Developing countries face rising payments due to climate change, says report

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Credit: Imperial College London

Developing countries face debt payments of up to $168 billion over the next ten years as a result of their vulnerability to man-made climate change.

A new study from Imperial College Business School found that climate risks are increasing the cost of capital for developing countries. The researchers found that for every ten dollars these countries pay in interest payments, an additional dollar is due to climate vulnerability.

The study shows that over the past decade, a sample of developing countries have endured $40 billion in additional interest payments on government debt alone. The researchers estimate that these additional interest costs are set to rise to between $146bn and $168bn over the next decade, and could exacerbate the economic challenges already faced by poor countries around the world.

However, the researchers also found that investments in climate resilience can help improve fiscal health at the national level.

Investing in climate mitigation

Dr. Charles Donovan, Director of the Centre for Climate Finance and Investment at Imperial College Business School, said: "Our work demonstrates that climate change is not only imposing economic and social costs on developing countries, but it is also amplifying existing risks that are already priced in fixed income markets. These impacts will grow.

"The good news is that investments in climate adaptation can not only reduce social, ecological and economic harm, but can buffer against fiscal impairments. But to be effective, these investments need to be made now."

Investments in effective climate mitigation and adaptation projects could include planting trees and building dikes for coastal protection in countries such as Bangladesh, Barbados, Cambodia, Fiji, Haiti, Honduras, Sri Lanka and Vietnam.

The research identifies several market and policy initiatives that could play a role in reducing the burden. The researchers found that to be effective from a financial perspective, climate adaptation initiatives must accomplish at least one of three imperatives: reduce the total economic costs of the impact of climate change, improve the speed of economic recovery and/or cost-effectively transfer climate-related financial risks.

The study was commissioned by UN Environment with financial support from MAVA Foundation and prepared by the Centre for Climate Finance and Investment at Imperial College Business School and SOAS University of London. It is the first study to explore the relationship between climate vulnerability, sovereign credit profiles and the cost of capital in developing countries.

Provided by Imperial College London

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