# Poorest nations face rising debt risks from currency falls and climate shocks



The world’s poorest nations are facing escalating sovereign debt challenges exacerbated by currency fluctuations and intensifying climate shocks, according to new research released during the International Monetary Fund (IMF) and World Bank Spring Meetings this week. The findings highlight the intersecting financial and environmental pressures confronting Least Developed Countries (LDCs) and Small Island Developing States (SIDS), calling attention to the urgent need for reforms in the global financial architecture.

A report published by the International Institute for Environment and Development (IIED) on Friday detailed how many of these vulnerable countries have resorted to borrowing in foreign currencies—predominantly US dollars—to finance their growth and development. This borrowing practice exposes them to currency volatility risks, which increase their debt repayments when their local currencies depreciate against the dollar. The study further links these economic vulnerabilities to climate-driven disasters, which create additional pressure to borrow more, thereby tightening the countries’ debt burdens.

Ritu Bharadwaj, IIED principal researcher and lead author of the paper, explained the dynamic: “With every climate-driven disaster, their requirement to borrow more money increases while their currency simultaneously devalues.” She added, “Because the global economy is largely structured around the US dollar, these countries are taking on all the risk associated with currency fluctuations.”

The researchers analysed 31 years of data from 1991 to 2022 for 13 representative countries across Africa, Asia, and the Americas. Their findings revealed that over this period, the value of SIDS’ currencies depreciated by approximately 265% against the US dollar, while the currencies of LDCs fell by about 366%. This depreciation significantly increased the local currency cost of external debt repayments. In 2022 terms, the cumulative extra cost borne by SIDS reached $10.25 billion—roughly 3% of their annual Gross Domestic Product (GDP)—and for LDCs the figure was $9.98 billion, equal to 6.6% of GDP.

Prime Minister Gaston Browne of Antigua and Barbuda underscored the gravity of these figures during the Spring Meetings, describing the study as providing “an urgent and credible foundation for action.” Browne highlighted the real-world repercussions of currency devaluation on essential public services, stating, “For every dollar lost to currency depreciation, there is a clinic not built, a road not repaired, a social protection programme left underfunded.”

To address these systemic risks, the IIED report proposes that international financial institutions begin offering loans denominated in local currencies, reducing exposure to foreign exchange risk for debtor nations. Additionally, they recommend enabling debtor countries to swap portions of their existing foreign currency debt for investments focused on climate resilience, nature conservation, and social protection programmes. “What we’re suggesting is that creditors should take on some of that risk as part of reforms to make the global financial system fairer,” Bharadwaj said.

In a separate but related development, a report released on Thursday by the Centre for Research on Multinational Corporations (SOMO) and ActionAid Ghana examined the impact of World Bank-supported fossil fuel projects in Ghana. The research criticised these projects for primarily benefiting multinational corporations while Ghana’s population continues to confront power shortages, unaffordable electricity costs, and growing public debt.

The study detailed that over $2 billion in World Bank funding and guarantees had been allocated to major oil and gas initiatives, such as the Sankofa Gas Project, the Jubilee oil and gas project, and the West African Gas Pipeline. These projects, supported by firms including Eni and Vitol, have underperformed relative to their promises. Ghana faces ongoing energy supply issues, requiring further spending on fuel imports or costly unused gas, despite the investments.

Joseph Wilde-Ramsing, acting executive director of SOMO, criticised the situation: “Ghanaians are paying high prices for electricity they can’t afford, while foreign oil and gas companies reap guaranteed profits.” He characterised the scenario as one of “utter negligence, exploitation and a climate disaster rolled into one.” John Nkaw, country director of ActionAid Ghana, emphasised that Ghana had been forced into “energy agreements that are unaffordable and unsustainable,” favouring the profits of multinational oil firms over the fiscal health of the government.

The World Bank, which leveraged financial guarantees to reduce risks for investors in these fossil fuel projects, had not responded to requests for comment by the time of publication. Notably, the Sankofa Gas Project, approved in 2015 and backed with $700 million in World Bank guarantees, aimed to increase the availability of natural gas for “clean power generation” and attract up to $8 billion in foreign direct investment, according to statements from then-World Bank Vice President for Africa Makhtar Diop.

At the IMF/World Bank Spring Meetings in Washington DC, senior officials acknowledged the gravity of the mounting debt challenges faced by vulnerable countries. Ceyla Pazarbasioglu, the IMF’s strategy chief, underscored the urgent need to tackle the high debt service burdens, describing the situation as “becoming more acute in the current global economic environment,” according to Reuters. Kristalina Georgieva, IMF managing director, pledged a more active role for the institution in debt restructuring processes to assist struggling nations.

Antigua and Barbuda’s Prime Minister Browne called for structural reform, stating that the current global financial system places unfair burdens on the most vulnerable countries and impedes investments necessary for climate resilience and sustainable development. In his capacity as Co-Chair of the Debt Sustainability Support Service (DSSS), he expressed his commitment to raising the issue at the highest international levels.

In Ghana, advocacy groups SOMO and ActionAid are urging for an independent review of fossil fuel-related debt to determine its impact on the nation’s finances, followed by cancellation of unsustainable debt obligations. They also call for increased transparency and fairness in global energy investments, and reassessment of contracts that shift financial risks onto host countries.

SOMO’s Wilde-Ramsing remarked, “As the US calls for the World Bank to continue investing in fossil fuels, our latest report is a stark warning on what the World Bank’s fossil fuel investment can do to a country’s economy and energy sector.”

This series of reports and commentaries reveals multifaceted pressures confronting poorer nations, linking financial vulnerabilities to both systemic economic structures and environmental crises, with calls from experts and officials alike for reform at both international financial institutions and national energy sectors.

Source: [Noah Wire Services](https://www.noahwire.com)

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