**[Climate debt trap](https://www.dawn.com/news/1840040/climate-debt-trap)**

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HEAVY and rising debt has emerged as one of the toughest hurdles for developing nations to address climate change, alleviate poverty, and seek economic development. The total external debt of 118 low- and middle-income countries doubled to $3.1 trillion in 2022 from $1.5tr in 2010, rising to about 15 per cent of their GDP.

The amount of finance required to meet their debt payments has also increased. In 2022, developing countries spent $443 billion to service their public debts, according to the World Bank’s International Debt Report. This number will be overtaken soon, as 2024 is projected to be the costliest debt service year yet this century, according to the Debt Relief for Green and Inclusive Recovery, which focuses on the linkages between debt distress and climate change.

Fuelled by inflation, high interest rates, energy crisis, and economic uncertainty after Covid-19, the implications of all-time high debt service payments are alarming, shrinking the fiscal space for developing countries to scale up investments in climate and sustainable development. About 50 developing countries are sliding towards default as a major chunk of their income is eaten up by debt, leaving little for basic services.

This liquidity crunch is forcing a situation where climate and environment are relegated to the back-burner even though inaction in these two areas poses risks. The inability of developing countries to protect themselves against the vagaries of global warming due to fiscal constraints has ramifications beyond national and regional boundaries. It is risking sustainable development and compounding the global crises of poverty, climate, food insecurity, water, clean air, energy, and health. The world cannot afford this.

What will constitute a lasting solution?

Can there be a quick fix? What will constitute a lasting solution?

Immediate debt relief is one option, which frees fiscal space for climate and development. Lowering the costs of borrowing and extending long-term loans provide relief.

Debt swaps for climate and nature are also considered a win-win, where creditors are expected to forgo existing debt in return for climate- or nature-related actions and policies. Invoking the ‘polluters pay’ principle, the V20, a group of 68 climate-vulnerable countries, has proposed imposing carbon tax on major economies to mobilise finances for sustainable investments in their regions.

However, any long-term solution will not be forthcoming without a comprehensive review of the existing sovereign debt mechanisms. Established some 80 years ago, the international financial system is confronted today by challenges posed by climate change; its strict conditionalities make access to funds difficult for those who need it most, and its old mechanisms are struggling to come to the rescue of emerging and developing economies.

UN Secretary General António Guterres has called for a complete overhaul of the global financial architecture, which he describes as morally bankrupt for its failure to respond to new challenges. The Bridgetown Initiative has also tabled a number of proposals to revamp the global financial system.

While the reform process will take time to unfold, the secretary general has suggested the Sustainable Development Goals (SDG) stimulus package of $500bn a year in three priority areas: tackling the high cost of debt and rising risks of debt distress, massively scaling up long-term financing for development through public development banks, including multilateral development banks, and expanding contingency financing for countries in need.

These proposals have generated momentum for discussion in political and technical fora. The UN climate change conferences also deliberate this issue. This year’s spring meetings of the World Bank and IMF focused on how to assist countries address climate change and help the most indebted nations. Last year’s Africa Climate Summit and the Asean meetings discussed how to address the financial challenges of climate-vulnerable nations. Additionally, a group of 100 prominent individuals, including former heads of state and government and industrialists, sent an open letter to the G20 leaders in April during the IMF/ World Bank spring meetings calling for urgent reforms to the international financial system and actions to address the burden of debt hindering progress on climate and SDGs.

While climate action is now part of economic policymaking nationally, international financial mechanisms are yet to effectively respond to developing nations’ funding needs. Removing the burdensome debt, as the letter says, will allow countries to invest in their people and their future. This must be done without delay. Anything less will blow the climate debt trap into a climate death trap for the world’s poor.

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