# Low-income countries face a triple crisis of debt, climate change, and stalled development



The intricate and often fraught relationship between climate change, debt, and development poses a significant challenge for low-income countries striving for economic advancement. These nations often find themselves trapped in a complex dynamic where their heavy debt burdens severely restrict their capacity to invest in sustainable development, while simultaneously grappling with the escalating impacts of climate change—effects for which they have contributed minimally. This multifaceted challenge has been likened to a “three-body problem,” where debt, development, and climate change constantly interact in unpredictable and often disastrous ways.

The global response to this conundrum has largely been shaped by wealthy nations, who, while pushing for global carbon emissions reductions to support their transition away from fossil fuels, have offered limited relief in terms of debt forgiveness. Instead, new financial instruments like “debt-for-climate” swaps have been introduced but have not substantially eased the debt pressures or significantly reduced emissions, as the participating countries are often not major emitters.

Low-income countries, often reliant on fossil fuels to drive growth, face the dilemma of needing to bridge their development gaps without breaching voluntary pledges aimed at achieving carbon neutrality by 2050. Many of these nations possess critical minerals—such as lithium, nickel, and cobalt—essential for the clean energy technologies of richer countries, yet their role is largely restricted to raw material extraction. Trade agreements and intellectual property protections often bar these countries from moving up the value chain to processing and manufacturing, perpetuating a dependence on exporting raw materials.

This dynamic has been critiqued as a form of economic monopoly by wealthy countries, which control global financial institutions and intellectual property rights. A 2021 Al Jazeera opinion piece highlighted that these advantages enable rich nations and corporations to reduce labour and resource costs in poorer countries, effectively extracting wealth through trade.

In June 2024, United Nations Secretary-General António Guterres advocated for the imposition of a windfall tax on the profits of oil, gas, and coal companies, aiming to channel funds to mitigate the crisis. While recognising the potential to generate significant revenue, Guterres and others acknowledge that such measures might not curtail the fossil fuel industry’s production, which could even increase if companies seek to maintain profit margins.

Alternative financial mechanisms have been proposed to help vulnerable countries, including the distribution of Special Drawing Rights (SDRs) by the International Monetary Fund (IMF). SDRs, an international reserve asset, can provide countries with funds without the conditions associated with loans. The most recent SDR distribution in 2021 injected $650 billion into the global economy, mostly benefiting low- and middle-income countries. However, the IMF’s lending practices often involve austerity conditions that limit the efficacy of such financial assistance. The IMF’s Resilience and Sustainability Trust, designed to address climate change impacts with a $25 billion fund, functions largely through loans, adding to the debt burden of recipient countries.

Another initiative, the Loss and Damage Fund, established to provide grants rather than loans to countries most affected by climate change, has struggled with limited funding. By March 2025, only around $765 million had been raised globally, starkly insufficient when compared to the billions needed for recovery in disaster-affected countries like Pakistan. The fund is managed by the World Bank, an institution criticised for its historical role in exacerbating debt problems and development challenges.

Climate financing commitments by developed nations have also fallen short of actual requirements. Although the promised $100 billion annual climate financing target was met only in 2022, estimates now suggest that $2.4 trillion is needed annually. A significant portion of climate aid is delivered as loans rather than grants, further deepening the debt crises faced by many poor countries. The Green Climate Fund, with nearly $13 billion in assets, disburses money as both grants and loans, and also seeks to mobilise private sector investments, raising questions about the profit motives involved in climate finance.

In Africa, the debt crisis is acute, with countries spending more than half of their government revenues on debt servicing, which compounds their vulnerability to climate impacts. The African Leaders Debt Relief Initiative launched in February 2025 emphasised the urgency of debt relief, with former Nigerian President Olusegun Obasanjo describing the current crisis as the worst in eighty years. Reports from African Business in March 2025 noted that many developing economies vulnerable to climate change are also at fiscal risk, while some climate initiatives inadvertently channel resources back to rich countries.

Indonesia exemplifies some of these challenges and efforts at a national level. Ranking as the 16th largest economy and the 10th largest greenhouse gas emitter globally due to its reliance on coal power, Indonesia faces severe climate-related threats, including widespread coastal flooding and the sinking of its capital, Jakarta. The government has embarked on a $45 billion project to relocate the capital to Borneo. Indonesia, endowed with significant nickel deposits needed for battery production in clean energy technologies, has sought to move beyond simply exporting raw materials by banning nickel ore exports and encouraging domestic processing capacity development, including partnerships with Chinese investors.

Despite these efforts, Indonesia has met resistance from the European Union, which successfully challenged its export ban at the World Trade Organization in 2022. Attempts to form a nickel cartel to control supply and prices have faltered, with global nickel prices dropping by over 40 percent in 2024. Such “resource nationalism” strategies reflect a broader aspiration among resource-rich developing nations to capture more value within their borders, akin to Botswana’s approach with diamonds.

Beyond national policies, low-income countries have engaged in South-South cooperation frameworks like BRICS to bolster economic influence and negotiate better terms. Proposals for a debtors’ cartel and demands for relaxed intellectual property rights underscore ongoing efforts to reshape the international economic order. Grassroots movements in countries like Ecuador, where a 2023 referendum halted oil extraction in Yasuní National Park, point toward alternative developmental visions that prioritise environmental and social sustainability over industrial growth.

Another significant financial resource originates from remittances—money sent home by migrant workers—which reached nearly $860 billion in 2023. This sum dwarfs the $5.7 billion lent by the IMF in the same year and approximates the total World Bank loans extended since its inception. Conceptual ideas such as “greening” remittances by linking them to sustainable development projects have been suggested to provide debt-free, community-level funding for climate resilience and energy transition.

A historic precedent for debt cancellation comes from post-World War II West Germany, where substantial debt relief under the 1953 London Debt Agreement, combined with reconstruction aid from the Marshall Plan, enabled economic recovery and growth. Advocates argue for a similar approach today where debt cancellation is coupled with robust reconstruction funds to empower low-income countries to combat climate change and accelerate development.

This comprehensive approach is seen as essential for resolving the entwined issues of debt, development, and climate change, offering a pathway to a more equitable and sustainable global energy transition. It underscores the necessity of international financial reform and support structures that enable vulnerable nations to build resilience, reduce emissions, and progress economically without being hamstrung by debt obligations.

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

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