controls, antitrust measures and windfall taxes on excessive corporate profits and to use these funds to support the most vulnerable; similar proposals have been made by Oxfam, with a focus on recycling the profits of food and energy companies to fund food security; in January 2023, the government of Portugal adopted a windfall tax covering food retailers.

Expanding the discussion to other targets – e.g. **food commodity speculation, recoveries from tax havens** – would help to advance the logic of redistributing value to the Global South, and could yield critical resources to fund debt relief and support the transformation of low-income countries' food systems and economies.

Further, demands are now being formulated for reparations to be paid to compensate historical injustices, including the expropriation of agricultural lands and the use of slave labor in the food system – and **food system-related debt reparations** should now be urgently explored in the context of the debt crisis, drawing on emerging frameworks and proposals (see Box 9). The concept of **ecological debt**, referring to the resources 'borrowed' from the Global South to enrich wealthier countries,[49] can also help to guide responses to today's debt-food-climate nexus, with some groups now exploring broader conceptions of ecological debt linked to the destruction of territories, bio-regions, and biodiversity – destruction often driven by industrial agriculture.

RECOMMENDATION 3

Democratize financial and food systems governance.

As stated by the UN Secretary-General, we must "place the dramatic needs of developing countries at the center of every decision and mechanism of the global financial system". Institutions like the World Bank and IMF must finally be reformed to break free from Global North biases over decision-making. Their lending protocols to developing countries must be critically reviewed, to cut the cord with the harmful practices of the structural adjustment period and allow countries to escape from the debt traps reinforced by previous lending practices.

Proposals for an **independent sovereign debt authority** also merit urgent attention. In a context of wide-ranging creditor interests, opaque processes, and imbalances of power, such an authority could provide critically needed democratic oversight and coordination functions.[50] **These reforms must go hand-in-hand with changes in food systems governance, to ensure a meaningful voice for the world's poorest countries and marginalized populations** – including small-scale food producers, food insecure communities, and Indigenous People – in defining the food systems of the future.[51]

In conclusion, **never again should countries have to choose between repaying debts and ensuring people are fed.** Together, the changes outlined above could mark a sea change in how we address debt, and a pathway to sustainable finances and global justice. The principles and precedents described above can provide a basis for transformative action on debt and its root causes, and help reduce vulnerability to pandemics, conflicts, climate events and economic shocks.

By acting now to break the cycle of unsustainable food systems, hunger, and debt, we will be able to look back on 2022 not as the window into a coming era of food crisis, but as the wake-up call that sparked a decade of transformation.

[49] Ecological debt refers to the cumulative cost of environmental injustice, especially through resource exploitation and environmental degradation by the Global North in the Global South. (See R. Warlenius, G. Pierce and V. Ramasar (2015) article published in Global Environmental Change Journal). Born out of the 1992 Rio Earth Summit, the concept proposes a profound reversal in viewing rich countries not as creditors but rather as debtors to the Global South for centuries of colonialism, oppression, and resource extraction. See also G. Goeminne and E. Paredis (2008) paper presented at the 7th Global Conference on Environmental Justice and Global Citizenship.

[50] Writing in the Financial Times, the Secretary-General of UNCTAD, stated: "An independent sovereign debt authority that engages with creditor and debtor interests, both institutional and private, is urgently needed. At a minimum, such an authority should provide coherent guidelines for suspending debt payments in disaster situations, and providing expert advice to governments in need. Furthermore, a public debt registry for developing countries would allow both lenders and borrowers to access debt data. This would go a long way in boosting debt transparency, strengthening debt management, reducing the risk of debt distress, and improving access to financing."

[51] IPES-Food's forthcoming report on this topic, *Who's Tipping the Scales?* warns of the increasing corporate capture of food system governance that is shaping food systems to benefit private interests and undermining the public good. For example, transnational corporations are actively involved in negotiating international, regional, and bilateral trade agreements which shape the ways in which food trade and investments are governed. In the report, IPES-Food puts forward a bold vision to democratize food system governance through inclusive participation mechanisms grounded in human rights and the public interest.

BOX 9

Pioneering frameworks to address debt and global injustices

- **An independent sovereign debt authority.**The Civil Society Financing For Development Group has called for the UN General Assembly to convene an open-ended intergovernmental working group ("Sovereign Debt Workout Mechanism") to work towards a **'multilateral sovereign debt restructuring'** framework, to deliver (inter alia): immediate debt cancellation to all countries in need, including both low- and middle- income countries, assessed with respect to their development financing requirements, and provided by all creditors (bilateral, multilateral, and private); consensual Principles on Responsible Borrowing and Lending and ensuring compliance with these; the creation of a publicly accessible registry of loan and debt data; a human rights and development impact assessment approach to debt sustainability analyses; assessing (and acting on) systemic risks posed by the financial sector including regulation and supervision of the asset management industry (shadow banking), Credit Rating Agencies, and development of a new global consensus on the critical importance of capital account management beyond pre/post crisis conditions.

- **Cancellation of Germany's debt following World War II.** 2023 marks the 70th anniversary of the 1953 London Debt Accords that cancelled half of West Germany's debt (which had inherited all of Germany's debt following World War II). At the time, West Germany's debt-to-GDP ratio was 25%, relatively low compared to heavily indebted countries today. In contrast to modern restructuring agreements, the London Debt Accords included all types of creditors – foreign governments like the US, UK, Egypt, and Pakistan, as well as private individuals and companies. Rather than triggering austerity measures and sanctions, failure to make debt repayments would lead to consultations, and negotiations (though these were never necessary in practice). Germany's debt cancellation and restructuring ushered in a historic period of growth and prosperity for the country and peace for the region.

- **Norway creditor debt audits and cancellations.** In 2006, the Norwegian government set an important precedent when it assumed responsibility for a failed shipping development programme tied to loans made to seven countries, agreeing to cancel $437 million in debts. In 2012, the government pledged to assess the legitimacy of developing countries' debts to Norway, making it the first country to carry out a creditor's debt audit.

- **Ecuador's audit and cancellation of illegitimate debt.** In 2007, following years of campaigning, Ecuador became the first country to officially examine the sources and legitimacy of its foreign debt. An independent audit commission examined all lending from 1976 to 2006, including debts owed to states, the IMF, World Bank, and private creditors. The commission found that predatory lending had caused "incalculable damage" to Ecuadorian society, in some cases violating international and domestic laws. A considerable amount of the government's debt was deemed illegal and ineligible for repayment, and in 2008 Ecuador suspended payments on 70% of its bonds, saving at least $7 billion, and facilitating increased spending on health, education, infrastructure, and employment in the years following.

- **Caribbean states' call for reparations and debt cancellation.** In 2014, Caribbean nations made a united call for debt cancellation as part of a 10-point action plan to seek reparations from European countries involved in the African slave trade, land appropriation, and the genocide of native Caribbean communities. The region's sugar plantations were primarily owned and operated by the British, French, Spanish, Dutch, and Danish. While the Dutch Prime Minister apologized in 2022 for the Netherlands' 250-year role in the brutal slave trade, neither the Netherlands nor any of the other implicated governments have agreed to pay reparations to date.

- **Debt suspension following disaster.** A number of initiatives have identified the need for an automatic debt standstill in the face of external shocks. These calls have been made, inter alia, under the Bridgetown Initiative, led by Barbadian Prime Minister Mia Mottley, which puts forward pandemic and natural disaster clauses that would suspend debt servicing for two years following a disaster, alongside reconstruction grants (not loans). The initiative also advocates for small island developing nations on the frontlines of climate change to have access to low-cost capital for climate mitigation and adaptation without worsening sovereign debt burdens. However, critics have countered that the Bridgetown proposals fail to break with the lending practices and power relations that have contributed to today's crises.

Recommendations to break the cycle of unsustainable food systems, hunger, and debt

BREAKING THE CYCLE OF UNSUSTAINABLE FOOD SYSTEMS, HUNGER, AND DEBT

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ABOUT IPES-FOOD

The International Panel of Experts on Sustainable Food Systems (IPES-Food) seeks to inform debates on food systems reform through policy-oriented research and direct engagement with policy processes around the world. The expert panel brings together environmental scientists, development economists, nutritionists, agronomists, and sociologists, as well as experienced practitioners from civil society and social movements. The panel is co-chaired by Olivier De Schutter, UN Special Rapporteur on extreme poverty and human rights, and Lim Li Ching, Senior Researcher at Third World Network.

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