

The IMF: Prioritising debt repayment over climate action

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An unfair debt architecture is a major driver of the climate crisis. But it is being perversely pushed by the IMF and wealthy countries as part of their contribution to addressing climate change.

Climate-vulnerable countries are being pushed deeper into debt due to the spiraling cost of climate disasters that they have done little to cause. More than half of Africa's low-income countries are in debt distress or on the brink of it. Over half of the continent's population live in countries that spend more on interest payments than on key social sectors such as health, housing, education and climate action.¹

But extortionate debt forces nations to pursue actions that deepen the climate crisis, in order to repay their loans. In order to earn the dollars or foreign currency needed for external debt repayment, many countries are forced to shape their economies around destructive fossil fuels and large-scale industrial agribusiness commodity exports which drive deforestation, land grabs, pollution and rising greenhouse gas emissions. Even though many countries have paid back their original loan amounts, a combination of rising interest rates, currency devaluations, fluctuating commodity prices and the destructive impacts of climate change keeps the debt repayment finish line perpetually out of reach. Perversely, more than two-thirds of climate finance provided to developing countries has been in the form of loans instead of grants.

- 93% of the 63 countries most vulnerable to climate change are in debt distress or at significant risk of debt distress.²
- More than two-thirds of climate finance provided to developing countries has been in the form of loans instead of grants.
- Even though Senegal has an arrangement under the IMF's Resilience and Sustainability Trust (RST) for loans that supposedly support climate action, a parallel IMF programme promotes fossil fuel expansion in precious wetland ecosystems and vital fishing communities.
- Kenya is paying 55% of its revenues on debt servicing and is expected to reduce its fiscal spending by 5.7% of GDP by 2025.³

Catastrophic debt levels are a systemic failure in the global financial architecture. In the words of the UN Secretary General, the system is “outdated, dysfunctional and unjust”.⁴

Fixing the climate means we need to end debt traps. The IMF must cancel debt to ease the fiscal burden on countries' budgets so that they can respond to the climate crisis. Climate finance from wealthy countries must be reparative and in the form of grants (not loans), transfer of life-saving climate adaptation technologies, and debt cancellation (not rescheduling). The IMF needs a more coherent approach to climate change, including an end to its policy recommendations that deepen austerity, exacerbate extractivism and increase climate vulnerability.

[1] unctad.org/publication/world-of-debt/regional-stories

[2] <https://actionaid.org/publications/2023/vicious-cycle>

[3] <https://re-course.org/newsupdates/new-report-analysing-initial-experience-with-imfs-resilience-and-sustainability-trust-shows-evidence-of-concern-austerity-privatisation-and-fossil-fuel-expansion/>

[4] press.un.org/en/2023/sgsm21855.doc.html