

## **SUMMARY of the Article “Climate debt trap,” by Jamil Ahmad, Dawn, June 15th, 2024**

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The article explores the severe challenge of heavy and rising debt faced by developing nations, which significantly hampers their efforts to tackle climate change, reduce poverty, and pursue economic development. Between 2010 and 2022, the external debt of 118 low- and middle-income countries doubled to \$3.1 trillion, constituting about 15% of their GDP. In 2022 alone, these countries spent \$443 billion servicing public debts, with this figure expected to rise in the coming years. Factors such as inflation, high interest rates, the energy crisis, and economic uncertainty post-COVID-19 have exacerbated this situation. The high debt service payments limit the fiscal space necessary for investments in climate action and sustainable development, pushing many developing nations toward default. This liquidity crisis sidelines climate and environmental priorities, posing global risks including exacerbated poverty, food insecurity, water scarcity, and health issues. To address this, immediate debt relief is suggested, freeing up fiscal space for climate and development investments. Options include lowering borrowing costs, extending long-term loans, and debt swaps for climate actions. The V20 group of climate-vulnerable countries proposes a carbon tax on major economies to fund sustainable investments. However, lasting solutions require a comprehensive review and overhaul of the international financial system, which is outdated and laden with strict conditions. UN Secretary-General António Guterres advocates for revamping the global financial architecture, and the Bridgetown Initiative has proposed reforms. The Sustainable Development Goals (SDG) stimulus package suggests \$500 billion annually in tackling debt distress, scaling up long-term financing, and expanding contingency financing. Political and technical forums, including UN climate change conferences, World Bank, IMF meetings, and other international summits, are actively discussing these issues. The article concludes that without urgent reforms and debt relief, the



climate debt trap could transform into a “climate death trap” for the world’s poor.

## **Easy/Short SUMMARY:**

The article discusses how rising debt in developing countries makes it hard for them to fight climate change and reduce poverty. These countries owe a lot of money and spend a large part of their income on debt payments, leaving little for important projects. The article suggests solutions like debt relief, lowering borrowing costs, and debt swaps for climate actions. It also calls for a complete overhaul of the international financial system to better support these nations. Without these changes, the heavy debt could lead to severe problems for the world’s poor.

## **SOLUTIONS of The Problem:**

### **Immediate Debt Relief**

Providing immediate debt relief to developing nations can free up resources for climate action and sustainable development. This includes canceling or reducing the debt burden to create fiscal space.

### **Lower Borrowing Costs**

Lowering the interest rates and extending the repayment periods of existing loans can make it easier for developing countries to manage their debt and invest in necessary climate projects.

### **Debt Swaps for Climate Actions**

Implement debt-for-climate or debt-for-nature swaps where creditors forgive debt in exchange for commitments to invest in environmental conservation and climate resilience projects.

### **Carbon Tax on Major Economies**

Implement a global carbon tax on major economies and use the revenue to support sustainable investments in climate-vulnerable countries, as proposed by



the V20 group.

## **Overhaul of International Financial System**

Revise and update the international financial system to remove strict conditionalities and make funds more accessible to developing countries. This includes a comprehensive review of sovereign debt mechanisms.

## **SDG Stimulus Package**

Adopt the Sustainable Development Goals (SDG) stimulus package, which proposes \$500 billion annually to tackle high debt costs, scale up long-term financing, and provide contingency funds for countries in need.

## **Strengthening Multilateral Development Banks**

Enhance the capacity and reach of public development banks, including multilateral development banks, to provide long-term financing for sustainable development projects in developing nations.

## **Policy Integration**

Ensure that climate action is integrated into economic policymaking at national levels, making it a central focus of development strategies.

## **International Collaboration**

Foster international cooperation and dialogue through forums like the UN climate change conferences, World Bank, IMF meetings, and other international summits to address the financial challenges faced by developing countries.

## **Public and Private Sector Partnership**

Encourage partnerships between the public and private sectors to mobilize additional resources and expertise for sustainable development and climate resilience projects.

## **IMPORTANT Facts and Figures Given in the Article:**

- Total external debt of 118 low- and middle-income countries doubled to \$3.1 trillion in 2022 from \$1.5 trillion in 2010.
- In 2022, developing countries spent \$443 billion to service their public debts.
- 2024 is projected to be the costliest debt service year yet this century.
- About 50 developing countries are sliding towards default due to high debt payments.
- UN Secretary-General António Guterres calls for a complete overhaul of the global financial architecture.
- The Sustainable Development Goals (SDG) stimulus package proposes \$500 billion annually for development financing.

## **MCQs from the Article:**

**1. What was the total external debt of 118 low- and middle-income countries in 2022?**

- A. \$1.5 trillion
- B. \$3.1 trillion**
- C. \$443 billion
- D. \$500 billion

**2. How much did developing countries spend on servicing public debts in 2022?**

- A. \$443 billion**
- B. \$1.5 trillion
- C. \$3.1 trillion
- D. \$500 billion

**3. Which group proposed imposing a carbon tax on major**



## economies to fund sustainable investments?

- A. G20
- B. United Nations
- C. V20**
- D. World Bank

## 4. What does the Sustainable Development Goals (SDG) stimulus package propose annually?

- A. \$443 billion
- B. \$500 billion**
- C. \$1.5 trillion
- D. \$3.1 trillion

## 5. Who called for a complete overhaul of the global financial architecture?

- A. Bridgetown Initiative
- B. António Guterres**
- C. V20 group
- D. World Bank

## VOCABULARY:

1. **Alleviate** (verb) (□□□□ □□): Make (suffering, deficiency, or a problem) less severe.
2. **Vagaries** (noun) (□□□□□ □□□): An unexpected and inexplicable change in a situation or in someone's behavior.
3. **Ramifications** (noun) (□□□□□): Consequences or outcomes that result from an action or decision.
4. **Relegated** (verb) (□□□□ □□□): Assign to a lower position; reduce in rank.
5. **Liquidity** (noun) (□□□□□□): The availability of liquid assets to a market or company.
6. **Contingency** (noun) (□□□□ □□□□□□): A future event or circumstance which is possible but cannot be predicted with certainty.
7. **Fiscal** (adjective) (□□□□): Relating to government revenue, especially taxes.

8. **Distress** (noun) (توتّر): Extreme anxiety, sorrow, or pain.
9. **Polluters pay principle** (noun) (مبدأ التلويح): The principle that those who produce pollution should bear the costs of managing it.
10. **Overhaul** (verb) (تفتيش): Take apart in order to examine it and repair it if necessary.
11. **Stimulus** (noun) (محفز): Something that incites to action or exertion or quickens action, feeling, thought, etc.
12. **Inclusive** (adjective) (شامل): Including all the services or items normally expected or required.
13. **Mechanisms** (noun) (آليات): Processes or techniques for achieving a result.
14. **Conditionalities** (noun) (شروط): Conditions attached to the provision of benefits or support.
15. **Confronted** (verb) (واجه): Face up to and deal with a problem or difficult situation.
16. **Tabled** (verb) (طرح): To present formally for discussion or consideration at a meeting.
17. **Momentum** (noun) (زخم): The impetus and driving force gained by the development of a process or course of events.
18. **Fiscal space** (noun) (مساحة مالية): The flexibility of a government in its spending choices, and its ability to provide resources for public purposes.
19. **Repayment periods** (noun) (فترات السداد): The length of time over which a loan is scheduled to be repaid.
20. **Climate resilience** (noun) (مرونة المناخ): The capacity of social, economic, and environmental systems to cope with hazardous events or disturbances related to climate.

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## Climate debt trap

Jamil Ahmad

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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





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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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