International Institute for Environment and Development

Media briefing

20 June 2023

Drowning in debt: help for climate-vulnerable countries dwarfed by repayments

Some of the world's lowest-income nations are spending vastly more repaying debt than they are receiving in financial help to cope with the climate crisis. In addition, much of what they do get comes as loans that add still more red ink to their balance sheets. Tens of millions of people in these countries — which are among the most vulnerable to climate change — are being failed by state and private investors who IIED believes must change their approach to repayments.

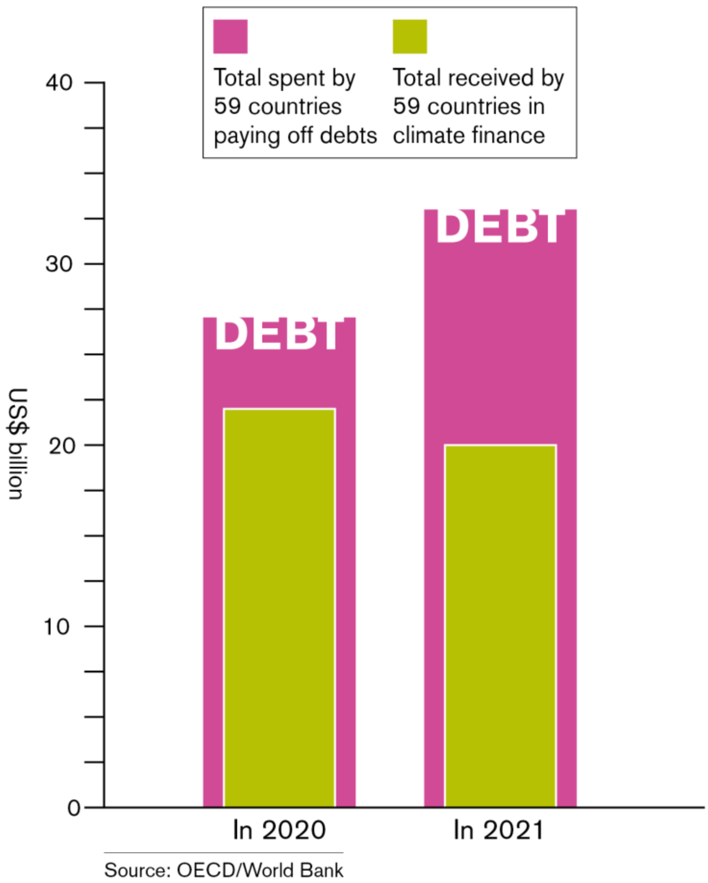
A new international approach to debt management could allow low-income countries to spend money on nature restoration, climate adaptation, mitigation and repairing damage already done. The Summit for a New Global Financing Pact being held in Paris, on 22 and 23 June, must build on the ideas set out in Barbados's Bridgetown Initiative to help promote a more equal system that serves those who have contributed the least to climate change. The summit must also produce genuine promises of action.

The story in brief

IIED has analysed the debt and climate finance situations of 59 of the 76 nations in the Least Developed Countries (LDCs) and Small Island Developing States (SIDS) groups, as defined by the United Nations. Data was not available for the remainder.

The two groups are particularly vulnerable to climate-driven damage.

In 2021, the most recent year for which data was available, the 59 countries together spent US$33 billion on debt repayments and received US$20 billion in climate finance. Twenty-six individually spent more on debt servicing than they got in climate funds.



For nine countries, debt service payments in 2021 even outweighed the total foreign aid they received: Angola, Myanmar, the Dominican Republic, Jamaica, the Maldives, Senegal, Belize, Lesotho and the Lao People's Democratic Republic.

In 2020, the difference was less stark for the overall group: US$27 billion in repayments compared to US$22 billion in climate funds received.

While around half the countries analysed spent less to service their debt than they received in climate funds in 2021, for some the difference was small. Every dollar used for repayments is one that could have gone to dealing with their climate vulnerabilities.

This pattern has held for a decade. Between 2011 and 2021, these 59 countries spent US$234.5 billion paying off debts owed to state, private and multilateral creditors. During the same period, they received only US$136 billion in funding for projects designed to mitigate or adapt to climate change.

Across that span 48% of climate funding was provided as loans rather than grants for the group of 59 countries as a whole.

IIED's analysis includes development finance that the OECD has recorded as principally or significantly climate-related, or as having climate components, according to conventions agreed in Rio de Janeiro in 1992 known as 'Rio markers'. This is, therefore, the broadest possible interpretation of climate finance.

The background

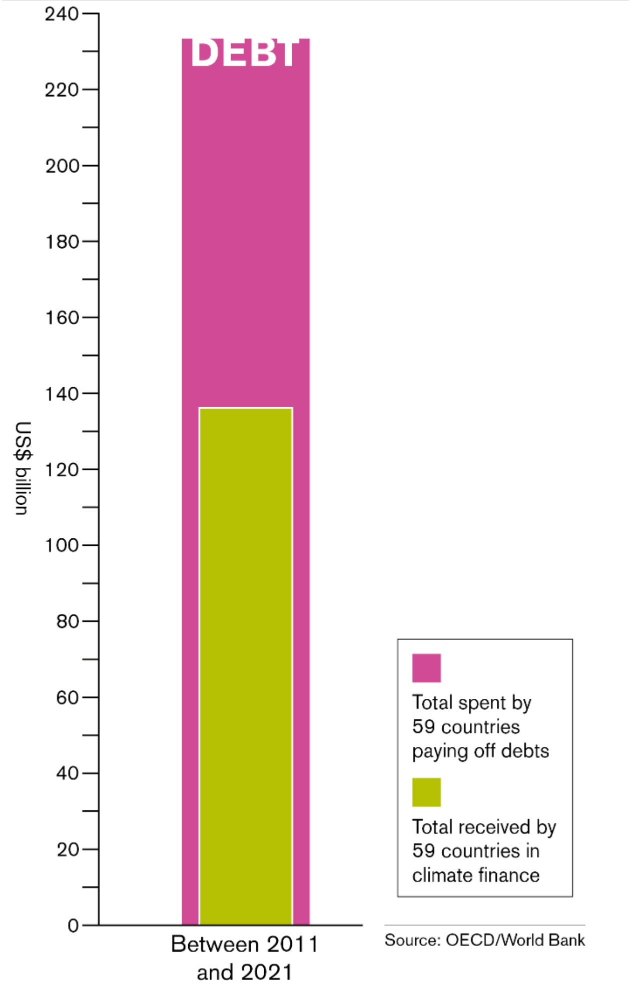
Sovereign debt is created when governments borrow money, through loans or by issuing bonds, to pay for spending they cannot finance through taxation or to invest in the future such as by building railways or power plants.

The problem of lower-income countries' indebtedness has previously been the focus of grassroots campaigns calling for debt relief or even cancellation, like Make Poverty History, and international assistance including the Heavily Indebted Poor Countries Initiative run by the International Monetary Fund and World Bank.

IIED, however, with an eye on the future, has a strong record of research into the worrying relationship between indebtedness and the worsening climate crisis. We have previously found that many of the countries that are most at risk from climate-related disasters are already either in debt distress — meaning they cannot fulfil their financial obligations — or on the brink of becoming so.

While all governments have to borrow money, this can be disproportionately difficult or costly for low-income countries, which also tend to be less resilient in the face of repeated climate-driven shocks like cyclones and drought.

Additionally, dozens of nations are unable to borrow anywhere near the amount of money they need to fight the effects of global heating because of their existing debt, our work has shown. Poor countries can be forced to spend significant portions of their national budgets on service payments. This hidden handbrake of debt makes adapting to and mitigating damage from the climate crisis extremely difficult.



All this takes place in the context of richer countries having failed to provide the annual US$100 billion of climate finance they promised in Copenhagen 14 years ago. IIED believes that 70% of climate finance given to LDCs and SIDS should be grants, rather than the loans which currently constitute about half of funding.

Further, Russia’s invasion of Ukraine and rising global interest rates will have increased costs for poorer countries since 2021.

The potential solutions

IIED is clear that the status quo must, and can, change. The summit being hosted in Paris on 22 and 23 June is a good chance for richer nations to be led by governments in need towards a more just international debt regime.

For that reason we believe Barbados's Bridgetown Initiative must be given a serious hearing. This proposal calls for debt reform that takes into account the financial punishment successive natural disasters can inflict, allowing a country to invest in recovery. It also pushes for trillions of dollars in new climate-targeted finance of the sort that is currently hard to come by for low-income nations.

Solutions do already exist that can help these countries put a dent in their current debt burdens. Debt swaps for nature and climate, for example, in which restructuring is linked to an indebted government's performance on key conservation or adaptation goals, are a proven way forward that can free up funds for reinvestment in public services and other areas.

In March this year Cabo Verde agreed a debt swap with Portugal, its major creditor, that built on a pilot run by IIED and its partners. Multiple government departments worked together with local and Indigenous communities — the groups closest to the negative impacts of climate change — to link borrowing with environmental protection.

A further recent example was Ecuador's debt-for-nature deal with Credit Suisse that is designed to slash the country's debt and protect the ecologically unique Galapagos Islands.

Another instrument IIED has researched is parametric insurance, a form of indemnity that covers a government's debt repayments during a period of climate-driven crisis, allowing it to focus on recovery. The insurance can be designed to kick in when a country is hit by drought, cyclones or other disasters.

The numbers

This analysis uses World Bank data on public external debt servicing, which refers to the amount of money countries spend on repayments of both the interest and the principal values of their loans. Climate finance figures come from the OECD. Highlights in gold show where debt repayments outweigh climate funding.

…

Debt repayments vs climate finance

	2021 (Current US$ millions)		2020 (Current US$ millions)	
Country	Debt repayments	Climate finance	Debt repayments	Climate finance
Afghanistan	19.23	279.09	28.70	341.14
Angola	8881.15	282.04	6962.60	518.17
Bangladesh	2772.08	3282.45	2013.98	5079.26
Belize	613.22	25.55	75.42	37.09
Benin	726.79	432.57	210.52	298.08
Bhutan	116.18	70.90	46.76	44.84
Burkina Faso	142.57	840.35	135.91	465.09
Burundi	18.66	150.17	14.14	201.82
Cabo Verde	53.84	50.99	59.13	18.33
Cambodia	395.86	511.86	359.10	774.74
Central African Republic	6.57	98.03	5.17	82.31
Chad	150.00	164.32	111.28	298.72
Comoros	3.21	27.65	3.37	96.70
Democratic Republic of the Congo	347.82	1047.14	255.64	535.89
Djibouti	42.51	93.17	53.28	79.40
Dominica	17.03	228.08	25.64	24.78
Dominican Republic	2216.65	297.38	4204.35	33.79
Eritrea	21.88	22.53	21.55	29.79
Ethiopia	1989.09	1060.05	1970.07	1498.95
Fiji	24.02	109.64	255.51	131.80
Gambia	31.00	53.00	27.24	79.05
Grenada	45.73	4.78	44.30	32.63
Guinea	108.92	241.85	74.12	240.70
Guinea-Bissau	43.47	5.61	23.35	18.85
Guyana	79.45	25.70	76.45	209.78
Haiti	14.91	210.27	9.74	333.74
Jamaica	1056.71	21.94	1073.53	72.80
Lao People's Democratic Republic	664.69	117.52	639.69	177.60
Lesotho	298.26	29.86	59.82	20.47
Liberia	17.63	122.63	24.15	94.50
Madagascar	128.77	597.00	103.97	367.42
Malawi	81.48	263.40	72.61	460.03
Maldives	738.14	93.07	271.15	156.09
Mali	269.83	650.19	229.05	409.09
Mauritania	397.34	105.67	270.04	138.93
Mauritius	185.37	1.91	367.92	377.94
Mozambique	583.68	1016.71	606.63	778.79
Myanmar	2227.14	95.18	508.41	2612.93

Nepal	262.96	228.18	255.53	1087.47
Niger	192.44	1221.53	172.60	543.60
Papua New Guinea	637.81	415.39	988.52	220.64
Rwanda	647.37	506.34	113.33	442.63
Saint Lucia	43.64	18.89	42.35	30.19
Saint Vincent and the Grenadines	29.86	31.87	31.61	16.62
Samoa	13.92	42.07	21.88	24.98
Sao Tome and Principe	1.97	18.40	1.74	41.70
Senegal	1441.81	848.35	1575.83	516.84
Sierra Leone	55.06	115.36	51.21	123.06
Solomon Islands	6.50	135.16	6.30	41.43
Somalia	16.64	360.81	480.86	285.63
Sudan	1621.13	631.24	143.67	158.64
Tanzania	1543.66	1085.34	1199.32	523.01
Timor-Leste	9.60	179.36	8.05	44.91
Togo	105.46	265.61	86.04	123.13
Tonga	3.52	98.05	5.99	28.68
Uganda	589.50	526.26	311.91	829.18
Vanuatu	14.64	140.20	14.45	139.86
Yemen	91.36	288.98	86.05	166.96
Zambia	241.37	82.44	569.50	161.89

Sources: OECD, Climate Change: OECD DAC External Development Finance Statistics (data last updated 20 April 2023).

OECD, Development finance data. Query Wizard for International Development Statistics (data last updated 2022).

World Bank, International Debt Statistics, Debt service on external debt, public and publicly guaranteed (PPG) (TDS, current US$). Dataset code: DT.TDS.DPPG.CD (data last updated 12 June 2022).

International Institute for Environment and Development (IIED)

Visit: iied.org

Contact: press@iied.org