FOSSIL FUEL TREATY

SPILLOVER EFFECTS: THE FOSSIL FUEL–DEBT TRAP IN THE GLOBAL SOUTH

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FOSSIL FUEL TREATY

ARHUACO INDIGENOUS COMMUNITY TRAINING ON ECOLOGICAL RESTORATION STRATEGIES IN THE SIERRA NEVADA DE SANTA MARTA
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EXECUTIVE SUMMARY

The escalating debt crisis confronting the Global South is not a temporary liquidity shortfall but a structural crisis rooted in historical patterns of extraction, unequal financial architecture and asymmetric power relations. It is an injustice. Across Africa, Latin America, the Caribbean, the Middle East and parts of Asia, sovereign debt has reached levels that severely constrain fiscal autonomy and long-term planning. In 2024, the external debt of low- and middle- income countries approached an all time high of US$8.9 trillion, with interest payments alone reaching a record US$415.4 billion. Many governments now allocate more resources to servicing debt than to health, education, or climate action. Public finance has increasingly shifted to managing vulnerability, addressing crises and meeting short-term repayment obligations for historical debt.

At the same time, fossil fuel dependence remains one of the most persistent macroeconomic vulnerabilities shaping sovereign risk. For fuel-importing countries, oil and gas price volatility destabilises trade balances and widens fiscal deficits. For exporters, commodity cycles and stranded asset risks expose public budgets to long-term instability. Energy systems therefore sit at the core of fiscal structure, foreign-exchange dynamics and political incentives. Fossil fuels are also the biggest cause of climate-driven loss and damage, escalating into trillions of dollars across the Global South. Not to mention millions of premature deaths and the escalating degradation and disruption of critical ecosystems - all which have massive costs to lives and economies.[1]

The global transition away from fossil fuels may currently be a contested political issue - but economically it is already underway, albeit in a disorganised manner. While progress against the Paris Agreement - to hold global warming to under 1.5 degrees celsius through emissions reductions - has been insufficient, nations across the world are working towards a greater share of renewables in their energy mix. This has resulted in prices for renewable technologies dropping rapidly, with solar and offshore wind now 41 percent and 53 percent less expensive than fossil fuels.[2] Investment patterns are also shifting away from fossil fuels. Fossil fuel-reliant countries could see a drop of 51 percent in government oil and gas revenues over the next two decades.[3] There is currently no global plan in place to govern this transition, despite the huge risks it poses to nations, societies and ecosystems.

This introduces both urgency and opportunity for countries in the Global South that are both indebted and fossil fuel dependent. On one hand, climate change intensifies fiscal strain through extreme weather events, sectoral disruption and damage to infrastructure and food systems. On the other hand, due to debt injustice, those nations face incredible barriers to fair finance for renewable energy infrastructure. Transitioning away from fossil fuels is one way to reduce both debt

1 Wolf, S., Bullard, R., Buonocore, J. J., et. al. (2025) Scientists' warning on fossil fuels. Oxford Open Climate Change, 5(1), kgaf011. **https://academic.oup.com/oocc/article/5/1/kgaf011/8099165**

2 International Renewable Energy Agency. (2025) "Renewable Power Generation Costs in 2024". **www.irena.org/-/media/Files/IRENA/Agency/Publication/2025/Jul/IRENA_TEC_RPGC_in_2024_2025.pdf**

3 Coffin, M. & Grant, A. (2021) Beyond Petrostates: The burning need to cut oil dependence in the energy transition. Carbon Tracker. **https://carbontracker.org/reports/petrostates-energy-transition-report/** ; Prince, G. (2023) PetroStates of Decline: oil and gas producers face growing fiscal risks as the energy transition unfolds. **https://carbontracker.org/reports/petrostates-of-decline/**

and dangerous emissions in the long run. Nations can progress towards sovereign and community ownership of renewable energy systems rather than fossil fuel systems based in - often unequal - interdependencies with multinational corporations and other countries.

This report illustrates how debt distress and fossil fuel reliance are not separate crises but mutually reinforcing ones. High debt-service obligations crowd out investment in renewable energy, grid modernisation and social protection, while fossil fuel contracts, subsidies and revenue structures embed fiscal rigidities that deepen indebtedness and delay structural reform. Together, they form a structural trap in which governments facing refinancing pressures prioritise short-term liquidity and revenue certainty over long-term transformation. The result is a cycle of economic entrapment - enforced by international and multilateral institutions - that locks countries into volatile energy systems and recurring debt adjustment, constraining sustainable development and climate ambition. The fossil fuel industry is invested in maintaining this entrapment. It is profiting off of it, while selling a falsehood of fossil fuels as a driver of development, energy security and economic growth to decisionmakers in the Global South. Fossil fuel companies are the biggest user of Investor State Dispute Settlements, wrenching over US$327 billion from nations taking steps to transition away from fossil fuels.[4] They are interested in maintaining their profit margins and their undue influence over political decisionmaking.

This report examines how the fossil–debt nexus operates across diverse contexts through five country case studies: Colombia, Egypt, Guyana, Jordan and Sri Lanka. These cases illustrate different manifestations of the same structural dynamic, whether through import vulnerability, emerging fossil fuel production, or crisis-induced default. They demonstrate that the linkage between fossil dependence and sovereign debt is not incidental but systemic. The report shows that the global transition away from fossil fuels is absolutely incumbent on building fairness into the global macroeconomy. The growing demands from nations across the Global South and civil society to address unjust escalating debt and the unfair rules of the international financial system are rooted in a rich body of evidence.

The report is structured into two parts:

- **PART I PRESENTS AN OVERVIEW OF THE PRINCIPAL FINDINGS FROM EACH COUNTRY CASE, FOLLOWED BY RECOMMENDATIONS THAT HAVE EMERGED FROM THIS COLLECTIVE WORK.**

- **PART II PROVIDES THE FULL CASE STUDIES AND THEIR EVIDENCE BASES.**

The key insights from each country are summarised below:

Colombia is a fossil fuel–producing country pursuing an ambitious just energy transition, yet its debt structure and heavy reliance on fossil fuel exports to generate foreign currency for debt servicing create structural constraints on this shift. The country illustrates the core tension of the debt–fossil fuel trap. Extractive revenues sustain macroeconomic stability while simultaneously locking in vulnerability and delaying transformation. At the same time, the Colombia case study

4 Global ISDS Tracker (2026) "How Corporate Courts Threaten Our Future". Retrieved on 20 Feb at: **https://www.globalisdstracker.org/**

shows that meaningful domestic policy space still exists and that it is possible to reduce debt burdens, expand renewable energy and diversify exports through coordinated fiscal, industrial and energy strategies. Beyond its domestic reforms, the country has taken an impressive international leadership role by putting the challenge of macroeconomic barriers to the transition away from fossil fuels on the global diplomatic agenda. Colombia's efforts to launch the first International Conference on the Transition Away from Fossil Fuels, in Santa Marta, alongside its bold policy reforms, have clearly tabled the need to address the debt–fossil fuel nexus through the structural reform of the international financial architecture. The key question now is how Colombia can translate this leadership into sustained domestic transformation while creating the fiscal space needed to invest in a more diversified and resilient economy and bringing its diverse communities along with the plan.

Egypt's political economy reflects a deeply entrenched fossil fuel–debt trap. Rapidly rising external debt and repeated currency devaluations have driven debt servicing to consume more than 65 percent of public expenditure, severely constraining fiscal space for social services and climate investment. To secure foreign currency and reassure creditors, the state has doubled down on gas expansion and long-term export infrastructure, reinforcing fossil fuel dependence. At the same time, dollar-denominated energy contracts and reliance on fossil revenues expose the economy to persistent volatility, binding fiscal stability to continued extraction and limiting the scope for a just and sovereign energy transition. Egypt's fossil fuel-debt trap is being escalated by the unequal distribution of power and benefit sharing with foreign investors. Reform of International Financial Institutions (IFIs) and Multilateral Development Banks (MDBs) is critical to prevent this escalating structural entrapment and to enable the nation to make choices that will strengthen democratic control over energy and fiscal policy, and promote a just energy transition.

Guyana presents a striking paradox in the global fossil fuel–debt landscape: a small state in the Caribbean with a history of extremely high debt and poverty levels and high vulnerability to climate impacts.[5] It has also, rapidly, become one of the world's fastest-growing oil producers, yet has managed to retain its status as a domestic carbon sink due to its dense forest covering 85 percent of the country. Oil revenues have sharply improved headline debt indicators and expanded fiscal space, yet they have also introduced new vulnerabilities linked to revenue volatility, risk of "Dutch disease", carbon transition risk, and governance capacity. The case exemplifies a critical paradox for nations who find major fossil fuel resources in the context of major development needs, escalating climate impacts and debt servicing in the context of insufficient access to climate finance. The case raises the question: can fossil wealth be strategically deployed to finance diversification and a low-carbon transition or will it entrench a new form of extractive dependence that works in the short term but is unfit for the future global economy? The findings suggest that Guyana now has the opportunity to develop a plan to transition away from its fossil fuel dependence and ensure its economic diversification and resilience. This can be done on a timeline based on global equity - which will ensure its readiness for the future global economy rather than lead to a new form of fossil-debt entrapment.

5 Guyana is also classified as a 'Small Island Developing State' (SID) because it shares the same extreme vulnerabilities as island nations, i.e. a low-lying, flood-prone coastline, high economic dependence on a few sectors, and climate vulnerability.

Jordan's economy illustrates a clear fossil fuel–debt trap shaped by three reinforcing dynamics. First, repeated fossil fuel shocks generated massive losses at the state utility and translated directly into rising public debt. Second, long-term take-or-pay contracts, including the Israel gas deal and the Attarat oil shale project, created rigid fossil fuel baseload obligations that crowded out renewable energy expansion just as Jordan had become a regional clean-energy leader. Third, the state developed a structural fiscal dependence on taxing fossil fuel consumption, making decarbonisation financially disruptive rather than fiscally beneficial for an importing country. Together these forces have locked Jordan into a cycle where energy vulnerability, debt accumulation and revenue incentives reinforce one another. The central challenge now is how Jordan can strategically unwind these interlocking constraints through contract renegotiation, fiscal reform and accelerated renewables deployment while transitioning away from fossil fuels. This requires replacing the steady revenue stream Jordan has long relied on without deepening macroeconomic fragility.

Sri Lanka illustrates how structurally imposed debt distress can override renewable ambition. Despite pursuing renewable energy policies and possessing strong solar and wind potential, the country became increasingly dependent on fossil fuel imports as foreign-exchange shortages and fiscal pressures deepened. Decades of external borrowing, combined with harsh IFI conditionality and austerity cycles, constrained public investment and weakened economic resilience. Further, climate-related shocks have contributed to systemic crises and the lack of fiscal space has eroded adequate responses to them. While Sri Lanka has set admirable targets for expanding renewable energy, limited concessional support within the global financial system has pushed the nation towards deals with private investors. In some cases this is leading to serious concerns about community rights and public accountability, which may weaken some public support for renewables. It is also leading the government to consider engaging in liquified natural gas deals, which raises long term risks around carbon lock-in. A fairer international financial and climate system, would enable Sri Lanka to meet its ambitious targets for renewables whilst building both economic and climate resilience.

Finally the report offers a comprehensive set of policy recommendations directed at all key decisionmakers to break the unjust, self-reinforcing, cycle between debt distress and fossil fuel dependence. These recommendations aim to dismantle structural drivers of carbon lock-in and fiscal vulnerability while expanding the fiscal and political space for transition. Grounded in the principles of a just energy transition, they emphasise equity, accountability, and the protection of social and economic rights. The recommendations are as follows:

1. International Financial Institutions and Multilateral Development Banks: Dismantle carbon lock-in and debt reproduction at source	**1.1** Acknowledge debt cancellation is both necessary and appropriate to address the escalating, unjust, debt crisis across the Global South - and implement it **1.2** End all fossil fuel extraction and production finance and realign portfolios toward transition-enabling public goods **1.3** Reduce renewable energy costs through systemic de-risking **1.4** Enforce transparency, accountability and respect for Human Rights in all lending

2. To Global North Governments: Stop blocking the transition away from fossil fuels & be a genuine partner for macroeconomic and climate justice	**2.1** Pay a fair share of climate finance through grants, not loans **2.2** End all public finance support to fossil fuels at home and abroad **2.3** Commit to taking responsibility for FFPO first and fastest in national plans and support international cooperation on differentiated timelines across the Global South **2.4** Stop blocking reform of the global financial system **2.5** Reject false and distracting solutions **2.6** Facilitate free and open patent transfers for green technologies
3. The United Nations: Build multilateral rules for debt and transition	**3.1** Establish a binding mechanism on debt resolution at UN level **3.2** Create a global public debt registry **3.3** Strengthen anti-corruption and public financial governance
4. Global South Governments: Seek & champion an equitable global pathway of transition that addresses fiscal and political constraints	**4.1** Commit to differentiated, managed fossil fuel phase-out national plans **4.2** Replace fossil revenues and manage transitional fiscal deficits **4.3** Advance green industrial policy as a core pillar of just transition and debt resilience **4.4** Mobilise national development banks and pension funds to finance the green transition **4.5** Strengthen democratic control over debt and public finance **4.6** Build collective power through South–South cooperation **4.7** Advance regional energy sovereignty through grid integration
5. All Decision-Makers: Centre justice as an institutional and political process	**5.1** Plan for a just and equitable phase-out of fossil fuels **5.2** Safeguard the energy transition through enforceable just transition frameworks: • Procedural justice and democratic participation • Labour protection and economic security • Equitable access to energy and public services • Prevention of new forms of extraction and financialisation • Institutional accountability and long-term planning

SOLAR PANEL ON USED FOR LIGHTING VILLAGE HOMES IN SRI LANKA
Credit: © Dominic Sansoni / World Bank

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Credit: Alejandro Arango

PART I: THE FOSSIL FUEL–DEBT NEXUS: STRUCTURAL ANALYSIS AND POLICY PATHWAYS

1.1 Introduction

The escalating debt crisis in the Global South is a structural crisis rooted in overlapping historical and present day injustices - patterns of extraction, unequal financial architecture and asymmetric power relations. Across Africa, Latin America, the Caribbean, Middle East and parts of Asia, sovereign debt burdens have risen to levels that significantly constrain fiscal autonomy. The external debt of low- and middle-income countries (LMICs, also called the 'Global South'[1]), rose to almost US$8.9 trillion in 2024.[2] Interest payments by LMICs on their total external debt reached a record high of US$415.4 billion in 2024, which is approximately 2.4 times higher than the level recorded a decade ago. Many countries now spend more on servicing public debt than on health, education or climate mitigation and adaptation. Interest payments alone absorb substantial shares of government revenues, limiting the capacity to invest in infrastructure, social protection and long-term growth strategies. In this environment, public finance has shifted from enabling transformation to managing vulnerability and fulfilling short term payments for historical debt.

The architecture of sovereign debt reinforces inequality between the Global North and Global South. Developing economies often borrow in foreign currency, exposing them to exchange-rate volatility and global monetary cycles beyond their control. Additionally, many countries in the Global South have to incur new debt to repay historical debt. In 2024, low- and middle-income countries paid US$205.1 billion more in principal and interest than they received in new loan disbursements.[3] When external shocks occur, whether financial crises, pandemics or geopolitical disruptions, the cost of borrowing rises precisely when revenues decline. Credit rating downgrades amplify this dynamic, increasing spreads and deepening refinancing risks. As a result, fiscal space contracts during moments of crisis, forcing governments into austerity-oriented adjustments that frequently prioritise short-term solvency over long-term development. The outcome is a pattern of recurring adjustment cycles that leave structural vulnerabilities intact.

At the same time, fossil fuel dependence remains one of the most persistent macroeconomic vulnerabilities facing developing economies. For fuel-importing countries, oil and gas price volatility can rapidly destabilise trade balances, trigger inflationary pressures and widen fiscal deficits. For fuel-exporting economies, hydrocarbon revenues expose public budgets to commodity price cycles and long-term stranded asset risks. In both cases, fossil fuels shape the macroeconomic structure. They determine foreign-exchange availability, influence fiscal stability and affect political incentives.

1 The term "Global South" has political and historic definitions rather than a technical one; and is typically used to refer to a grouping of countries with a shared experience of historic colonial and neo-colonial subjugation, economic exploitation and some level of current financial subordination. Unless a specific criteria is referenced, in this report we use "Global South" and "Global North" to refer to the United Nations' Conference on Trade and Development (UNCTAD) lists of developing and developed countries respectively. For more information see:
https://unctadstat.unctad.org/EN/Classifications.html

2 World Bank, (2025) "International Debt Report 2025"
https://openknowledge.worldbank.org/entities/publication/7c0dbf75-2bd7-4ae3-9db9-91318290c781

3 Ibid. World Bank (2025)

Energy systems are therefore not peripheral to development, they are central to sovereign risk profiles.

Since 'paragraph 28' of the United Arab Emirates Global Stocktake Decision at COP28 - to transition away from fossil fuels in energy systems[4] - the political momentum on the 'how' has been fragmented and highly contested. This became evident at COP30 in Belem, when approximately country groups bifurcated over the Brazilian presidency's call for a roadmap. Some developing nations expressed concern about the development of a roadmap without addressing the structural barriers to phase out, and the failure of developed countries to comply with their existing commitments under the UNFCCC, especially climate finance.[5] While this fragmentation is occurring in the political sphere, markets are moving nonetheless. The International Energy Agency has repeatedly emphasised that renewable power capacity is expected to surge over the rest of this decade.[6] Prices for renewable energy technologies are dropping rapidly. More than 90 percent of new renewable projects are now less expensive than fossil fuels alternatives. At the same time, solar and offshore wind are now 41 percent and 53 percent cheaper than fossil fuels. Investment is also shifting.[7] A 2025 survey of investors responsible for tens of trillions of dollars shows that mandates, risk models and capital allocation decisions are "quietly reroute(ing) money away from assets with declining transition credibility".[8]

The global transition away from fossil fuels is therefore already underway, albeit in a disorganised manner. This introduces both urgency and opportunity for developing countries. On one hand, climate change intensifies fiscal strain through extreme weather events, agricultural disruption, and infrastructure damage. On the other hand, declining renewable-energy costs offer the possibility of reduced import bills, greater energy sovereignty and long-term price stability. Solar and wind technologies now frequently outcompete fossil fuels on a levelised cost of energy basis, even with battery storage, particularly in regions with high solar irradiance which are usually situated in the Global South. For many countries in the Global South, renewable energy represents not only a climate commitment, but an economic one as well. The transition is underway and countries across the Global South have the opportunity to plan ahead and reap the benefits of that, rather than being beholden to its risks. For example, fossil fuel-reliant countries could see a drop of 51 percent in government oil and gas revenues over the next two decades.[9]

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4 United Nations Framework Convention on Climate Change. (2023) Outcome of the first global stocktake: Draft decision -/CMA.5. **https://unfccc.int/sites/default/files/resource/cma2023_L17_adv.pdf**

5 Hickman, L., & Evans, S. (2025) "Revealed: Leak Casts Doubt on COP30's 'Informal List' of Fossil Fuel Roadmap Opponents", 28 Nov, Carbon Brief. **www.carbonbrief.org/revealed-leak-casts-doubt-on-cop30s-informal-list-of-fossil-fuel-roadmap-opponents/**
Chime, V. (2025) "Tanzania pushed African nations to oppose fossil fuel transition at COP30", 2 Dec, Climate Home News. **www.climatechangenews.com/2025/12/02/tanzania-pushed-african-nations-to-oppose-fossil-fuel-transition-at-cop30/**

6 International Energy Agency (2025) World Energy Outlook 2025. **www.iea.org/reports/world-energy-outlook-2025**

7 International Renewable Energy Agency. (2025) Renewable Power Generation Costs in 2024. **https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2025/Jul/IRENA_TEC_RPGC_in_2024_2025.pdf**

8 Rentzhog, I. (2025) "Financial Markets Are Already Pricing The Fossil Fuel Phaseout". 14 Dec, Forbes. **https://www.forbes.com/sites/we-dont-have-time/2025/12/14/financial-markets-are-already-pricing-the-fossil-fuel-phase-out/**.
See also: Morgan Stanley (2025) Sustainable Signals: institutional investors 2025. **www.morganstanley.com/content/dam/msdotcom/en/assets/pdfs/MS_ISI_Signals_Institutional_Investors_2025_Report.pdf**

9 Coffin, M. & Grant, A. (2021) Beyond Petrostates: The burning need to cut oil dependence in the energy transition. Carbon Tracker. **https://carbontracker.org/reports/petrostates-energy-transition-report/** ; Prince, G. (2023) PetroStates

Additionally, the concept of a just energy transition seeks to align decarbonisation with social equity and fiscal stability. A just transition is not merely about reducing emissions. It is about ensuring that the shift away from fossil fuels supports workers, protects vulnerable households, strengthens public services and reduces inequality. It recognises that energy reform has distributional consequences and that fiscal restructuring must accompany technological change. In highly indebted contexts, the just transition requires careful sequencing, social safeguards and credible financing strategies to avoid imposing disproportionate burdens on low- and middle-income populations.

Debt distress and fossil fuel dependence are not separate crises. They are mutually reinforcing constraints on the just transition. High debt-service obligations crowd out public investment in renewable energy, grid modernisation and social protection. Simultaneously, fossil fuel contracts, subsidies and tax systems often create fiscal rigidities that complicate reform and push countries into seeking more debt. Governments facing refinancing pressures may prioritise short-term liquidity, revenue certainty or energy status quo over structural transformation. This is even the case when renewable investment would reduce long-term vulnerability and strengthen energy security and local value creation. This interaction creates a persistent trap in which fiscal constraints driven by debt reinforce fossil lock-in and fossil lock-in, in turn, deepens indebtedness.

This is why a just transition is necessarily a global one too. Countries that are dependent on fossil fuel production and consumption across the Global South - especially those already in debt crises - will require time and support to plan and implement a just transition. There is therefore a need for an approach to global transition[10] that is rooted in 'extraction equity', where the countries most responsible for the climate crisis and with the greatest capacity to phase out fossil fuel production, act first and fastest, leaving the remaining carbon budget for those who have the least responsibility and who need support.[11]

This report examines how the fossil–debt nexus operates across different economic and political contexts. To capture this dynamic, five country case studies are analysed: Colombia, Egypt, Guyana, Jordan, and Sri Lanka. These cases were selected to represent diverse regional and economic realities, including fossil fuel producers and import-dependent economies, middle-income states and crisis-affected countries and varied governance structures. Sri Lanka's recent sovereign default on debt offers a stark illustration of how debt injustice, external shocks and energy vulnerabilities can converge into systemic collapse. Jordan highlights the fiscal risks of fossil fuel import dependence. The Guyana case reveals the complexities of emerging hydrocarbon production while Egypt and Colombia demonstrate different pathways of producer-state exposure in the Global South. Together, these cases reinforce that the fossil–debt linkage is not an anomaly, but a structural feature of a global economy built on unjust and colonial frameworks.

of Decline: oil and gas producers face growing fiscal risks as the energy transition unfolds. **https://carbontracker.org/reports/petrostates-of-decline/**

10 Slothuus, L. (2026) Who Should Phase Out Fossil Fuels First? A Geopolitical Approach to Determining the Sequencing of Fossil Fuel Phaseouts. Geopolitics, 31(2), 764–787. **https://doi.org/10.1080/14650045.2025.2517785**

11 Civil Society Equity Review (2023) An Equitable Phase Out of Fossil Fuel Extraction: Towards a reference framework for a fast and fair rapid global phase out of coal, oil and gas. **www.equityreview.org/extraction-equity-2023#:~:text=A%20new%20report%20proposes%20science%2D,this%20possible%20in%20poorer%20countries**.

Understanding this structural linkage is essential for designing credible and equitable policy responses. Breaking the fossil–debt trap requires more than sectoral reform. It demands rethinking fiscal architecture, energy governance and international financing mechanisms.

The following sections develop a framework for understanding how fossil fuels and sovereign debt interact and why addressing them together is central to advancing a just and sustainable transition.

1.2 The Structural Link Between Fossil Fuels and Sovereign Debt

Debt and fossil fuels are interconnected through a feedback loop that constrains sovereign autonomy. Rather than operating as independent policy domains, debt structures and energy systems reinforce one another in ways that amplify vulnerability. Energy shocks increase borrowing. Rising debt service limits reform, constrained reform perpetuates fossil dependence and continued fossil exposure generates further shocks. This cycle embeds structural fragility within national economies.

High levels of public debt can reinforce fossil fuel reliance in both fossil-producing and fossil-importing countries, albeit through different mechanisms. In fossil-producing countries, governments facing fiscal stress often prioritise extraction and export projects that promise quick foreign-exchange earnings and immediate budgetary revenues. Hydrocarbon development is frequently framed as a pathway to strengthen reserves, stabilise the current account and meet debt obligations.

In fossil-importing countries, by contrast, reliance on fuel taxes can create incentives to maintain consumption levels, as these revenues form an important component of the fiscal base. In such contexts, governments may resist rapid electrification or efficiency measures that threaten established revenue streams. Additionally, in producers and importers, debt-financed energy infrastructure agreements often structured around long-term take-or-pay clauses or backed by sovereign guarantees, can lock countries into fossil supply commitments regardless of future demand shifts, price changes or climate policy developments.

Fossil fuel systems, in turn, deepen sovereign debt exposure through structural rigidity and financial risk. Large-scale fossil infrastructure projects require substantial upfront capital, often financed through external borrowing. Power purchase agreements and extraction contracts may create contingent liabilities that become (unjust) public obligations if demand projections fail or currency values shift. As global decarbonisation accelerates, the risk of stranded assets increases, raising questions about the long-term viability of fossil investments and repaying debt incurred to finance it. Fossil fuel sectors are also frequently associated with governance challenges, opacity and elevated corruption risks, which can undermine fiscal returns and increase debt burdens.

The interaction between debt obligations and fossil lock-in creates a vicious circle that suppresses investment in cost-saving alternatives. Renewable energy systems, particularly solar and wind, offer declining marginal costs and reduced exposure to global commodity volatility. Yet their deployment also requires upfront capital, regulatory reform and institutional capacity, resources often constrained by high debt service and fossil fuel lock-in. Governments prioritising immediate repayment obligations may defer renewable investment, even when it would reduce long-term fiscal exposure. These dynamic delays cost savings and perpetuates dependence on volatile fuel imports or hydrocarbon exports.

The economic logic of the renewable transition challenges the assumption that fossil fuel reliance is fiscally prudent. Empirical modelling suggests that a full renewable-energy transformation can generate substantial net savings over time. For example, research indicates that if Africa were to transition to a 100 percent renewable energy system by 2050, it could save between US$3 and US$5 trillion in net terms, or approximately US$150 billion per year. Total fuel cost savings of approximately US$8.3 trillion would exceed the required investment of US$7.3 trillion, covering the capital expenditure and more than doubling the additional investment required compared to business-as-usual pathways.[12] These figures demonstrate that renewable systems can be self-financing over the long term, reducing import bills and enhancing fiscal stability.

The persistence of the fossil–debt nexus therefore reflects political and institutional constraints rather than economic inevitability. Debt service obligations, creditor expectations and entrenched fiscal structures shape policy incentives, often favouring short-term revenue certainty over structural reform. Fossil fuel contracts provide perceived stability in uncertain markets, even when they embed serious long-term risks to nations and their constituencies. This includes carbon-lock in, fossil price volatility and eventual decline and the threat of billions in investor state dispute settlements."Ultimately, these risks entail ceding critical future fiscal space to companies, often foreign ones". Breaking this cycle requires centering debt justice, including debt cancellation, and aligning it with grant based and concessional finance underpinning energy transition plans so that fiscal incentives support rather than undermine the just global transition away from fossil fuels.

Addressing the fossil fuel–debt trap is central to advancing a just energy transition. Without tackling debt burdens, many developing countries will lack the fiscal space required to invest in renewables, grid upgrades, and social protection. Without reducing fossil fuel dependence, through a just phase out underpinned by common but differentiated responsibilities and respective capacities (CBDR-RC),[13] countries will remain exposed to volatility that exacerbates debt. The structural connection between these two domains must therefore be recognised and addressed explicitly in international climate finance, sovereign debt negotiations and fiscal planning. There is currently no single global policy framework or instrument that can ensure this is done in a coherent and just manner. Without this, the risk of siloed policy responses continues, enabling the avoidance of accountability by states and institutions with the most responsibility for acting.

The following case studies demonstrate how this dynamic unfolds in practice and highlight both the risks of inaction and the opportunities embedded within structural reform.

1.3 Cross-Country Patterns

COLOMBIA: AT A TURNING POINT TO BREAK THE DEBT-FOSSIL FUEL CYCLE

Colombia is a fossil fuel dependent country that has adopted an ambitious just energy transition agenda, including a clear shift away from fossil fuels to diversify the economy and reduce social inequalities. However, Colombia's ability to

12 Power Shift Africa et. al. (2024) African Energy Leadership: The Case For 100% Renewable Energy. **https://www.powershiftafrica.org/publications/african-energy-leadership-report**

13 Legal Response International (2026) Common but differentiated responsibilities and respective capabilities (CB-DR-RC). Retrieved 22 Feb at **https://legalresponse.org/resource/the-principle-of-common-but-differentiated-responsibilities-and-respective-capabilities-a-brief-summary/**

finance and implement this transition is severely constrained by a structural 'debt–fossil fuel trap'. Fossil fuel exports provide the foreign currency required for external debt servicing, while rising public debt, fiscal austerity and creditor pressures sharply limit public investment in the just energy transition plan.

The Colombian context and its dependency on fossil fuels

Fossil fuels have played a central role in Colombia's development model since the early twentieth century, beginning with the Mares oil concession in 1912 and the creation of the state-owned oil company Ecopetrol in 1951. Fiscal revenues from fossil fuels reached approximately US$8 billion in 2019, equivalent to 3.14 percent of GDP.[14] This dependence is even more pronounced at the subnational level, where producing regions rely heavily on royalty transfers to finance public expenditure. Between 2010 and 2021, royalties accounted for 52 percent of local revenues in Meta, 49 percent in Casanare and 42 percent in Arauca.[15]

Fossil fuels also dominate Colombia's trade sector. Between 2013 and 2024, they represented 52 percent of total exports and attracted approximately 26 percent of the share of foreign direct investment, on average.[16] Despite more than a century of fossil fuel extraction, Colombia continues to face high poverty levels and income inequality remains amongst the highest globally.[17] This highlights the limited developmental returns of extractivism and reinforces the case for structural transformation.

Debt profile in Colombia

The legacy of colonial debt, combined with commodity dependence and unequal global trade and finance rules, have contributed to rising indebtedness. The debt-to-GDP ratio rose from 32 percent in 2008 to 58 percent in 2025.[18] Servicing this debt has become a dominant fiscal priority. In 2025, debt servicing absorbed 21 percent of the central government's budget expenditure. By comparison, health accounted for 14 percent, education for 13 percent, and water and environmental programmes for only 2 percent.[19]

In relation to the creditors, bondholders are the main creditors, accounting for 48 percent of external debt by 2023, followed by multilateral creditors with 44 percent of the debt.[20] Colombia's principal multilateral creditors are the World Bank (15 percent), the Inter-American Development Bank (11 percent), and the International Monetary Fund (5 percent). Among foreign bondholders, 66 percent are private institutions, primarily investment and pension funds that are concentrated in the United States,

14 Ministerio de Minas y Energía. (2025) Transición energética justa: Hoja de ruta (p. 19) **https://minenergia.gov.co/documents/13272/Hoja_de_ruta_transicion_energetica_justa_TEJ_2025.pdf**

15 Programa de las Naciones Unidas para el Desarrollo (PNUD). (2024) La dependencia del país y de los territorios de los hidrocarburos y el carbón en Colombia y la necesidad de la diversificación de las exportaciones y de la producción ante la transición energética (p. 23) **https://indh2024.pnud.org.co/hd/papers/13-La-dependencia-del-pais-y-de-los-territorios-de-los-hidrocarburos-y-el-carbon-en-Colombia.pdf**

16 Ministerio de Hacienda y Crédito Público. (2024) Marco fiscal de mediano plazo 2024 (p. 107) **www.minhacienda.gov.co/documents/20119/2169404/MFMP+2024.pdf**

17 Alvaredo, F., Atkinson, A. B., Piketty, T., & Saez, E. (2024) World Inequality Database (WID.world): Colombia—Income share of the top 1% (p99-100). World Inequality Lab. **https://wid.world/world/#sptinc_p99p100_z/CO/last/eu/k/p/yearly/s/false/18.5295/30/curve/false/country**

18 International Monetary Fund. (2025a) IMF DataMapper – Profile: Colombia. International Monetary Fund. Recuperado el 18 de diciembre de 2025, de **www.imf.org/external/datamapper/profile/COL**

19 Ministerio de Hacienda y Crédito Público. (2025) Crédito público. Ministerio de Hacienda y Crédito Público de Colombia. www.minhacienda.gov.co/cr%C3%A9dito-p%C3%BAblico

20 Contraloría General de la República. (2025) Situación de la deuda pública 2024 (p. 78). **https://carlosarturorodriguezvera.com.co/wp-content/uploads/2025/09/Situacion-de-la-Deuda-Publica-2024_CGR.pdf**

the United Kingdom and the Netherlands.

Policy drivers: The policies of extractivism, austerity and the escalation of public debt

Colombia's debt burden is closely linked to long-standing policy prescriptions from the IMF, World Bank and other multilateral institutions. A conditional IMF loan agreement in 1999 required the adoption of fiscal austerity measures.[21] These were further institutionalised through the fiscal rule adopted in 2012, which prioritised revenue generation, expenditure restriction and debt servicing to ensure macroeconomic stability and investor confidence.[22] As a result of this rule, in 2024, public expenditure was reduced by 1.8 percent of GDP.[23]

Fiscal austerity has directly constrained Colombia's energy transition. The government estimates that a cumulative investment of approximately US$122 billion will be required to implement the transition by 2035.[24] However, due to fiscal austerity, public spending on the energy transition amounted to only around US$3 billion in 2025,[25] representing just over one quarter of the estimated annual investment needs.

International credit rating agencies further reinforce Colombia's debt–fossil fuel trap. Following the government's decision not to expand fossil fuel production, credit rating agencies downgraded Colombia's rating and shifted the outlook from stable to negative, citing concerns over macroeconomic performance. However, evidence suggests that rating agencies systematically overestimate investment risks in Global South countries and treat fossil fuel reserves and revenues as implicit collateral for debt repayment.[26] As a result, countries seeking to phase out fossil fuels face higher borrowing costs and reduced access to finance.

Colombia's growing dependence on fossil fuel exports has increased vulnerability to global energy and monetary shocks. Like many Global South economies, Colombia is highly exposed to oil price fluctuations, generating recurrent boom-and-bust cycles. When oil prices decline, fossil fuel producing countries with limited economic diversification experience sharper fiscal and balance-of-payments impacts than those with more diversified economies such as the United States. In the Colombian case, since 2008, the only year in which the nation registered a fiscal surplus was 2012, which coincided with historically high oil prices. Conversely, the sharp decline in oil prices in 2014 contributed to a widening of the fiscal deficit. This dynamic is replicated in debt trends. Between 2007 and 2014, when oil prices were relatively high, external debt remained below 27 percent of GDP. Following the oil price decline in 2014, external debt rose from 27 to 34 percent of GDP in a single year, largely

21 Tomes, T. (2024) How does public external debt drive the destruction of the Colombian Amazon? Observatori del Deute en la Globalització (p. 39) **https://odg.cat/wp-content/uploads/2024/07/How-does-public-external-debt.pdf**

22 Rodríguez, C. (2021) Financialization of fiscal policy and its impact on Colombia's public debt between 1996–2015. Cuadernos de Economía, 40(82) (p. 276) **https://biblat.unam.mx/hevila/CuadernosdeeconomiaBogota/2021/vol41/no82/10.pdf**

23 Ministerio de Hacienda y Crédito Público. (2025a) Marco fiscal de mediano plazo 2025. (p. 24). **https://img.lalr.co/cms/2025/06/13232122/Marco-Fiscal-Mediano-Plazo-2025.pdf**

24 World Economic Forum. (2024) Mobilizing clean energy investments in Colombia: Community solutions to help accelerate financing. (p. 7) **www3.weforum.org/docs/WEF_Mobilizing_Clean_Energy_Investments_in_Colombia_EN_2024.pdf**

25 Departamento Nacional de Planeación (DNP). (2025) Presupuesto General de la Nación asciende a $556,9 billones, $31 billones más que en 2025. **www.dnp.gov.co/Prensa_/Noticias/Paginas/Presupuesto-general-nacion-asciende-a-556-billones-31-billones-mas-que-en-2025.aspx**

26 Ellmers, B. (2025) The price of money: High capital costs as an obstacle to development. Global Policy Briefing 1025, Global Policy (p. 6) **www.globalpolicy.org/sites/default/files/download/Briefing_1025_The_Price_of_Money_0.pdf**

due to currency depreciation, reduced export revenues and widening external imbalances.[27]

Colombia's reliance on fossil fuels and a limited range of other raw materials to finance imports of more diversified, higher-value-added manufactured goods generates persistent trade imbalances, in which export revenues are insufficient to finance imports. This dynamic is akin to a household whose income is insufficient to cover basic consumption needs, forcing it to either incur debt or seek additional sources of income. In 2024, Colombia recorded an external deficit equivalent to 2.3 percent of GDP, or approximately US$10.6 billion.[28] To finance this gap, the country relied on new external borrowing and the inflow of foreign investment. Persistent trade imbalances create ongoing creditor and internal pressure to continue fossil fuel extraction as a means of attracting foreign investment and earning the foreign currency required to service external debts.

As fossil fuel reserves decline, the country faces increasing risks of foreign-currency shortages and economic shocks, even without proactive climate policy. Maintaining current levels of oil and gas production or exports is unlikely, given mature and depleted onshore fields, limited exploration success, high production costs, and strong community opposition to fracking.[29] This is recognised in the country's latest Nationally Determined Contribution (NDC), which commits to the gradual phase-out of the use and exploitation of fossil fuels, underpinned by science, a commitment to no new exploration licences and protections for the Amazon.[30] The NDC emphasises that *"the progressive abandonment of fossil fuels is not only a climate imperative and a matter of intergenerational survival, but also an opportunity to strengthen energy sovereignty, democratize the benefits of the transition, and consolidate Colombia as a Powerhouse of Life."*[31]

In response to these challenges, the current Colombian government has adopted a policy framework aimed at advancing a just energy transition while avoiding a deeper debt trap. Key measures include halting the expansion of fossil fuel production, increasing taxes on fossil fuel companies, diversifying and industrialising exports and accelerating renewable energy deployment. Despite structural constraints, Colombia has achieved measurable progress. Renewable energy—particularly solar and wind—expanded from just 2 percent of Colombia's electricity matrix in 2022 to 15 percent by January 2026.[32] Non-traditional exports, including manufactured and industrial goods like pharmaceuticals and electrical transformers, increased by 21 percent between January and November 2025.[33]

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27 Contraloría General de la República. (2025) Situación de la deuda pública 2024. **https://carlosarturorodriguezvera.com.co/wp-content/uploads/2025/09/Situacion-de-la-Deuda-Publica-2024_CGR.pdf World Bank. (2026) Commodity Markets. Recuperado el 20 de enero de 2026, de www.worldbank.org/en/research/commodity-markets**

28 International Monetary Fund. (2025a) IMF DataMapper – Profile: Colombia. International Monetary Fund. Recuperado el 18 de diciembre de 2025, de **https://www.imf.org/external/datamapper/profile/COL**

29 Fundación Heinrich Böll & Alianza Colombia Libre de Fracking. (2019) La inviabilidad del fracking frente a los retos del siglo XXI (cap. "La inviabilidad económica del fracking, subsidios estatales y crisis fiscal en Colombia"). **https://co.boell.org/sites/default/files/2019-11/20191114_hb%20fracking%202019_web.pdf**

30 Gobierno de Colombia. (2025) Contribución Determinada a Nivel Nacional NDC 3.0: Transformaciones para la Vida. Submitted to UNFCCC on Sep 25. **https://unfccc.int/node/650097**

31 Ibid. Gobierno de Colombia (2025). (p.7).

32 Ministerio de Minas y Energía. (2026) Colombia acelera la transición energética: las energías limpias ya representan el 15,6 % de la matriz eléctrica. **www.minenergia.gov.co/es/sala-de-prensa/noticias-index/colombia-acelera-la-transicion-energetica-las-energias-limpias-ya-representan-el-156-de-la-matriz-electrica/**

33 Redacción Economía. (2026) Exportaciones no mineras crecieron 21,6 % en 2025: agro y café lideran el impulso. El Espectador. **www.elespectador.com/economia/exportaciones-no-mineras-crecieron-216-en-2025-agro-y-cafe-**

Structural changes to the international financial architecture are still needed to guarantee a just energy transition. Colombia's fiscal revenues remain heavily dependent on fossil fuels, debt servicing continues to absorb a large share of public expenditure and external indebtedness exerts sustained pressure to maintain fossil fuel exports.

At the same time, the Colombian case demonstrates that governments in the Global South retain domestic policy options to advance in the energy transition. In particular, Colombia has shown that it is possible to reduce debt levels, promote renewable energy production and diversify exports through coordinated fiscal, industrial and energy policies, even within existing financial constraints.

EGYPT: FOSSIL EXPANSION AND THE EROSION OF ENERGY SOVEREIGNTY UNDER STRUCTURAL DEBT AND AUSTERITY

Egypt's current political economy embodies one of the defining dilemmas of the Global South: how to pursue sustainable and just development, social welfare, and climate resilience while carrying an unsustainable debt burden and remaining structurally dependent on fossil fuels. Rather than being a temporary crisis, this predicament has hardened into a structural condition, one in which external debt, austerity and fossil fuel expansion mutually reinforce each other. The result is a self-perpetuating debt–fossil fuel trap that constrains policy space, deepens inequality and undermines both fiscal stability and climate action.

Debt profile in Egypt

Since 2016, Egypt has entered three major IMF lending programs, placing it among the Fund's most indebted borrowers worldwide.[34] While IMF credit formally constitutes around 10 percent of Egypt's external debt, IMF conditionalities have reshaped the entire economy through austerity, subsidy cuts, currency devaluation, privatization and high interest rates. These policies have systematically prioritized investor confidence and creditor repayment over social protection, ecological sustainability and democratic economic planning.

The scale of Egypt's debt crisis is stark. External debt has surged from US$36.8 billion in 2010 to roughly US$156 billion in 2024, an increase of more than 320 percent.[35] A significant share of this debt is short-term, leaving the Egyptian pound exposed to repeated devaluations and volatile capital flows. Over the past decade, the currency has been devalued three times, with each round intensifying inflation, eroding household incomes and raising the real cost of debt.

Debt service has come to dominate the state's fiscal priorities. In FY 2024/25, interest payments alone absorbed nearly half of total government spending and the draft FY 2025/26 budget allocates more than 65 percent of expenditure to debt service (principal and interest combined). Meanwhile, constitutionally mandated spending on health and education remains severely underfunded. This budgetary structure privileges creditors over people, crowding out investment in public services, social welfare and climate adaptation.

lideran-el-impulso/

34 Total IMF credit outstanding movement from November 01, 2025 to December 01, 2025. Member Financial Data. (n.d.). **https://www.imf.org/external/np/fin/tad/balmov2.aspx?type=TOTAL**

35 World Bank (2025) The International Debt Report 2025. Washington DC: World Bank. **https://openknowledge.worldbank.org/server/api/core/bitstreams/b097dece-76e1-4f68-a74b-79f0a9f0e8e9/content**

Debt and fossil fuels outlook: economic entrapment by foreign investors

Confronted with chronic foreign-currency shortages, the state has doubled down on fossil fuels as its primary source of hard currency. Egypt has accelerated oil and gas exploration, expanded LNG infrastructure and locked itself into long-term gas export agreements with Europe and regional partners. Hydrocarbons are increasingly treated not as an energy resource for public need, but as financial collateral to stabilize markets and reassure lenders.

This strategy has not delivered fiscal security. Under Egypt's production-sharing agreements, multinational oil companies recover costs and repatriate profits before the state receives its share, while royalty rates remain unusually low by global standards.[36] Extensive tax exemptions further reduce public revenue.[37] As a result, fossil fuel exports generate far less public benefit than commonly assumed, even as they deepen environmental harm and climate risk.

The Siemens gas-fired power megaproject illustrates how debt-financed fossil infrastructure locks Egypt into long-term dependency. Costing US$7 billion and backed by European lenders, the project resolved short-term electricity shortages but bound the country to decades of gas reliance and external debt. Within three years, the government sought to sell its stake due to fiscal pressure, exposing both desperation and the absence of democratic energy planning.[38]

Similarly, the Zohr gas field, once hailed as a national breakthrough, proved fragile. Production collapsed after 2022 amid technical problems and mounting arrears to Eni, reportedly reaching US$1.7 billion. At its peak, Egypt's arrears to foreign oil companies reached US$7 billion,[39] straining dollar reserves and forcing the state to pay some dues in Egyptian pounds, despite central bank restrictions.

To manage this crisis, Egypt turned to Gulf financing, most notably the 2024 US$11 billion debt-for-development swap with the UAE tied to the Ras El-Hekma project. While the deal provided short-term liquidity and enabled IMF approval, it transferred significant development rights to a foreign state and failed to resolve Egypt's underlying debt vulnerability. External debt began rising again within months.[40]

Regional gas agreements, such as the 2022 EU-Egypt-Israel pact and the 2025 Leviathan deal, further lock Egypt into an export-oriented model aligned with European energy security rather than domestic needs. These arrangements have entrenched a reliance on the Israeli occupation despite its ongoing imperial project, most recently through its continuing genocide in Gaza.

Globally, Egypt's fossil expansion is increasingly risky. The EU's Carbon Border Adjustment Mechanism threatens key Egyptian exports, while global gas demand is projected to peak before 2030. Expanding fossil infrastructure today risks creating stranded assets tomorrow, raising borrowing costs and intensifying fiscal vulnerability.

Egypt's renewable energy transition, meanwhile,

36 Onyema, E. & Saxena, A. (2025) The Energy Transition in Contractual Practice, ICSID Review - Foreign Investment Law Journal, 40 (2) (p. 295–314). **https://doi.org/10.1093/icsidreview/siaf004**

37 Offshore Technology. (2021) "Egypt bids in 2021 aim to use industry interest despite fiscal terms". 2 June, Global Data Energy. **www.offshore-technology.com/analyst-comment/egypt-bids-interest-terms/?cf-view**

38 Reuters. (2021) "Egypt plans power plant share sale". 21 Dec, **https://www.reuters.com/markets/europe/egypt-plans-power-plant-share-sale-2021-12-29/**

39 Tatschner, K. (2025) The Zohr Field – the rise and fall of a Mediterranean gas giant. 15 May, C&C Reservoirs. **https://ccreservoirs.com/the-zohr-field-the-rise-and-fall-of-a-mediterranean-gas-giant/** ; Ramadan, I., & Behary, M.

40 Kabil, M. (2025) 2025/2026 Budget: Egypt in the Grip of Debt. Report, The Egyptian Initiative for Personal Rights. **https://eipr.org/sites/default/files/reports/pdf/egypt_in_the_grip_of_debt_4_0.pdf**

remains shaped by the same unequal financial architecture. Projects such as the Benban Solar Park are dominated by foreign investors, financed through dollar-denominated contracts that shift currency risk onto the state while guaranteeing profits to private companies. Local manufacturing, technology transfer,and durable employment remain limited. The result is a transition that reduces emissions in appearance but preserves economic dependency in practice, a decarbonization without sovereignty.

The social consequences of this model are severe. Fuel prices have risen nearly fivefold and electricity tariffs over 300 percent since 2014. National poverty has climbed to 34 percent, with extreme poverty also increasing. Real wages have stagnated, informal work has expanded and basic public services have deteriorated. Hospitals face shortages, schools are overcrowded and underfunded and public transport costs exclude low-income families.[41]

Climate vulnerability compounds these injustices. Heat waves, water scarcity and agricultural shocks, such as the 2023 sugar crisis, are already undermining food security and increasing import dependence. Yet adaptation spending remains minimal because debt service absorbs the bulk of public resources.

At the governance level, Egypt's energy sector operates with weak transparency and limited accountability. Regulatory bodies lack political power, environmental oversight is marginal and independent civil society is highly constrained. Investor–state dispute mechanisms further restrict policy space, discouraging meaningful regulation of fossil corporations.[42]

Gulf patronage stabilises Egypt in moments of crisis but entrenches dependency. Emergency LNG purchases in 2024, financed by Saudi Arabia and Libya, prevented blackouts but highlighted Egypt's loss of energy sovereignty.[43] These interventions reinforce fossil priorities rather than enabling structural reform.

This case study frames Egypt's current predicament as a structural debt–fossil fuel trap. Debt pressures incentivise continued fossil fuel expansion as a means of generating foreign currency and stabilising markets.

Fossil expansion, in turn, deepens fiscal and ecological vulnerability by reinforcing exposure to volatile hydrocarbon markets, external financing and environmental risk. That vulnerability then necessitates further borrowing, perpetuating a cycle in which debt and fossil dependence continuously reinforce one another.

From entrapment to transformation: steps towards a just economic and energy system

Breaking this cycle requires more than technical energy reform. It demands a broader transformation of Egypt's financial architecture and political economy. Deep debt restructuring and relief, including grant-based and highly concessional financing, are essential to restoring fiscal space. Reducing dollar exposure in energy projects through local-currency instruments and fairer power purchase agreements would limit currency risk and improve public returns. At the governance level, strengthening transparency, community participation,and environmental oversight is necessary to democratise energy decision-making.

A just transition must also redirect public

41 Elsayid, E. (2016) *The Hidden Role of WB and IMF in Developing Countries. Egypt, Malaysia and Turkey*. Saarbrucken: AV Akademikerverlag.

42 Diab, O. (2023) The IMF and ending energy subsidies in Egypt: A Tale of Class War and Greenwashing. Long Read, 20 Sep, Transnational Institute. **www.tni.org/en/article/the-imf-and-ending-energy-subsidies-in-egypt**

43 Rashad, M., Landini, F., Ezz, M., & El Safty, S. (2024) "Exclusive: Egypt counts on foreign funds to buy gas as power crisis worsens", 2 Sep, Reuters. **www.reuters.com/business/energy/egypt-counts-foreign-funds-buy-gas-power-crisis-worsens-2024-09-02/**

spending away from debt service and prestige megaprojects toward health, education and climate mitigation and adaptation. Reclaiming energy sovereignty means prioritising domestic development needs over export-oriented fossil commitments. Crucially, transition policies must protect workers, low-income households and vulnerable communities rather than reproducing austerity measures that deepen inequality.

Egypt's crisis is not merely economic. It is also political, structural and ecological. A just and sustainable future will require rebalancing the relationship between international finance and domestic development priorities, renegotiating unequal debt arrangements and strengthening democratic control over energy and fiscal policy. Only through such structural reform can Egypt move beyond the debt–fossil fuel trap and build a more resilient, equitable and sovereign energy system.

GUYANA

Guyana occupies a uniquely paradoxical position in the global climate–development landscape. It is both a high-forest, low-deforestation (HFLD) net-zero country and one of the world's fastest-growing new oil producers. Over 85 percent of its territory is covered by Amazonian rainforest, making Guyana a significant global carbon sink. At the same time, large offshore petroleum discoveries since 2015 have transformed its macroeconomic trajectory.

This juxtaposition places Guyana at the centre of a fundamental global dilemma where climate-vulnerable, historically indebted small states can pursue development and poverty reduction without locking in carbon-intensive pathways. As such, Guyana is not merely a national case study, it is a stress test of the global Just Energy Transition's coherence, particularly for countries with minimal historical emissions but pressing development needs.

The case is particularly salient for Caribbean and other Small Island Developing States (SIDS), many of which face entrenched debt–climate feedback loops. Guyana's oil-driven growth appears, at first glance, to offer an escape from this trap. The core question is whether this escape is structural and durable, or temporary and ultimately destabilising.

Debt profile and fiscal transformation

Historically, Guyana was among the most heavily indebted countries in the Caribbean. In the early 2000s, it qualified for relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), securing significant debt write-downs and some fiscal space. However, weak diversification, commodity dependence and climate exposure meant that structural vulnerabilities persisted well beyond formal debt relief.

The onset of commercial oil production in 2019 fundamentally altered this picture. Rapid GDP growth, averaging extraordinarily high rates between 2022 and 2024, has sharply reduced the public debt-to-GDP ratio, which fell to around one quarter of GDP by 2024. This improvement, however, is driven overwhelmingly by denominator effects (surging GDP) rather than sustained reductions in nominal debt or a shift towards low-risk financing.

In nominal terms, public debt has continued to rise, accompanied by a marked shift in its composition. Domestic debt now accounts for a growing share of total liabilities, thereby increasing rollover and interest-rate risks. Fiscal deficits have widened as oil revenues are channelled into ambitious public investment programmes, while withdrawals from the Natural Resource Fund (NRF) have accelerated.

The key implication is that headline debt sustainability masks new forms of vulnerability. Guyana has replaced dependence on concessional external finance with dependence

on volatile petroleum revenues. If oil prices fall, production is delayed or global decarbonisation accelerates faster than anticipated, fiscal buffers could erode quickly and possibly revive debt pressures.

Energy profile and development model

Guyana's energy system reflects a deep tension between short-term pragmatism and long-term transition goals. On the one hand, oil production has made hydrocarbons the dominant source of export earnings and fiscal revenue, accounting for most exports and over 40 percent of government income by 2024. On the other hand, domestic energy access remains constrained by high electricity costs, unreliable infrastructure and significant transmission losses.

The government's energy strategy rests on three interlinked pillars. First is petroleum-fuelled growth, which generates revenue to finance infrastructure, social spending and economic diversification. Next is the Gas-to-Energy initiative which is intended to lower domestic electricity costs and emissions by replacing imported fuels with domestic natural gas. Finally low-carbon development under the Low Carbon Development Strategy (LCDS) 2030, which prioritises forest conservation, carbon markets and renewable energy expansion over the medium term.

While internally coherent on paper, these pillars create carbon lock-in risks in practice. Gas-to-Energy infrastructure is designed for multi-decade operation, potentially prolonging reliance on fossil fuels beyond global decarbonisation timelines. At the same time, flagship renewable projects, most notably large-scale hydropower, have faced repeated delays, political controversy and financing challenges. As a result, oil revenues risk crowding out truly transformative low-carbon investments even though they rhetorically underpin the transition narrative.

The debt–fossil fuel nexus

The Guyana case illustrates a new variant of the debt–climate nexus. Historically, climate shocks and weak export bases drove borrowing and debt accumulation. Today, oil revenues appear to ease debt constraints yet they simultaneously introduce new fiscal and structural risks. Revenue volatility exposes fiscal planning to global oil price swings, while Dutch disease dynamics weaken non-oil tradable sectors and undermine diversification. At the same time, carbon transition risks raise the possibility of stranded assets and abrupt revenue losses as global oil demand peaks and declines. Finally, governance pressures also intensify as petroleum revenues become central to political legitimacy and the financing of social expenditure.

In this configuration, fossil fuel wealth does not eliminate debt vulnerability, it reconfigures it. Debt sustainability becomes contingent on continued oil extraction in a world moving unevenly yet decisively towards decarbonisation.

Core storyline: opportunity or trap?

The central storyline of the Guyana case is one of compressed time and heightened stakes. In less than a decade, Guyana has moved from post-HIPC fragility to oil-fuelled affluence. This creates a narrow but powerful window of opportunity as oil revenues could be channelled into climate-resilient infrastructure, economic diversification and intergenerational wealth.

The combined momentum of oil revenues and climate vulnerability raises the stakes considerably. Without a carefully managed transition framework, Guyana risks embedding new patterns of dependency and perpetuating existing inequities that the HIPC Initiative once sought to alleviate. Further, Guyanese experts question the credibility of the discourse around extractivism and oil wealth as a proxy for future development in the country, based on its previous experience and the ongoing domination of foreign multinational companies

in the oil extraction industry of the country.

At the same time, the pace of change magnifies institutional weaknesses. Governance of the Natural Resource Fund (NRF) has been contested, with concerns about weakened oversight and rapid drawdowns. Regulatory capacity in the petroleum sector remains limited relative to the scale and power of multinational oil operators. ExxonMobil, for example, has long demonstrated a lack of genuine commitment to addressing climate change,[44] and the company is backtracking on its already weak pledge to emissions reduction.[45] Even while the government of Guyana is prioritising its Low Carbon Development Strategy (LCDS), this main economic strategy is premised on partnerships with multinational players who lack such a commitment. In addition, Guyana's oil contracts are highly exposed to Investor State Dispute Settlements (more than 96 percent), meaning it is effectively locking itself into fossil fuel contracts which may not be aligned with the LCDS in the long term.[46] There is a major concern that, as the climate science predictions become reality -such as the country's low-lying capital city of Georgetown sinking by 2030 - the cost of adaptation and loss and damage could far outweigh the economic benefits of oil extraction and production.[47] A number of concerns have been raised by communities and environmental experts including public interest litigations that have challenged the permits being given to fossil fuel companies[48] and the environmental and health threats being perpetrated such as unauthorised gas flaring.[49] The government plans to introduce legislation to ensure that companies are held liable for oil spills and they comply with regulations.[50] Serious criticisms have been levelled at the approach to its development by civil society, who call on the government to allow for greater parliamentary and public consultation.[51]

Social and geographic inequalities persist, increasing the risk of a "dual economy" in which oil wealth coexists with entrenched poverty and vulnerability. As one stark example shows, only 3 percent of employment has been generated by the fossil fuel industry. Although inflation remains moderate, anecdotal evidence of rising real estate prices and wage pressures suggests mounting strain on the non-tradable economy. Oil wealth is not a simple conversion

44 Noor, D. (2023) "New files shed light on ExxonMobil's efforts to undermine climate science", 14 Sep, Guardian. **www.theguardian.com/us-news/2023/sep/14/exxonmobil-documents-wall-street-journal-climate-science** ; Kinol A, Si Y, Kinol, J. & Stephens J.C. (2025) Networks of climate obstruction: Discourses of denial and delay in US fossil energy, plastic, and agrichemical industries. PLOS Clim 4(1): e0000370. **https://doi.org/10.1371/journal**.

45 Kelly, M. & Muir, M. (2025) "ExxonMobil to slash low-carbon spending by a third". 9 Dec, Financial Times. **www.ft.com/content/dc0f4207-7eb3-482d-8f28-e2b15ed07e9f**

46 Tienhaara, K., Thrasher, R., Simmons, B. A., & Gallagher, K. P. (2022) Investor-state disputes threaten the global green energy transition. Science, 376(6594), 701-703. **www.science.org/stoken/author-tokens/ST-467/full**

47 Juhasz, A. (2022) The Quest to Defuse Guyana's Carbon Bomb. Dec, Wired. **https://www.wired.com/story/the-quest-to-defuse-carbon-bomb-guyana/** ; Sukhnandan, S. (2023) "Will Guyana's capital city, Georgetown, sink by 2030?", 23 Nov, Climate Tracker Carribean, **https://climatetrackercaribbean.org/climate-justice/will-guyanas-capital-city-georgetown-sink-by-2030/**

48 Janki, M. (2025) Ramon Gaskin v Minister of Natural Resources, Exxon, Hess and CNOOC. Case summary, **www.melindajanki.org/work/ramon-gaskin-v-minister-of-natural-resources-exxon-hess-and-cnooc**

49 Bispo, F. (2025) "ExxonMobil consolidates 'petrostate' despite environmental complaints in Guyana". 8 Apr, InfoAmazonia. **https://infoamazonia.org/es/2025/04/08/exxonmobil-consolida-petroestado-pese-a-las-denuncias-ambientales-en-guyana/**

50 Government of Guyana. (2025) Oil Pollution, Prevention, Preparedness, Response and Responsibility Act 2025. Parliament of the Co-operative Republic of Guyana. **www.parliament.gov.gy/publications/acts-of-parliament/oilpollutionpreventionpreparednessresponseandresponsibilityact2025act6of2025**

51 Commonwealth Lawyers Association (CLA) (2025) "CLA Statement on Guyana's Oil Pollution Prevention Preparedness Response and Responsibility Bill", 29 May. **www.commonwealthlawyers.com/statement/cla-statement-on-guyanas-oil-pollution-prevention-preparedness-response-and-responsibility-bill/**

to development and prosperity.

Guyana thus stands at a fork in the road. It can either institutionalise oil wealth as a bridge to a post-carbon economy or entrench a new form of extractive dependence that recreates the vulnerabilities of the past under different conditions.

The Guyana case reveals several interlocking challenges. Governance and institutional capacity remain stretched, as the state must manage petroleum revenues, environmental risks and complex investment decisions despite limited administrative depth. Carbon lock-in risks are rising, with long-lived fossil infrastructure potentially constraining future transition options.

Heavy reliance on oil revenues for budget financing exposes fiscal policy to volatility and global price swings, while persistent regional, Indigenous and income inequalities risk deepening amid rapid growth. At the same time, global policy misalignment persists: climate finance and concessional lending frameworks often penalise Guyana for income gains driven by oil, despite its high climate vulnerability and limited historical emissions.

The case study also highlights several strategic directions for navigating this transition. Fiscal sustainability must be progressively decoupled from oil dependence through strengthened fiscal frameworks, more cautious withdrawals from the NRF and spending decisions anchored in long-term resilience rather than short-term revenue availability. Oil revenues should be treated as transition capital rather than permanent income, with a substantial share ring-fenced for climate resilience, renewable energy and economic diversification. Governance reforms are essential to reinforce independent oversight of the NRF, strengthen environmental regulation, and enhance contract transparency. Accelerating genuine low-carbon investments — particularly in renewables, grid modernisation, and climate-resilient infrastructure aligned with LCDS 2030 will be critical, alongside advocacy for vulnerability-based access to concessional finance so that long-term financial stability is not undermined by oil-driven GDP growth.

Guyana's experience underscores a central lesson for SIDS and climate-vulnerable states. Escaping debt distress through fossil fuel expansion is neither inherently just nor inherently sustainable. Through its Low Carbon Development Strategy (LCDS), Guyana has an opportunity to plan a pathway away from fossil fuels on a timeline based in global justice and equity, and international cooperation rooted in CBDR-RC. A just energy transition that is fit for the future must be embedded within robust institutions, deliberate diversification strategies and global financial reforms that recognise vulnerability rather than income alone.

JORDAN

Jordan's debt story is, in many ways, an energy story, particularly about fossil fuels. For decades, the country has lived with a structural vulnerability that rarely makes headlines in full: Jordan imports most of its energy, pays for it in hard currency and then absorbs the fiscal shock when global prices spike or supply routes break. In a country designed around stability, resource-poor, aid-dependent and surrounded by regional crises, economic policy has often been built for short-term resilience rather than long-term transformation. Yet the energy sector has repeatedly turned external turbulence into domestic debt, leaving the public budget to carry costs that the liberalised market design and political choices have failed to distribute more fairly.

This case study argues that Jordan's fossil fuel dependence is not merely an energy-supply vulnerability, but a fiscal architecture that systematically converts external volatility into

sovereign debt. Energy shocks do not remain confined to the electricity sector. They migrate into the balance sheet of the state, shaping taxation policy, constraining reform space and influencing political decisions. At the same time, the state has developed a structural dependence on revenues derived from fossil fuel consumption, creating what can be described as a form of fiscal addiction. In the short term, reducing fossil use threatens budget stability even while having the potential to improve economic resilience in the long term.[52] The result is not a temporary crisis but a reinforcing fossil–debt–consumption trap that narrows Jordan's development options and complicates the path toward a just energy transition.

Debt profile and fiscal challenges

Historically, Jordan's debt trajectory has closely mirrored shifts in the energy landscape. The 1989 balance-of-payments crisis, fuelled by declining remittances and the collapse of an earlier oil-driven boom in the Gulf, marked the beginning of a prolonged period of fiscal strain and adjustment.[53] Subsequent shocks, from the Iraq War to the Syrian refugee influx, placed additional pressure on public finances. The most consequential rupture occurred in 2011 with the collapse of Egyptian gas supplies. Overnight, Jordan was forced to generate electricity from costly diesel and heavy fuel oil, causing the National Electric Company's (NEPCO) annual losses to skyrocket and adding billions of dollars to public debt.[54] These dynamics exposed the deeper structural flaw in Jordan's energy system. Dependence on externally sourced fossil fuels coupled with a single-buyer model (adopted during a period of structural adjustment pushed by the World Bank and IMF along austerity measures) transferred nearly all cost risk onto the state while guaranteeing private generation and the distribution companies profits.[55]

This legacy has produced a present-day reality in which debt servicing consumes nearly 40 percent of government revenues, public debt exceeds 90 percent of GDP (or 116 percent when including Social Security Investment Fund (SSIF) holdings) and essential sectors such as health, education and environmental protection remain severely underfunded.[56] The intersection of debt and energy dependency creates a self-reinforcing cycle. High fossil fuel imports worsen trade imbalances, external borrowing increases to cover fuel cost sand rigid contracts restrict the shift toward cheap domestic renewables and local economic opportunities that come with it. Without intervention, Jordan risks remaining locked into a development model that is financially unsustainable, environmentally harmful and economically constraining.

Fossil lock-in vs transition

Despite these vulnerabilities, Jordan demonstrated remarkable progress in renewable energy between 2014 and 2021, becoming one of the fastest-growing clean energy markets in the region. Solar and wind projects expanded rapidly, transmission capacity improved through the Green Corridor project and renewable energy rose from less than 1 percent of electricity generation

52 Jordan News Agency (Petra). (2021) "Fuel Tax Injects JD2 Bln Into State Treasury Annually, Minister", 9 Feb, Petra. **https://www.petra.gov.jo/Include/InnerPage.jsp?ID=32221&lang=en&name=en_news**

53 International Monetary Fund (IMF). (2006) IEO Report on the Evaluation of IMF Support to Jordan, 1989–2004. Washington D.C.: Independent Evaluation Office, IMF. **https://doi.org/10.5089/9781589064959.017**

54 National Electric Power Company (NEPCO). (2013) Annual Report 2013. Amman: NEPCO https://www.nepco.com.jo/store/docs/web/2013_en.pdf ; The Jordan Times. (2020) "NEPCO Says Noble Energy Was Last Option As Debts Hit JD5.5B", 6 Jan, The Jordan Times. **https://jordantimes.com/news/local/nepco-says-noble-energy-was-last-option-debts-hit-jd55b**

55 World Bank. (2016) Jordan systematic country diagnostic. Washington D.C.: World Bank Group. **https://documents1.worldbank.org/curated/en/368161467992043090/pdf/103433-replacement.pdf**

56 Ministry of Finance (MoF). (2025) **2025** تقرير الدين العام الربعي – الربع الأول [Public Debt Quarterly Report – Q1 2025]. Amman: MoF. **https://mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/public_debt_quarterly_report_-q1_2025_.pdf**

to 26 percent.[57] This success, however, was abruptly curtailed by institutional and contractual constraints. NEPCO declared the grid "saturated," curtailment increased and large-scale renewables approvals were paused. The underlying cause was not technical, it was political. The US$15 billion gas deal with Israel and the local Attarat shale oil project, with its rigid take-or-pay clauses, created a rigid fossil fuel baseload that reduced the grid's flexibility and crowded out further renewable integration.[58]

Parallel to these energy-system constraints is Jordan's fiscal dependence on consumption taxes derived from fossil fuels (and cigarettes), revenue streams that together contribute between a quarter and a third of all domestic revenues.[59] This creates a paradoxical incentive structure. The state relies on the continued consumption of harmful products to finance public services and debt payments, even as it simultaneously promotes sustainability and public health. The rapid rise of electric and hybrid vehicles, one of Jordan's most successful decarbonisation stories, triggered fiscal anxiety due to declining fuel-tax revenues. Instead of leveraging this transition the government reversed key incentives, increased taxes on EVs and lowered taxes on Internal Combustion Engine vehicles. and introduced import restrictions. This shows how fiscal structures can undermine environmental progress and hinder long-term economic efficiency.[60]

Energy Transition as reform pathway

The opportunities for transformation in Jordan are nonetheless substantial. The country possesses some of the highest solar irradiance levels in the world with a decade of experience in renewable deployment. Jordanian society is increasingly aware of the economic and political risks of fossil dependency, especially to a state that continuously breaks international law and has threatened Jordan with the cutting of water supplies.

Recent legislative developments, such as the 2025 Public Electricity Law,[61] signal a renewed commitment to regulatory reform and grid modernisation after years of restricting new licensing. Going forward, electrification of transport, industry and buildings, combined with time-of-use pricing and expanded grid capacity, can significantly reduce reliance on imported fuels, strengthen energy sovereignty and lower long-term costs. With the right policies, Jordan can reposition its energy system as a driver of industrial competitiveness rather than a source of vulnerability.

Breaking the fossil–debt trap requires comprehensive fiscal and energy-system restructuring. This includes renegotiating fossil contracts to restore flexibility, investing in grid infrastructure and storage, modernising market design and replacing harmful consumption taxes with progressive, sustainable revenue

57 International Renewable Energy Agency (IRENA). (2021) Renewables Readiness Assessment: The Hashemite Kingdom of Jordan. Abu Dhabi: IRENA. **https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2021/Feb/IRENA_RRA_Jordan_2021.pdf** ; Ministry of Energy and Mineral Resources (MEMR). (2021) **التقرير السنوي 2021** [Annual Report 2021]. Amman: MEMR **https://www.memr.gov.jo/ebv4.0/root_storage/ar/eb_list_page/annual_report_2021_ar.pdf**

58 Newman, M. (2014) "Israel Signs $15 Billion Gas Deal With Jordan", 3 Sep, Times of Israel **https://www.timesofisrael.com/israel-signs-15-billion-gas-deal-with-jordan/**

59 Ersan, M. (2025) "Tobacco Sales in Jordan: Short-Term Revenue Gains and Long-Term Losses (Infographic)", 30 Sep, AmmanNet. **https://ammannet.net/english/tobacco-sales-jordan-short-term-revenue-gains-and-long-term-losses-infographic**

60 Petra. (2025) **"لا تغيير على الضرائب والرسوم على مركبات الهايبرد والكهرباء** [No Change to Taxes and Fees on Hybrid and Electric Vehicles]", 14 Sept, Petra. **https://petra.gov.jo/Include/InnerPage.jsp?ID=104126&lang=ar&name=local_news**

61 Energy & Minerals Regulatory Commission (EMRC). (2025) **قانون الكهرباء العام لسنة 2025- قانون رقم (10)** [General Electricity Law]. Amman: EMRC **https://emrc.gov.jo/ebv4.0/root_storage/ar/eb_list_page/%D9%82%D8%A7%D9%86%D9%88%D9%86_%D8%A7%D9%84%D9%83%D9%87%D8%B1%D8%A8%D8%A7%D8%A1_%D8%A7%D9%84%D8%B9%D8%A7%D9%85_%D8%B1%D9%82%D9%85_10_%D9%84%D8%B3%D9%86%D8%A9_2025.pdf**

streams. International partners must also play a constructive role by aligning financial support with climate objectives, providing concessional financing for grid expansion and deploying debt-for-climate instruments that free fiscal space for strategic investment. Climate finance must move beyond narrow mitigation projects to address the structural debt constraints that inhibit transition.

Jordan now stands at a critical juncture. It can continue to navigate crises through short-term adjustments that preserve the status quo, or it can embark on a deliberate transformation that aligns its fiscal system, energy strategy and development goals. The evidence presented in this case study shows that the path of reform, though complex, is both achievable and economically advantageous. By leveraging renewable resources, modernising its regulatory and fiscal architecture while embracing a just transition framework, Jordan can build an energy system that enhances sovereignty, supports inclusive growth and reduces the chronic fiscal pressures that have shaped its political economy for decades. The choices made in the coming years will determine whether the country remains constrained by the legacy of fossil fuel dependence or moves toward a resilient, sustainable and just future.

SRI LANKA

Sri Lanka's ambitious pursuit of a transition to zero-carbon electricity by 2050 is challenged by a severe debt crisis and the intensifying climate crisis. Sri Lanka was one of the first to default on foreign debt payments amongst Global South countries after the Covid-19 pandemic. It is also one of the world's most climate vulnerable nations, with slow and rapid onset impacts posing a major challenge to economic recovery.

Energy profile

Sri Lanka's total energy supply mix consists of 40.3 percent biofuels and waste, 39.8 percent oil and oil products, 5 percent hydropower and solar, wind and other renewables. About half of its electricity generation is dependent on fossil fuels and its transport sector is 100 percent dependent on oil.

As a non-petro state with no indigenous oil reserves, Sri Lanka is dependent on imports to meet its needs for consumption and electricity generation. Having reached the total capacity of its renewable energy source - hydropower - Sri Lanka's import dependence on oil, coal and liquefied natural gas (LNG) has increased in the last two decades as domestic demand surges. This has exposed the country to balance-of-payments pressures, volatile global fuel prices and supply-chain disruptions due to the Ukraine war and Covid-19 global pandemic.

Fossil fuel import is the most expensive item on the country's external accounts. Sri Lanka's energy vulnerability was fully exposed during the 2022 crisis, where fuel rationing, electricity blackouts and price hikes were imposed when foreign exchange reserves ran dismally low. The LPG gas cylinder became the symbol of the acute economic crisis.

Debt crisis

Investing in universal social welfare in the early decades after gaining independence from colonial rule in 1948 contributed to a unique economic model of low inequality albeit with low GDP growth. Liberalization policies since the late 1970s reversed those early gains. While foreign direct investments did not flow in at expected levels, cheap imported goods flooded in destroying rural industries and displacing labour. The country became dependent ever since on tea and garment exports and remittances from migrant workers for its foreign exchange earnings, increasing its vulnerability to external market shocks. Since the end of the 26 year long civil-war in 2009, a shift towards expanding financialization, large-scale infrastructure build-out and urbanization with a

reliance on external borrowings eventually led to a deep economic crisis.

Sri Lanka's debt to GDP ratio peaked at 114 percent in 2022. A greater portion of Sri Lanka's US$35 billion foreign debt was owed to private lenders (42 percent) in the Global North, followed by bi-lateral debt to Japan and non-Paris club members, like China and India, and multilateral debt to the World Bank and Asian Development Bank.

A complex debt restructuring process was initiated with the IMF which included Sri Lanka being used as a test case for "innovative" tools such as the macro-linked bonds and governance-linked bonds. This left the country with a heavy foreign debt repayment burden, projected to devour about 4 percent of GDP annually.

Unconventionally, a domestic debt restructuring was also mandated. However, Sri Lanka did not default on its domestic debt, which resulted in the reduction of future payouts of the hard-earned savings of workers' Employee Provident Fund. The 17th IMF program, for US$2.9 billion that will run until 2027, contained the harshest austerity measures, including direct implications for the energy sector. Reform of the energy sector was accelerated with amendments to the Sri Lanka Electricity Act. The IMF has actually intervened in Sri Lanka once every three years on average, in ways which have typically sought to dictate the country's domestic economic policy choices.[62]

Energy sector reforms

The IMF agreement included shifting from subsidized public provisioning of oil and electricity to a cost-recovery market pricing model. This cut off electricity to many households, especially women-led ones, and reduced fuel consumption by 50 percent. The move caused discontent among consumers whose energy bills have become more expensive.

The agreement also seeks reforms to liberalize the energy sector, by unbundling the state-owned Ceylon Electricity Board into three separate entities and introducing a power purchasing mechanism to allow individual producers, including foreign companies, to enter the nation's energy market. These efforts have been met with resistance from energy sector unions as it is seen as a precursor to privatization.

In addition to the IMF push, recent energy sector reforms are influenced by the WB, Asian Development Bank (ADB) and United States Agency for International Development (USAID). These entities have provided loans to implement the projects and show a clear preference for dismantling public entities and opting for privatization and public-private partnerships. The top-down approach to policy-making pressured by International Financial Institutions (IFIs) has left very little space for the government to engage in community consultations for policy-making eroding trust in the reforms.

Policy responses from the government aimed at diversifying energy sources as well, with the aim of reducing import dependency on oil and increasing energy security. The country has a sustainable energy development framework, particularly focused on accelerating the production of wind and solar power, including by providing feed-in tariffs and tax incentives. However, while it presents an ambitious plan, financing the expansion of renewable energy remains a critical bottleneck.

62 Kaboub, F. (2026) "Sri Lanka's 17th IMF Debt Trap: Lessons for the Global South". 21 Feb, Global South Perspectives Sub-stack, **https://globalsouthperspectives.substack.com/p/sri-lankas-17th-imf-debt-trap**

Financing the renewable energy transition: navigating polycrisis - debt and loss and damage

Public funding for climate and energy was less than 2 percent of government revenues in the 2026 budget, given the constraints placed on spending under austerity. Private sector investments are slow due to the long return on investment cycles for renewable projects. Raising external funding in the private markets is costly after the economic crisis and loans from IFIs are non-retractable even if the country is mired in a deep economic crisis. Thus, although Sri Lanka's transition to renewable energy sources is critical, its reliance on foreign debt-based financing options – including green and blue bonds - will not help ease its foreign debt burden.

Sri Lanka has received considerable bilateral funding for its energy sector projects, often accompanied with geopolitical motives which has further complicated the transition. The country's debt crisis has heightened its vulnerability to bilateral and commercial agreements with foreign partners in the energy sector. Thus, Sri Lanka is caught in a balancing act offering energy deals to India, China and Western interests, including licenses for exploring potential offshore oil and gas reserves, refining and distributing imported oil and setting up coal power plants.

Foreign investments into renewable energy have also been unsuccessful due to commercial viability, environmental concerns and impact on local livelihoods. Community opposition to offshore wind turbines and fossil fuel exploration — particularly on Mannar Island — a war-affected region, highlights the growing tensions between export-oriented models, including 'green-growth' agendas that are rooted in bilateral and private sector deals rather than local visions of a just transition. The government has ambitious plans to be 70 percent renewable by 2030 which is admirable. Yet it has been constrained by the options on the table in the context of its debt crisis.

The opposition by local communities and environmental activists is directed at the nature of the projects, not the goal of increasing renewable energy access. The foreign investment has been based on privatization and plans for regional integration via South India raising fears of losing energy sovereignty to other nations and private corporations.

In November 2025, Sri Lanka faced the worst climate disaster since the boxing day Tsunami when Cyclone Ditwah devastated the island, inflicting damage equivalent to 4 percent of GDP underscoring the country's need for a substantial loss and damage fund. However, given the recent retrenchments in the global humanitarian and development sector, aid did not trickle in as required.

The devastation of the cyclone set back even the modest economic gains made since 2022. It also exposed the lack of metrics to account for climate-related shocks in the debt sustainability analysis of the IMF or future economic projections for the country. There is no mechanism in the IMF agreement to make adjustments after such climate-related drastic hits to the economy. Calls by both international economists and local civil society groups for debt relief tied to climate risk went unheeded. The IMF and Sri Lankan government have pledged to continue the IMF program without adjustments despite the disaster's significant impact. Sri Lanka's hope for a sustainable recovery was shattered.

Conclusion and recommendations

Sri Lanka's case reveals a debt-fuel trap, produced by high debt-servicing obligations and increased pressure on foreign exchange earnings reducing the ability to pay for energy

imports, while the reliance on imported fossil fuels perpetuates balance-of-payment deficits.

Sri Lanka has set ambitious targets for a clean energy transition and there is policy momentum after the economic crisis, but there is a gap in financing. Accessing external debt-based financing is not sustainable for a country already mired in a debt crisis.

The post-crisis energy reforms of privatization, removal of subsidies and a green growth model have deepened social inequalities and particularly affects access to energy and livelihoods for women and low-income households.

Sri Lanka's energy pathways are shaped by geopolitical constraints, where competing bilateral and foreign private interests determine energy sources and projects. The push for a profit-generating export-oriented model and regional connectivity via South India, has triggered fears of extraction and loss of energy sovereignty.

Finally, given Sri Lanka's high climate-risk status, loss and damages are not accounted for in IMF's debt-sustainability analysis, leaving Sri Lanka to shoulder an unfair and unsustainable share of both the debt repayment and disaster loss and damage burden.

A just economic and energy transition that is responsive to climate risks must include the following:

1. Incorporate climate metrics into IMF's debt sustainability and macroeconomic analysis and mandate adjustments for climate-risk prone countries.

2. Reevaluate multilateral and bilateral frameworks for renewable energy transition and bring them in line with the just transition principles.

3. Protect the publicly owned non-profit energy sector by immediately reversing the removal of subsidies and privatization of the energy sector. Introduce tariff incentives for increased renewable energy usage.

4. Remove fiscal spending constraints on loss and damage, mitigation and transition to renewable energy projects.

Protect climate sensitive local agriculture and food systems by redistributing government budget allocations to those sectors.

1.4 Policy Recommendations

FRAMING: DEBT, FOSSIL FUELS, AND TRANSITION AS A SINGLE SYSTEM

The fossil fuel–debt trap is not the outcome of isolated policy errors but of a structurally integrated global system in which sovereign debt, fossil fuel finance and unequal power relations reinforce one another. Public borrowing for fossil fuel infrastructure creates long-term foreign-currency liabilities, exposes states to volatile commodity cycles and stranded asset risk and compresses fiscal space. In turn, high debt burdens narrow policy options, pushing governments towards short-term revenue strategies, often including fossil extraction or import-dependent energy systems that further entrench carbon lock-in. This is a vicious cycle that entrenches global inequalities, not only between, but within nations.

A just energy transition cannot succeed if treated as a purely technological shift. Nor can debt justice be achieved without confronting the carbon-intensive development models that drives debt accumulation. Breaking the fossil fuel–debt trap, therefore, requires simultaneous reform of debt governance, international finance and energy systems anchored in justice and grounded in political economic realism. The

following recommendations are rooted in such a vision of change.

Key stakeholders, not least IFIs, MDBs and bilateral creditors should engage openly with the evidence and proposals emerging out of the Global South, including from decolonial and feminist movements. The Rabat Roadmap, for example, recognises debt as a coercive colonial tool that disproportionately harms women, Indigenous peoples and historically marginalised communities. In order to fulfill their mandates and commitments, these institutions should redesign policies and lending frameworks to advance the achievement of the SDGs, not least gender justice, community leadership, people-centered development and universal affordable energy access.

1 . TO INTERNATIONAL FINANCIAL INSTITUTIONS AND MULTILATERAL DEVELOPMENT BANKS: DISMANTLE CARBON LOCK-IN AND DEBT REPRODUCTION AT SOURCE

1.1 Acknowledge debt cancellation as both necessary and appropriate to address the escalating, unjust, debt crisis across the Global South and implement it

Since much of the escalating debt emerged from unjust colonial economic structures, asymmetric power relations and development models imposed on the Global South, it is incumbent upon multilateral agencies to acknowledge that unjust debts and surcharges must be cancelled. This is essential in the context of wealthy countries in the Global North - who have benefitted from debt injustice - refusing to support global solutions like the proposed UN Framework Convention on Sovereign Debt. Debt cancellation must be reframed as a structural climate and fiscal correction, rather than as discretionary relief. Failing to do so is putting heads in the sand. Currently 47 countries with a total population of over 1.11 billion people will face insolvency problems in the next five years as they seek to ramp up investment to meet climate and development goals.[63]

Further, recognise that a substantial share of Global South debt is directly or indirectly tied to fossilfuel projects, coal plants, gas pipelines, LNG terminals, refineries and associated infrastructure that are financed on the assumption of perpetual fossil fuel demand. However, the evidence shows that these debts:

- Generate long-term foreign-currency liabilities that are increasingly incompatible with climate commitments;
- Transfer stranded asset risk from creditors to populations.
- Crowd out investment in renewables, adaptation, and public services.

There is an argument in international law and civil society advocacy that these debts can - in some cases - be understood as 'odious debts', which are harmful to citizens because *"while profits are privatised and concentrated in the hands of a few, the cost of servicing the debt is often distributed among the many. It becomes a tool for redistribution from the bottom to the top, a machine for widening inequalities"*.[64] According to the Debt Justice Coalition, this trend of harmful fossil fuel-based debts accruing in the Global South is exacerbated by WB and IMF loan conditionalities.[65]

63 Zucker-Marques, M. et al (2024) Defaulting on Development and Climate: Debt Sustainability and the Race for the 2030 Agenda and Paris Agreement. Boston, London, Berlin: Boston University Global Development Policy Center; Centre for Sustainable Finance, SOAS, University of London; Heinrich Böll Foundation. **www.bu.edu/gdp/2024/04/14/defaulting-on-development-and-climate-debt-sustainability-and-the-race-for-the-2030-agenda-and-paris-agreement/**

64 Lang, M., Acosta, A., & Martínez, E. (2023) "Taking on the eternal debts of the South". In Lang, M. et al (Eds.) Geopolitics of green colonialism: Global justice and ecosocial transitions, 105-117. **https://www.jstor.org/stable/jj.12865310.12**

65 Wolfenden, T. (2023) The debt-fossil fuel trap: Why debt is a barrier to fossil fuel phase-out and what we can do about

Where political or institutional constraints prevent unconditional debt cancellation currently, with regards to the debt-fossil fuel trap specifically, a second-best step forward is debt cancellation explicitly conditioned on a just and credible transition away from fossil fuels, rather than on austerity, privatisation or fiscal retrenchment. In such cases, conditions should be narrowly defined, country-led and focused on enabling structural transformation. In line with a rights-based approach, such a form of debt cancellation should be based on plans that include critical safeguards like assessment methodologies that consider environmental, gender and human rights impact assessments, below market interest rate ceilings, debt audits to establish any illegitimate debts, and automatic suspension clauses.[66]

Cancelling fossil-linked and illegitimate debts is therefore a prerequisite for enabling countries to exit carbon-intensive development pathways without triggering fiscal collapse or social retrenchment.

1.2 End all fossil fuel extraction and production finance and realign portfolios toward transition-enabling public goods

IFIs and MDBs must immediately stop financing fossil fuel production, transport, and infrastructure, and fully align portfolios with a 1.5°C pathway and fair-share responsibility which institutions have committed to in their mandates. Ending fossil fuel finance must go beyond project-level exclusions to also exclude:

- Policy-based lending that facilitates fossil expansion
- Guarantees, insurance, and risk-sharing instruments that de-risk private fossil capital
- Infrastructure finance that locks in long-term fossil fuel dependence

Reallocated finance should prioritise transition-enabling public goods, including grid modernisation, electrification, energy access, resilient public utilities, adaptation and the decommissioning of fossil fuel infrastructure and re-skilling of its workers. Without such a reorientation, MDBs risk perpetuating debt-financed carbon lock-in even as they endorse climate targets.

1.3 Reduce renewable energy costs through systemic de-risking

High costs of capital for renewable energy infrastructures in developing countries reflect failures in the global financial architecture, not domestic policy weaknesses. Currency risk, short loan tenors and pro-cyclical capital flows systematically favour fossil fuels.

IFIs must therefore scale up guarantees, first-loss capital, currency hedging, and long-tenor concessional finance. Correcting these distortions is essential to prevent governments from opting for fossil fuels when renewables appear fiscally unaffordable under biased financial conditions.

1.4 Enforce transparency, accountability, and Human Rights in all lending

Opaque lending has been central to fossil fuel-driven debt accumulation. Moving into a new era of transition-focused lending presents an opportunity to ensure that things are done differently. Going forward, all lending must guarantee:

it. Debt Justice Coalition. **https://debtjustice.org.uk/wp-content/uploads/2023/08/Debt-Fossil-Fuel-Trap-Report_2023.pdf**
Nb. While there has been a shift in IMF and World Bank support for direct fossil fuel subsidies - its own analysis finds it continues to offer implicit subsidies. See: Black, Simon, Weronika Celniak, Ian Parry, Paulina Schulz Antipa, Nate Vernon-Lin, 2025. "Underpriced and Overused: Fossil Fuel Subsidies Data 2025 Update" Working paper, IMF, Washington, DC.

66 Balsera, R.M., Mambert, M.E. & Forgette, M. (2024) "Rethinking debt restructuring: A rights-aligned approach". In Building New Foundations: Reimagining the International Financial Architecture
https://www.cesr.org/sites/default/files/2024/Chapter_1_Rethinking_debt_restructuring.pdf

- Full disclosure of loan terms, guarantees, and contingent liabilities;
- Climate- and fiscal-risk assessments;
- Parliamentary oversight and anti-corruption oversight; and
- Meaningful participation and Free, Prior, and Informed Consent.

Transparency is a prerequisite for democratic energy planning and for preventing elite capture, which undermines both debt sustainability and transition legitimacy.

2. TO GLOBAL NORTH GOVERNMENTS: STOP BLOCKING THE TRANSITION AWAY FROM FOSSIL FUELS AND BE A GENUINE PARTNER FOR MACROECONOMIC AND CLIMATE JUSTICE

2.1 Pay your fair shares of climate finance through grants, not loans

Loan-based climate finance reproduces debt distress and constrains transition capacity. Grant-based finance is essential for mitigation, adaptation, loss and damage and for managing transition-related fiscal gaps. Climate finance must be treated as a reparative fiscal transfer, not leverage. Additionally, debt relief should not be treated as a reclassification of existing Official Development Assistance (ODA) commitments. Cancelling or restructuring unsustainable and unjust debt must be additional to, not substituted for, development and climate finance obligations, to ensure that relief translates into genuine fiscal space rather than accounting adjustments.

2.2 End all public finance support to fossil fuels at home and abroad

Export credit agencies and development finance institutions continue to underwrite fossil fuel expansion abroad, exporting carbon lock-in and fiscal risk to debtor countries. Ending this support is necessary to prevent new fossil-linked sovereign liabilities and to align climate leadership with financial practice.

2.3 Commit to taking responsibility for FFPO first and fastest in national plans and support international cooperation on differentiated timelines across the Global South

To have a decent chance of holding to the 1.5 °C limit, fossil fuel extraction must begin to decline immediately, phase down rapidly in the coming decades, and cease worldwide by 2050. Since countries in the Global North are primarily responsible for the climate crisis; and since those who were not responsible are now faced with the debt-fossil fuel trap, it is necessary for northern states to step up. The only way to meet the Paris Agreement targets is to develop a plan for fossil fuel phase out which is based in 'Extraction Equity'.[67] This requires Global North nations to commit to fossil fuel phase out timelines where they move the first and fastest, leaving the minimal remaining carbon budget for countries in the Global South - especially those facing structural entrapments - to plan their phase out timeline.

2.4 Stop blocking reform of the global financial system

As dominant shareholders, Global North governments shape IFI behaviour. Continued resistance to debt cancellation, climate-aligned debt sustainability frameworks and reform of credit-rating practices actively undermines just transition efforts. Financial governance is a politically contested terrain, not a neutral technocracy.

2.5 Reject false and distracting solutions

Carbon markets, offsets and techno-fixes delay the fossil fuel phase-out, financialise land and

67 Civil Society Equity Review (2023) An Equitable Phase Out of Fossil Fuel Extraction: Towards a reference framework for a fast and fair rapid global phase out of coal, oil and gas. **www.equityreview.org/extraction-equity-2023#:~:text=A%20new%20report%20proposes%20science%2D,this%20possible%20in%20poorer%20countries.**

ecosystems and generate volatile revenue streams that undermine fiscal planning. For debt-constrained countries, these mechanisms deepen dependency rather than enable transition, and should be dismissed.

2.6 Facilitate free and open patent transfers for green technologies

Removing intellectual property barriers for key mitigation and adaptation technologies, through Trade-Related Aspects of Intellectual Property Rights (TRIPS) waiver at the World Trade Organization (WTO) patent pooling, open licensing, or structured technology transfer, would enable developing countries to localise manufacturing, reduce technology costs, and accelerate the deployment of renewable energy and low-carbon solutions, while fostering joint research, development and innovation partnerships. Such an approach would help address structural inequalities in access to climate-critical technologies and support a faster, more equitable global energy transition.

3. THE UNITED NATIONS: BUILD MULTILATERAL RULES FOR DEBT AND TRANSITION

3.1 Establish a binding mechanism on debt resolution at the UN

Ad hoc restructuring processes favour creditors and prolong debt overhangs. A UN-based mechanism, similar to the Tax Convention currently under negotiation, must bind all creditor classes, prevent holdouts and integrate climate vulnerability and transition costs into debt-sustainability assessments.

3.2 Create a global public debt registry

Debt secrecy enables exploitation and obscures fossil-linked liabilities. A public registry of all public and publicly guaranteed debt would strengthen democratic oversight, fair restructuring, and climate-aligned risk assessment.

3.3 Strengthen anti-corruption and public financial governance

Debt, especially that is linked to fossil fuels, is closely linked to corruption and elite capture. UN-led standards must enforce transparency and public oversight in contracting and public spending to safeguard transition finance and political legitimacy.

4. GLOBAL SOUTH GOVERNMENTS: SEEK AND CHAMPION AN EQUITABLE GLOBAL PATHWAY OF TRANSITION THAT ADDRESSES FISCAL AND POLITICAL CONSTRAINTS

These recommendations recognise that the Global South is not analytically homogeneous. Transition pathways must be differentiated across net fossil fuel exporters and importers, low- and middle-income debtors and countries with varying degrees of energy import dependence. The pace and period over which phase-out will happen should consider key aspects such as economic context, local opportunities to replace revenues for fossil fuels and the level of existing, fiscal space, institutional capacity, exposure to debt distress and responsibility for historic greenhouse gas emissions,. This must be undertaken in the shared international legal obligation to align activities with limiting warming to 1.5C.

4.1 Commit to differentiated, managed fossil fuel phase-out national plans

A just transition requires differentiated sequencing and levels of support, in order to reach the global goals that have been agreed under Paris. This approach must reflect differences in national circumstances, exporters and importer alignment, the capacities and dependencies of low- and middle-income economies to phase out fossil fuels, while remaining aligned with climate science. The phase-out must be treated as a managed structural transformation, based in global equity, not an abrupt fiscal withdrawal.

4.2 Replace fossil revenues and manage transitional fiscal deficits

Fossil revenues currently fund social spending, employment and foreign-exchange stability in many countries. Governments must plan explicitly for revenue substitution, transitional budgetary deficits and external support via grants and debt relief. Ignoring these dynamics risks austerity, backlash and political reversal.

4.3 Advance green industrial policy as a core pillar of just transition and debt resilience

Green industrial policies can support the domestic production of renewable energy and transition technologies and enable the development of low-emissions industries powered by clean electricity. Coordinated with energy, fiscal, trade and employment policies, green industrial strategies can replace fossil fuel revenues, create decent jobs and reduce long-term debt vulnerability.

4.4 Mobilise national development banks and pension funds to finance the green transition

Strengthen national development banks and enable public pension funds to provide long-term domestic capital for renewable energy, grids, electrification and low-emissions industrial development. Clear climate-aligned mandates, appropriate risk-sharing mechanisms and prudent regulatory frameworks can reduce dependence on external finance, limit currency and refinancing risks and help catalyse domestic private investment while safeguarding public funds and pension holders.

4.5 Strengthen democratic control over debt and public finance

Opaque borrowing and executive-led deal-making have perpetuated fossil lock-in. Parliamentary oversight, public disclosure and participatory planning are essential for durable transition pathways. Pursuing participatory and independent public debt audits can be a key first step to hold lenders accountable, identify illegitimate debt and identify domestic policies to debt sustainability.[68]

4.6 Build collective power through south–south cooperation

A Global South Debtors Club (otherwise named a Borrowers' Club) can rebalance power asymmetries by coordinating negotiation strategies, sharing data and reducing the stigma of seeking debt relief.[69] A debtor coalition could undertake collective debt repudiation against northern creditors. Collective action transforms an individual risk into a systemic adjustment.[70] To manage the risks associated with repudiation-associated 'default': *"Collective debt repudiation will have to be supplemented by stronger south-south trade and a curb on unnecessary imports from the global north… Without a radical and strategic threat of collective non-payment, it is difficult to see how any progressive change can be achieved."*[71] Secondly the Fossil Fuel Treaty Initiative which is a growing bloc of nations envisioning a pathway away from fossil fuels that is based on common but differentiated responsibilities and fair financing and trade opportunities for producer and consumer nations across the global south. It is critical that there is a plan for the transition and that it is rooted in dismantling the barriers that are expanding the climate-debt trap for the majority of Global South nations.

68 Fresnillo, I. (2021) How to get to the bottom of a country's debts? Report, Eurodad. **www.eurodad.org/how_to_get_to_the_bottom_of_a_countrys_debts**

69 Kaboub. F. & Chiriboga, A.M. (2025) A Coherent Framework for Sovereign Debt and Economic Transformation: Towards a Global South Debtors' Coalition. IEJ Sovereign Debt Working Paper Series #2. IEJ, GISP, What Next? **https://iej.org.za/wp-content/uploads/2025/04/IEJ-G20-2-Sovereign-Debt-2025.pdf**

70 Sial, F. Hickel, J. & Sylla, N. S. (2025) Repudiation of global south debt to meet human need. bmj, 391. **https://www.bmj.com/content/391/bmj.r3249**

71 Ibid. Sial, F. Hickel, J. & Sylla, N. S. (2025).

4.7 Advance regional energy sovereignty through grid integration

Regional grids reduce costs, manage renewable variability and reduce dependence on colonial energy. Over time, they lower debt exposure by reducing reliance on capital-intensive, fossil fuel baseload systems. These arrangements must be built on principles of equality, mutual respect and shared benefit and should explicitly avoid reproducing colonial patterns of extraction, dependency or geopolitical hegemony.

5. ALL DECISION MAKERS: CENTRE JUSTICE AS BOTH AN INSTITUTIONAL AND POLITICAL PROCESS

5.1 Plan for a just and equitable phase-out of fossil fuels

Policies should include a plan for a just phase-out of fossil fuels, tailored to local contexts, in order to free up fiscal space for priority investments such as affordable renewable energy expansion, grid infrastructure, electrification of key sectors and energy access. This phase-out, in particular with regards to subsidies and impacts on workers and communities, must be designed in a way that protects low-income and vulnerable populations, ensuring the transition is equitable and socially sustainable.

5.2 Safeguard the energy transition through enforceable just transition frameworks

From moral principle to institutional design

Just transition must be treated not as a rhetorical commitment but as a binding governance framework that shapes the design and implementation of (just) debt reforms, climate finance and energy planning. Justice cannot be assumed to emerge automatically from decarbonisation; it must be embedded in institutions, laws, budgets and decision-making processes.

A robust just transition framework should ensure:

Procedural justice and democratic participation: Communities and individuals affected by energy projects, debt restructuring and fiscal reform must have meaningful decision-making power, not merely consultative roles. This must include women, girls and gender-diverse people, Indigenous Peoples, minoritised communities, disabled people and local governments. There must also be transparent public deliberation on the trade-offs inherent in the transition.

Labour protection and economic security: Workers and communities dependent on fossil fuel sectors must be protected through retraining, income support, job guarantees and regional development strategies. Without credible labour pathways, the transition will face entrenched political resistance and social fragmentation.

Equitable access to energy and public services: The energy transition must prioritise universal access, affordability and reliability, treating energy as a public good rather than a commodity. Transition investments should strengthen health, education, transport and care systems, not undermine them through austerity.

Prevention of new forms of extraction and financialisation: Just transition frameworks must guard against "green extractivism," land grabs, and speculative finance that reproduce colonial patterns under the guise of renewable branding. This includes scrutiny of large-scale offset projects, bioenergy expansion, and mineral extraction for clean technologies.

Institutional accountability and long-term planning: Just transition principles must be operationalised through national laws, fiscal frameworks and development plans, supported by precise accountability mechanisms and timelines. Justice must be measurable, enforceable and revisable — not aspirational.

Embedding transition in enforceable just transition frameworks transforms justice from a moral appeal into a political-economic architecture capable of withstanding fiscal pressure, geopolitical competition and domestic power struggles.

1.5 Conclusion: from moral indictment to structural transformation

These recommendations constitute a coherent system-level strategy to break the fossil fuel-debt trap. They treat debt justice as a precondition for decarbonisation, the energy transition as a fiscal and political project and justice as an institutional design challenge rather than a moral abstraction.
The core diagnosis is precise. Fossil fuel finance and sovereign debt are mutually reinforcing mechanisms of climate injustice. Escaping this trap requires coordinated transformation across global finance, debt governance and energy systems - anchored in justice and executed with political economic realism.

The in-depth case studies are worthy of reading time. Each one carefully maps the national context and explores how the promise of fossil fuels - as a driver of development, energy security, employment and economic stability - is not delivering in diverse countries, whether they are entrapped by its consumption or its production.

This is not an indictment of government decision making around fossil fuels in the past. The analysis is deeply sympathetic to the constraints and decision space held by governments across the Global South. It is, rather, a call to governments to see the potential that 100 percent renewable energy based economies have to offer to their existing goals and the risks of being left behind as the world continues to move away from fossil fuels. And it is a call to action that they hold hands in advocating for structural transformation to enable them to take those steps towards those systems.

COAL MINES OUTSIDE OF SAMACA, COLOMBIA
Credit: Scott Wallace / World Bank

PART II: IN-DEPTH COUNTRY CASE STUDIES

COLOMBIA: AT A TURNING POINT TO BREAK THE DEBT-FOSSIL FUEL CYCLE

CAMILO RODRIGUEZ, OIL CHANGE INTERNATIONAL[1]

Introduction

Colombia, a fossil fuel–dependent country, has committed to an ambitious energy transition plan, including a clear move away from fossil fuels. By adopting a comprehensive and inclusive strategy for a just energy transition, Colombia aims to mitigate the socioeconomic risks associated with fossil fuel dependence, foster sustainable economic diversification, contribute to curbing the climate crisis and create a more equitable society.[2] However, Colombia and other Global South economies face significant obstacles in this transition due to the deeply unequal structure of the global trade and financial system, shaped by the Global North and institutions such as the International Monetary Fund (IMF) and the World Bank.[3] While nations in the Global North—such as the United States, Canada, Norway and Australia—face far fewer financial constraints, they have invested insufficiently in the global energy transition and have even expanded fossil fuel production and public funding for fossil fuel projects.[4] In contrast, Colombia has demonstrated leadership by halting new oil and gas exploration licenses and designing an energy transition plan projected to cost between 7.5 percent and 10.3 percent of its GDP.[5] However, Colombia's ability to finance a fair energy transition is constrained by its dependence on fossil fuel exports, which has contributed to high public debt and fiscal austerity.

• Colombia's debt is large and growing. In 2024, Colombia held US$265.5 billion in public debt.[6] The debt-to-GDP ratio has been rising from 32 percent in 2008 to 58 percent in 2025.[7]

• Structural economic barriers have kept Colombia reliant on the volatile fossil fuel sector to service its debts, which in turn contributes to greater future debt. The legacy of colonial debt, combined with unequal global trade and finance rules have hindered the development of

1 OCI works internationally and regionally on research and advocacy to tackle the barriers to a fair phase-out of fossil fuels, OCI does not work directly on just transition policy in Colombia. We contributed this case study based on the author's knowledge and expertise as a Colombian economist who has done previous research on debt-fossil fuel dynamics and the political and economic context in Colombia.

2 Ministerio de Minas y Energía. (2025) Transición energética justa: Hoja de ruta. **https://minenergia.gov.co/documents/13272/Hoja_de_ruta_transicion_energetica_justa_TEJ_2025.pdf**

3 Rodríguez, A. C. (2022) The economic challenges of post-extractivism in the South: The Colombian case. Masters Thesis, Erasmus University Rotterdam. **http://hdl.handle.net/2105/65432**

4 Oil Change International. (2025) Planet wreckers: Top Global North countries responsible for nearly 70% of projected new oil and gas expansion to 2035. **https://oilchange.org/blogs/planet-wreckers-top-global-north-countries-responsible-for-nearly-70-of-projected-new-oil-and-gas-expansion-to-2035/**

5 Ministerio de Minas y Energía. (2025) Transición energética justa: Hoja de ruta. (p. 50) **https://minenergia.gov.co/documents/13272/Hoja_de_ruta_transicion_energetica_justa_TEJ_2025.pdf**

6 Ministerio de Hacienda y Crédito Público. (2025) Crédito público. Ministerio de Hacienda y Crédito Público de Colombia. **www.minhacienda.gov.co/cr%C3%A9dito-p%C3%BAblico**

7 International Monetary Fund. (2025a) IMF DataMapper – Profile: Colombia. International Monetary Fund. Retrieved 18 Dec at **www.imf.org/external/datamapper/profile/COL**

diverse and high-value-added export sectors in the country. Thus, Colombia is reliant on fossil fuel production to cover public spending and debt service payments, creating ongoing creditor and internal pressure to continue fossil fuel extraction. It also makes its economy highly sensitive to fluctuations in global oil prices as well as currency fluctuations and interest rates, which create 'boom and bust' cycles that have further intensified the debt challenge.

• This debt-fossil fuel trap has deepened dramatically over the decades. In 2001, fossil fuels represented 36 percent of total exports,[8] while between 2014 and 2023 they accounted for 52 percent on average.[9]

• High debt levels and creditor conditions are limiting critical public spending and constraining Colombia's resource development policy options. Creditor pressure has driven strict fiscal austerity policies, resulting in 2025 allocations of 21 percent of the national budget (US$28.9 billion) to debt servicing. Meanwhile, crucial social programs have faced financial shortfalls, and only US$3 billion was allocated to the energy transition plan, representing just 27 percent of the annual investment required to achieve the transition.[10]

• Colombia is making progress in the energy transition. Solar and wind, which accounted for just 2 percent of Colombia's electricity matrix in 2022, reached 15 percent by January 2026.[11] Similarly, the legal framework of Ecopetrol, the country's largest public oil company, has been updated to support renewable energy development as a key recommendation of the oil workers' union. In 2025, non-traditional exports — such as pharmaceuticals and electrical transformers — grew by 21 percent,[12] while public debt as a share of GDP fell from 61 percent in 2022 to 58 percent in 2025.[13] Colombia is also proactively building international partnerships, including leading the first global conference on fossil fuel phase-out and establishing a borrower's club, among other initiatives.[14]

While Colombia is making progress in its energy transition that can be a model for peer countries in the Global South, structural barriers put the country at risk of a major crisis if fossil fuel revenues collapse without being replaced by alternative sources and debt service costs continue to rise. Such risks exist even without a proactive shift away from fossil fuels, given Colombia's economically competitive fossil fuel reserves are in decline.[15] Pursuing a proactive and just energy transition plan

8 Departamento Administrativo Nacional de Estadística (DANE). (2025d) Estadísticas de exportaciones. DANE. **www.dane.gov.co/index.php/estadisticas-por-tema/comercio-internacional/exportaciones**

9 Ministerio de Hacienda y Crédito Público. (2024) Marco fiscal de mediano plazo 2024 (p. 107). **www.minhacienda.gov.co/documents/20119/2169404/MFMP+2024.pdf**

10 Departamento Nacional de Planeación (DNP). (2025) Presupuesto General de la Nación asciende a $556,9 billones, $31 billones más que en 2025. **www.dnp.gov.co/Prensa_/Noticias/Paginas/Presupuesto-general-nacion-asciende-a-556-billones-31-billones-mas-que-en-2025.aspx**

11 Ministerio de Minas y Energía. (2026) Colombia acelera la transición energética: las energías limpias ya representan el 15,6 % de la matriz eléctrica. **www.minenergia.gov.co/es/sala-de-prensa/noticias-index/colombia-acelera-la-transicion-energetica-las-energias-limpias-ya-representan-el-156-de-la-matriz-electrica/**

12 Redacción Economía. (2026) "Exportaciones no mineras crecieron 21,6 % en 2025: agro y café lideran el impulso". El Espectador, Jan 9. **www.elespectador.com/economia/exportaciones-no-mineras-crecieron-216-en-2025-agro-y-cafe-lideran-el-impulso/**

13 International Monetary Fund. (2025a) IMF DataMapper – Profile: Colombia. International Monetary Fund. Retrieved 18 Dec. **www.imf.org/external/datamapper/profile/COL**

14 Opacic, N., & ElBadrawi, M. (2025) "Building blocks for change: Reflections on FfD4 and the Compromiso de Sevilla". Blog, 18 Jul, Center for Economic and Social Rights. **www.cesr.org/building-blocks-for-change-reflections-on-ffd4-and-the-compromiso-de-sevilla/**

15 International Monetary Fund. (2025) IMF members' quotas and voting power, and IMF Board of Governors. **www.imf.org/en/about/executive-board/members-quotas**

is therefore the most viable pathway toward a more sovereign, equitable, and affordable economy. Despite considerable progress towards transition, the debt–fossil fuel trap remains a profound challenge to Colombia's just energy transition, constraining the speed at which Colombia is able to phase out fossil fuels while maintaining social and economic stability.

Colombia's economic, climate and fossil fuels history

Colombia emerged as an indebted nation, first through the systematic extraction of resources during Spanish colonial rule and later through the assumption of external debt from Britain to finance its independence. 100 years after its independence,[16] in 1912, the first oil concession was granted (the Mares concession). In 1919, a U.S. company acquired it, and oil production began in 1924. In 1951, Ecopetrol—the state-owned oil company—was founded and assumed control of the Mares concession. Since then, it has played a central role in national oil production.[17]

In 2025, Colombia was the 5th-largest oil producer in Latin America[18] and the largest producer of coal.[19] However, this long-standing reliance has become increasingly untenable, as both fossil fuel production and proven reserves have been in steady decline since 2015.[20]

Despite more than a century of fossil fuel extraction and exports, Colombia continues to face deep and persistent socioeconomic challenges. The national poverty rate stands at 31.8%, significantly above the Latin American average of 26.8 percent.[21] Income inequality remains among the highest in the world. The wealthiest 1 percent capture approximately 22 percent of total national income, underscoring the country's highly unequal income distribution.[22] Although Colombia is classified as an upper-middle-income economy by the World Bank, its level of prosperity remains limited by global standards. In 2025, nominal GDP per capita is estimated at approximately USD 7,919, ranking the country 120th worldwide.[23]

Regarding climate issues, Colombia has formally committed to addressing the climate crisis. The country signed the Paris Agreement in 2015 and, in 2021, adopted a legal and policy framework targeting a 51 percent reduction in greenhouse gas emissions by 2030.[24] Since 2022, the government has further

16 Tomes, T. (2024) How does public external debt drive the destruction of the Colombian Amazon? Observatori del Deute en la Globalització. (p. 37-38). **https://odg.cat/wp-content/uploads/2024/07/How-does-public-external-debt.pdf**

17 Palacios, M. (2003) Entre la legitimidad y la violencia: Colombia 1875-1994 (2ª ed.) Bogotá: Grupo Editorial Norma. **https://babel.banrepcultural.org/digital/collection/p17054coll10/id/1039/**

18 Worldometer. (2026) Oil production by country. Worldometers. Retrieved Jan 21 at **www.worldometers.info/oil/oil-production-by-country/**

19 Worldometer. (2026a) Coal production by country. Worldometers. Retrieved Jan 21 at **www.worldometers.info/coal/coal-production-by-country/**

20 International Monetary Fund. (2024) Building on strengths: Past lessons for diversifying exports (IMF Country Report No. 24/83) (p. 12). **www.elibrary.imf.org/view/journals/002/2024/083/article-A002-en.xml**

21 Comisión Económica para América Latina y el Caribe (CEPAL). (2024). Panorama social de América Latina y el Caribe: Desafíos de la protección social no contributiva para avanzar hacia el desarrollo social inclusivo (p. 43-46). **www.cepal.org/es/publicaciones/80858-panorama-social-america-latina-caribe-2024-desafios-la-proteccion-social**

22 Alvaredo, F., Atkinson, A. B., Piketty, T., & Saez, E. (2024) World Inequality Database (WID.world): Colombia—Income share of the top 1% . World Inequality Lab. **https://wid.world/world/#sptinc_p99p100_z/CO/last/eu/k/p/yearly/s/false/18.5295/30/curve/false/country**

23 World Bank. (2025) GDP per capita (current US$). **https://data.worldbank.org/indicator/NY.GDP.PCAP.CD**

24 Departamento Nacional de Planeación (DNP). (2024) +Clima: una herramienta de transparencia para la acción climática en Colombia. SINERGIA. Retrieved December 18, 2025, from **https://sinergia.dnp.gov.co/Prensa_/Noticias/Paginas/-Clima-una-herramienta-de-transparencia-para-la-acci%C3%B3n-clim%C3%A1tica-en-Colombia.aspx**

signalled a shift in its development model by committing to a gradual phase-out of fossil fuels, including suspending new licences for fossil fuel exploration.[25]

Despite these commitments, Colombia remains deeply embedded in a resource-dependent economic model. Fiscal and trade policies continue to be strongly shaped by the performance of the oil, gas, and coal sectors. Fiscal revenues[26] from fossil fuels amounted to approximately US$8 billion, equivalent to 3.14 percent of GDP in 2019.[27] This dependence is particularly pronounced at the subnational level, where producing regions rely heavily on royalty transfers to finance public expenditure. Between 2010 and 2021, royalties accounted for 52 percent of local revenues in Meta, 49 percent in Casanare and 42 percent in Arauca.[28]

Regarding trade, export dependence on fossil fuels has deepened over the past two decades. Colombia's three main export products are raw commodities—oil, coal and coffee. In 2001, fossil fuels represented 36 percent of total exports.[29] Between 2013 and 2024, fossil fuels accounted for an average of 52 percent of total exports.[30] In addition, the fossil fuel sector has been a major recipient of foreign direct investment, attracting 39 percent of total inflows in 2023 and an average of 26 percent between 2014 and 2023.[31] This high level of export dependence on fossil fuels is central to the country's debt dynamics. The majority of Colombia's foreign-currency earnings are closely tied to fossil fuel exports and are primarily denominated in U.S. dollars and used to service external debt.

Driven by the belief that fossil fuel extraction would foster economic development, as well as sustained pressure from fossil fuel corporations and international financial institutions, successive Colombian governments have implemented policies that systematically favour the sector.[32] Fossil fuel companies have benefited from preferential fiscal treatment, including the deductibility of royalty payments and access to special tax regimes for large investors—categories that predominantly include fossil fuel firms, construction companies and financial institutions.[33]

As a result of these measures, the effective tax rate for the fossil fuel sector between 2000-2015 was approximately 14 percent, significantly lower than in construction (16 percent), agriculture

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25 Worland, J. (2024) "Colombian president Gustavo Petro interview", 29 Oct, Time, **https://time.com/7113585/colombian-president-gustavo-petro-interview/**

26 It includes royalties, taxes, and dividends from Ecopetrol.

27 Ministerio de Minas y Energía. (2025) Transición energética justa: Hoja de ruta (p. 19). **https://minenergia.gov.co/documents/13272/Hoja_de_ruta_transicion_energetica_justa_TEJ_2025.pdf**

28 Programa de las Naciones Unidas para el Desarrollo (PNUD). (2024) La dependencia del país y de los territorios de los hidrocarburos y el carbón en Colombia y la necesidad de la diversificación de las exportaciones y de la producción ante la transición energética (p. 23).

29 Departamento Administrativo Nacional de Estadística (DANE). (2025d) Estadísticas de exportaciones. DANE. **https://www.dane.gov.co/index.php/estadisticas-por-tema/comercio-internacional/exportaciones**

30 Ministerio de Hacienda y Crédito Público. (2024) Marco fiscal de mediano plazo 2024 (p.107). **www.minhacienda.gov.co/documents/20119/2169404/MFMP+2024.pdf**

31 Banco de la República. (2025). Inversión directa. **https://www.banrep.gov.co/es/glosario/inversion-directa** Ministerio de Hacienda y Crédito Público. (2024). Marco fiscal de mediano plazo 2024 (p.107). **www.minhacienda.gov.co/documents/20119/2169404/MFMP+2024.pdf**

32 Moreno Quevedo, A. (2023) Política petrolera en Colombia. Forbes Colombia. **https://forbes.co/2023/08/08/economia-y-finanzas/politica-petrolera-en-colombia**

33 Botero García, J. (2019) ¿En qué quedó la ley de financiamiento? Razón Pública. **https://razonpublica.com/en-que-quedo-la-ley-de-financiamiento/**

(17 percent), and heavy industries (19 percent).[34] Despite this favourable treatment, the fossil fuel sector employed only around 1 percent of Colombia's total workforce, compared to 15 percent in agriculture, 6 percent in construction, and 11 percent in heavy industries.[35] These tax privileges have generated limited employment benefits while substantially constraining fiscal revenues and undermining the state's capacity to finance a just transition. For example, the deductibility of royalty payments alone is projected to reduce cumulative central government revenues by approximately US$7 billion between 2023 and 2034.[36]

Current economic and debt status. Colombia's Debt Trajectory: An Increasing Burden

Colombia's public debt burden has grown significantly over the past two decades, including a sharp rise in the proportion owed to external creditors. Creditor pressure has in turn driven strict fiscal austerity policies that prioritize debt repayment at the expense of public investment in healthcare, education and the energy transition.[37] This trajectory is closely linked to Colombia's systematic adoption of fiscal policy prescriptions promoted by the IMF, the World Bank and other multilateral organisations which leave the country vulnerable to volatile global fossil fuel markets.

In 2024, Colombia held US$265.5 billion in public debt.[38] The debt-to-GDP ratio rose from 32 percent in 2008 to 58 percent in 2025.[39] The external debt-to-GDP also increased from 19 percent in 2008 to 48 percent in 2024.[40]

The pressure of debt repayment and conditions imposed by multilateral lenders (discussed in greater detail in the following section) have led successive governments to adopt fiscal austerity policies. This is reflected in the composition of public spending. In 2025, debt servicing absorbed US$28.9 billion, representing 21 percent of the central government budget.[41] By contrast, social and environmental sectors received smaller allocations. Health accounted for 14 percent of expenditure, education 13 percent and water and environment programmes only 2 percent.

34 Quimbay, C., & Villabona, J. (2017) Tasas efectivas del impuesto de renta para sectores de la economía colombiana entre el 2000 y el 2015. Innovar, 27(66), 91–108. **https://acortar.link/cyI3pH**

35 Departamento Administrativo Nacional de Estadística (DANE). (2025). Mercado laboral. **www.dane.gov.co/index.php/estadisticas-por-tema/mercado-laboral**

36 Acosta M., A. D. (2025) El impacto de la deducibilidad de las regalías. La República. **www.larepublica.co/analisis/amylkar-d-acosta-m-557896/el-impacto-de-la-deducibilidad-de-las-regalias-3793759**

37 Rodríguez, C. (2021) Financialization of fiscal policy and its impact on Colombia's public debt between 1996–2015. Cuadernos de Economía, 40(82) (p. 278). **https://biblat.unam.mx/hevila/CuadernosdeeconomiaBogota/2021/vol41/no82/10.pdf**

38 Ministerio de Hacienda y Crédito Público. (2025) Crédito público. Ministerio de Hacienda y Crédito Público de Colombia. **www.minhacienda.gov.co/cr%C3%A9dito-p%C3%BAblico**

39 International Monetary Fund. (2025a) IMF DataMapper – Profile: Colombia. International Monetary Fund. Recuperado el 18 de diciembre de 2025, de **https://www.imf.org/external/datamapper/profile/COL**

40 Banco de la República de Colombia. (2025b) External debt of Colombia (Subgerencia de política monetaria e información económica). **www.banrep.gov.co/economia/pli/bdeudax_t.pdf**

41 Ibid. Ministerio de Hacienda y Crédito Público (2025).

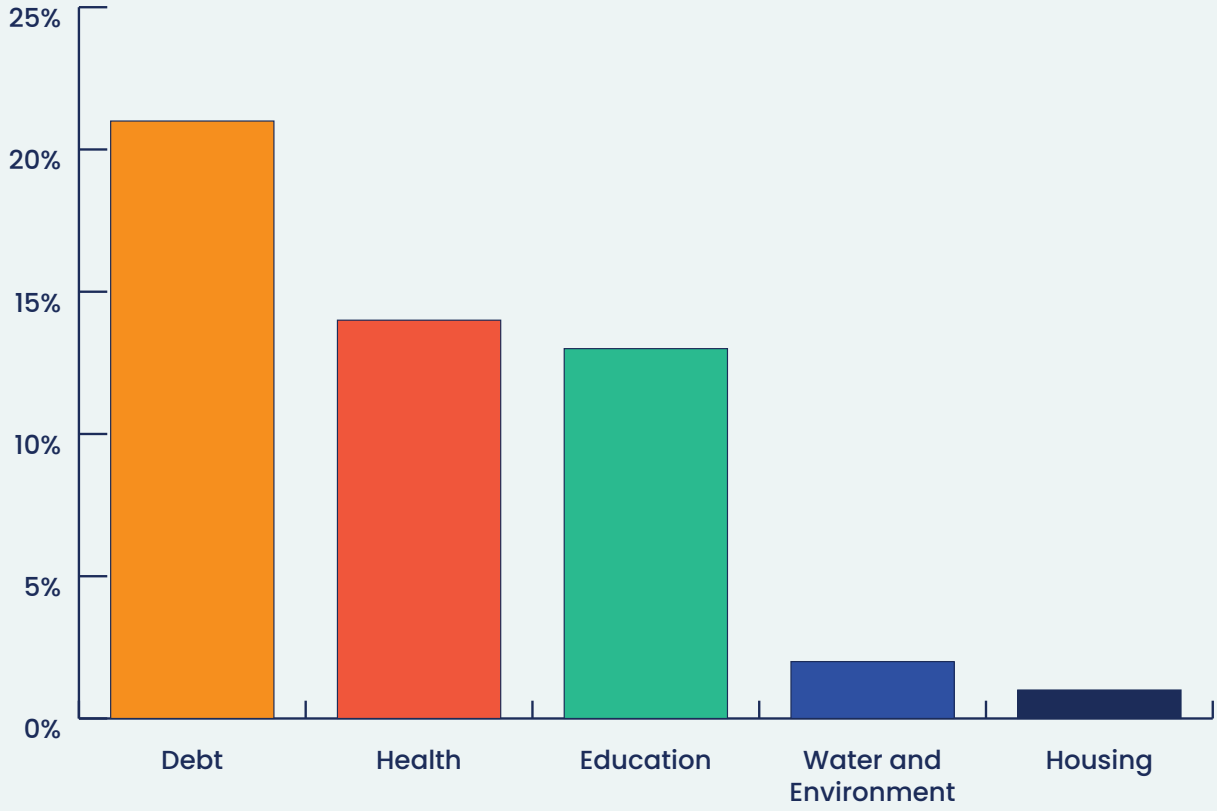

Figure 1. Public expenditure share per category for the fiscal year 2025.

Source: Ministerio de Hacienda y Crédito Público[42]

This fiscal strategy has been worsening social, economic, and environmental crises. While the government spends USD 28.9 billion of the budget on public debt, nearly 15 million Colombians struggled to afford their meals in 2025[43] and 3.8 million Colombians live on less than three US dollars per day.[44]

Fiscal austerity has hindered progress toward the energy transition. The government estimated the cumulative investment required for the energy transition is around US$122 billion until 2035.[45] However, under current fiscal constraints, public spending on the energy transition is only around US$3 billion as of 2025,[46] representing just over one quarter of the annual investment required.

42 Ministerio de Hacienda y Crédito Público. (2025) Crédito público. Ministerio de Hacienda y Crédito Público de Colombia. **https://www.minhacienda.gov.co/cr%C3%A9dito-p%C3%BAblico**

43 Departamento Administrativo Nacional de Estadística (DANE). (2025) Inseguridad alimentaria a partir de la escala FIES 2024 (Boletín técnico). **https://www.dane.gov.co/files/operaciones/FIES/cp-FIES-2024.pdf**

44 Hasell, J., Rohenkohl, B., Arriagada, P., Ortiz-Ospina, E., & Roser, M. (2022) Extreme Poverty. Our World in Data. **https://ourworldindata.org/sdgs/no-poverty**

45 World Economic Forum. (2024) Mobilizing clean energy investments in Colombia: Community solutions to help accelerate financing (p. 7). **https://www3.weforum.org/docs/WEF_Mobilizing_Clean_Energy_Investments_in_Colombia_EN_2024.pdf**

46 Departamento Nacional de Planeación (DNP). (2025) Presupuesto General de la Nación asciende a $556,9 billones, $31 billones más que en 2025. **www.dnp.gov.co/Prensa_/Noticias/Paginas/Presupuesto-general-nacion-asciende-a-556-billones-31-billones-mas-que-en-2025.aspx**

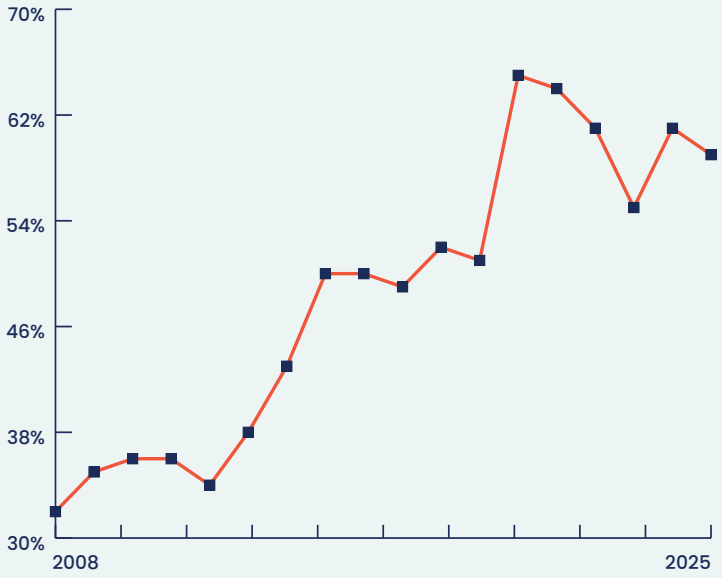

Figure 2. Government debt share of GDP in percentage from 2008 to 2025

Source: International Monetary Fund[47]

The increase in Colombia's public debt between 2013 and 2020 is closely linked to the country's broader external vulnerabilities, which are influenced by dynamics in the fossil fuel sector. Since 2013, the rise in external debt has been driven by exchange rate depreciation and Colombia's structural dependence on external financing to cover persistent trade deficits. In 2023 alone, Colombia contracted US$2.173 billion in external debt to finance its trade deficit.[48]

These developments are not incidental but reflect deep-seated structural weaknesses, most notably Colombia's heavy reliance on fossil fuel exports. When international oil prices collapsed in 2012 from approximately US$111 per barrel to US$53 over the subsequent three years—export revenues declined sharply.[49] This shock widened the trade deficit and compelled the government to rely more on external borrowing to offset the loss of export revenues. Exchange rate depreciation further exacerbated this dynamic by increasing the peso-denominated cost of servicing U.S. dollar–denominated debt, effectively shifting the burden of external adjustment onto public finances.[50]

A second, pronounced increase in public indebtedness occurred in 2020 in response to the COVID-19 crisis. The government relied heavily on debt-financed emergency measures to mitigate the social and economic impacts of the pandemic. Combined with a severe economic

47 International Monetary Fund. (2025) Profile: Colombia. IMF DataMapper, International Monetary Fund. Retrieved 18 Dec, at **www.imf.org/external/datamapper/profile/COL**

48 Banco de la República. (2025) Informe de la evolución de la balanza de pagos y de la posición de inversión internacional: Octubre a diciembre de 2024 (Informe trimestral) (p. 21). **https://repositorio.banrep.gov.co/server/api/core/bitstreams/16aebc3a-2596-465f-960a-8a8bc7517e53/content**

49 World Bank. (2026) Commodity Markets. Retrieved 20 Jan, at **www.worldbank.org/en/research/commodity-markets**

50 Contraloría General de la República. (2015) Situación de la deuda pública 2015: Crecimiento de la deuda, reflejo de la situación fiscal. Escuela Superior de Administración Pública (p. 29). **https://repositoriocdim.esap.edu.co/bitstream/handle/20.500.14471/25095/Situación%20de%20la%20Deuda%20Publica%202015.pdf**

contraction, this led to a sharp increase in the debt-to-GDP ratio, which rose from 51 percent to 65 percent between 2019 and 2020.[51]

An additional structural trend concerns the growing concentration of Colombia's external debt in U.S. dollars. Prior to the 2000s, approximately 60 percent of external debt was denominated in U.S. dollars.[52] By 2023, this share had increased to 86 percent, substantially heightening exposure to exchange rate risk.[53] At the same time, the composition of creditors has shifted toward market-based financing. In the 1990s, most creditors were multilateral organisations and governments.[54] In 2023, bondholders accounted for 48 percent of external debt, while 44 percent was owed to international financial institutions (Figure 3).

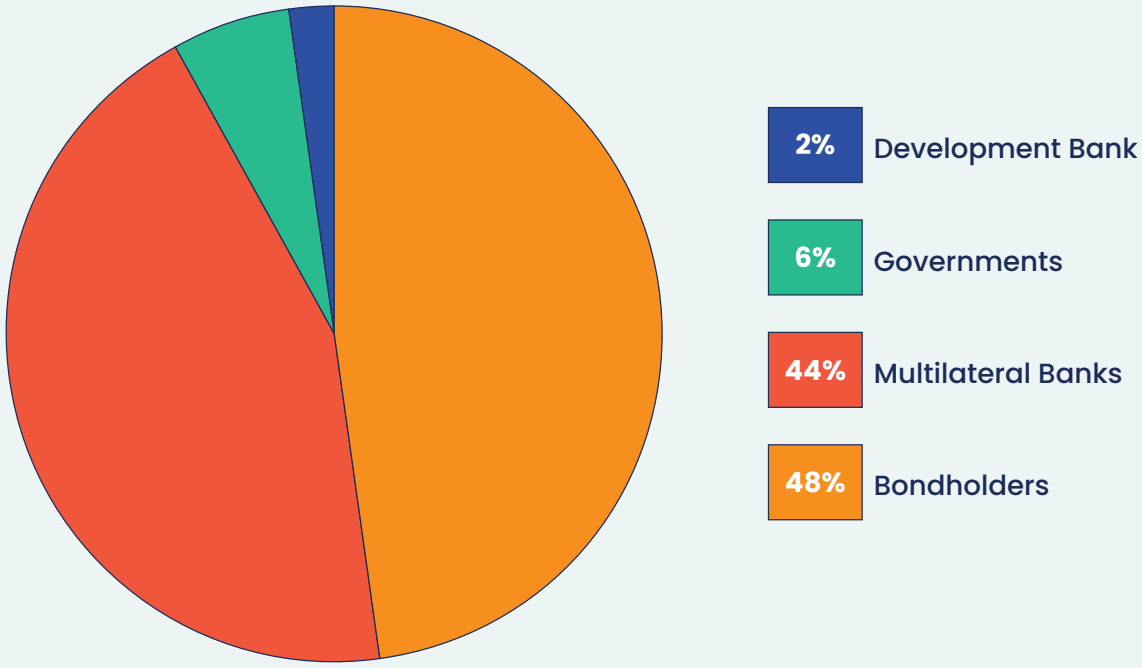

Figure 3. National Government's external debt holders, creditors by type and share, 2023.
Source: Contraloría General de la República.[55]

Global North controlled international financial institutions remain Colombia's principal multilateral creditors, led by the World Bank (15%), the Inter-American Development Bank (11%) and the IMF (5%) (Figure 4).

51 International Monetary Fund. (2025) Profile: Colombia. IMF DataMapper, International Monetary Fund. Retrieved 18 Dec, at **www.imf.org/external/datamapper/profile/COL**

52 Tomes, T. (2024) How does public external debt drive the destruction of the Colombian Amazon? Observatori del Deute en la Globalització.(p. 41) **https://odg.cat/wp-content/uploads/2024/07/How-does-public-external-debt.pdf**

53 Ibid. International Monetary Fund. (2025). (p. 54).

54 Tomes, T. (2024) How does public external debt drive the destruction of the Colombian Amazon? Observatori del Deute en la Globalització (p. 41) **https://odg.cat/wp-content/uploads/2024/07/How-does-public-external-debt.pdf**

55 Contraloría General de la República. (2025) Situación de la deuda pública 2024 (p. 78). **https://carlosarturorodriguezvera.com.co/wp-content/uploads/2025/09/Situacion-de-la-Deuda-Publica-2024_CGR.pdf**

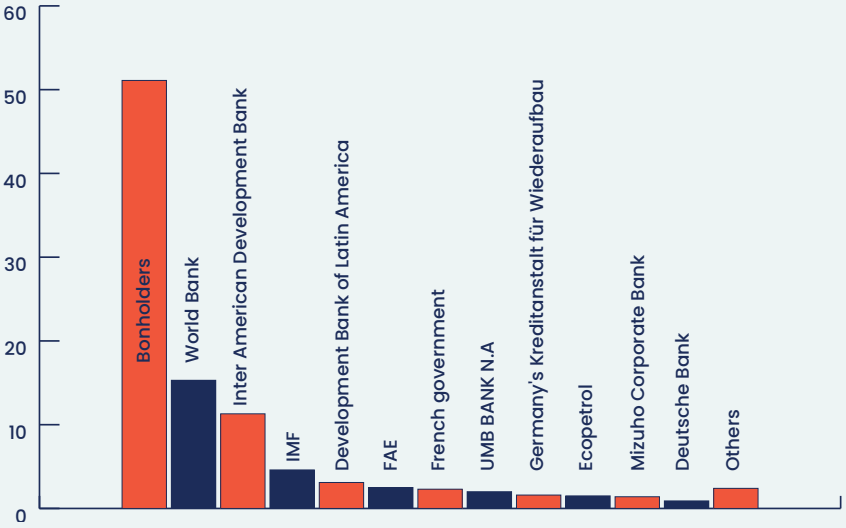

Figure 4. Public sector external debt by creditor share, 2023.

Source: Contraloría General de la República, 2025, p. 80[56]

Regarding bondholders, Table 1 lists the top 25 foreign holders of Colombian sovereign bonds. 33 percent are public institutions and 66 percent are private. Twenty-eight percent are based in the United States, 16 percent in the United Kingdom and 12 percent in the Netherlands. Most of the bondholders are private investment funds (12), followed by private pension funds (5), and central banks (2).

CREDITORS	COUNTRY	CATEGORY	TOTAL DEBT HELD IN 2024, TRILLION COLOMBIAN PESOS
The Monetary Authority Of Singapore	Singapore	Public	6.08
Norges Bank	Norway	Public-Central Bank	5.96
Stichting Pensioenfonds Abp	Netherlands	Private-Pensions	5.00
Government Of Singapore	Singapore	Public	4.94
Saudi Central Bank	Saudi Arabia	Public-Central Bank	3.40
Stichting Pensioenfonds Zorg En Welzijn	Netherlands	Private-Pensions	3.07
Caisse De Depot Et Placement Du Quebec	Canada	Public-Pensions	2.92

56 Contraloría General de la República. (2025) Situación de la deuda pública 2024 (p. 57). **https://carlosarturorodriguezvera.com.co/wp-content/uploads/2025/09/Situacion-de-la-Deuda-Publica-2024_CGR.pdf**

Abu Dhabi Investment Authority	UAE	Public-Sovereign wealth fund	2.15
The Colchester Local Markets Bond	UK	Private	1.81
Franklin Templeton Investment Funds	USA	Private	1.80
Vanguard Total International Bond II Index Fund	USA	Private	1.69
Vanguard Total International Bond Index Fund	USA	Private	1.35
Cip As Trustee For Bothwell Emerging Market D	N/A	N/A	1.15
Blackrock Global Funds	Luxembourg	Private	1.07
Templeton Income Trust-Templeton Global Bond	Luxembourg	Private	1.05
Blackrock Strategic Income Opportunities Port	USA	Private	1.02
Wtc Na Multiple Common Trust Funds Trust, Opp	USA	Private	1.00
Universities Superannuation Scheme	UK	Private-Pensions	0.95
Barings Umbrella Fund Plc	Ireland	Private	0.90
Legal & General Assurance Pensions Management	UK	Private (Pensions,-Insurance, investments)	0.82
Wellington Management Funds Ireland Plc	Ireland	Private	0.79
Stichting Bedrijfstakpensioenfonds Voor De Det	Netherlands	Private-Pensions	0.76
Baring Emerging Markets Blended Fund 1, L.P.	USA	Private	0.74
National Pension Service The Bank Of New York	USA	Private-Pensions	0.67
Emso Agave Fund Spc - Emso Crocus Long Only F	UK	Private	0.63
Total			**51.71**

Table. Top 25 foreign holders of Colombian sovereign bonds, List of the main external creditors in Colombia 2024.

Source: Contraloría General de la República, 2025, p.107[57]

57 Contraloría General de la República. (2025) Situación de la deuda pública 2024 (p. 107). **https://carlosarturorodri-**

Policy drivers: The policies of extractivism, austerity, and the escalation of public debt

Colombia is caught in a debt trap due to its long-standing adherence to policy prescriptions promoted by the IMF, the World Bank, and other multilateral institutions. In line with the Washington Consensus, successive Colombian governments have prioritised private actors as the primary drivers of national development while systematically minimising the state's role.[58] Fiscal, monetary, and trade policies have promoted fossil fuel dependence and constrained the country's ability to diversify its economy into higher value added exports without reducing public debt.

Colombia's ability to break free from fossil fuel dependency is significantly constrained by fiscal austerity policies. These policies have long been imposed on countries in the Global South by the IMF and other creditors and institutions based in the Global North. For instance, in 1999, Colombia reached a conditional loan agreement with the IMF that required the implementation of fiscal austerity measures.[59] As part of this policy, in 2012, the Colombian government adopted a fiscal rule designed to increase revenues, contain public expenditure, and guarantee public debt servicing, which was promoted as necessary to attract investment and maintain economic stability.[60] In 2021, a fiscal reform deepened austerity measures by mandating a reduction in the fiscal deficit. At the time, the IMF recommended that the Colombian government increase fiscal revenues by raising the value-added tax and personal income tax. Furthermore, it advised adjustments to the institutional mechanisms of the fiscal rule to reinforce fiscal austerity.

These reforms compelled subsequent governments to cut social spending, disproportionately putting vulnerable marginalised communities at risk. For example, in 2024, public expenditure was reduced by 1.8 percent of GDP.[61] Later, in June 2025, the government announced it would not meet its fiscal targets and invoked the "escape clause" to preserve social and environmental programs. This clause allows temporary noncompliance with fiscal rules under exceptional circumstances, such as natural disasters or severe economic crises. Without invoking it, the government would have been required to cut spending by 2.1 percent of GDP in the short term and 4 percent in the medium term.[62] The situation demonstrates that fiscal austerity has reduced public investment across sectors such as education, health and energy transition.

Credit rating agencies have acted as a further barrier to Colombia's energy transition, reinforcing the link between public debt and fossil fuel dependence. In the two years after the government's

guezvera.com.co/wp-content/uploads/2025/09/Situacion-de-la-Deuda-Publica-2024_CGR.pdf

58 Rodríguez, C. (2021) Financialization of fiscal policy and its impact on Colombia's public debt between 1996–2015. Cuadernos de Economía, 40(82), (p. 257). **https://biblat.unam.mx/hevila/CuadernosdeeconomiaBogota/2021/vol41/no82/10.pdf**

59 Tomes, T. (2024) How does public external debt drive the destruction of the Colombian Amazon? Observatori del Deute en la Globalització (p. 39) **https://odg.cat/wp-content/uploads/2024/07/How-does-public-external-debt.pdf**

60 Rodríguez, C. (2021) Financialization of fiscal policy and its impact on Colombia's public debt between 1996–2015. Cuadernos de Economía, 40(82), (p. 257). **https://biblat.unam.mx/hevila/CuadernosdeeconomiaBogota/2021/vol41/no82/10.pdf**

61 Ministerio de Hacienda y Crédito Público. (2025a). Marco fiscal de mediano plazo 2025 (p. 24). **https://img.lalr.co/cms/2025/06/13232122/Marco-Fiscal-Mediano-Plazo-2025.pdf**

62 Ibid. Ministerio de Hacienda y Crédito Público (2025a). (P. 6).

decision not to expand fossil fuel production in 2023, credit rating agencies downgraded the country's credit rating and shifted their outlook from stable to negative, citing the decline in fossil fuel prices and the new green transition plan among the factors that drove the decisions.[63] Colombia's former Minister of Environment, Susana Muhamad, has stated the credit rating agencies were "super nervous" about the 2023 decision and that the government has rejected some energy transition policies following this to avoid any further credit rating downgrades.[64] A growing body of evidence indicates that these agencies systematically overestimate investment risks in countries in the Global South.[65] Their methodologies are narrowly focused on short-term financial indicators and largely ignore social and climate-related risks. Within this framework, fossil fuel revenues and reserves are implicitly treated as collateral for debt repayment. Consequently, countries seeking to phase out fossil fuels face the risk of credit rating downgrades, higher borrowing costs, and reduced access to international finance. This dynamic effectively penalises climate ambition and constrains policy space for a just energy transition. Reforming credit rating agencies is therefore not optional but essential. Without fundamental changes to their governance and methodologies, including the systematic integration of environmental and social criteria, credit rating agencies will continue to function as a structural barrier to the phase-out of fossil fuels and climate justice.

International trade rules have also further exacerbated Colombia's vulnerability. Following IMF and World Bank recommendations, Colombia has signed multiple trade agreements that have constrained the government's ability to actively promote non-traditional exports.[66] This trade liberalisation strategy – combined with domestic policies that historically favoured fossil fuel production instead of a national industrial policy to export high-value-added products–[67] has deepened rather than reduced dependence on extractive exports. As a result, the average share of fossil fuel exports in total exports was 53 percent in the period 2013-2024.[68]

At a structural level, Colombia is one of many countries in the Global South that remain highly dependent on commodity exports. This dependence is rooted in colonial legacies of debt and resource extraction and the neocolonial organisation of the international trade and monetary

system, which have imposed enduring constraints on economic diversification.[69]

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63 Instituto de Relaciones con Inversionistas (IRC). (2026) Calificación crediticia [PDF]. **www.irc.gov.co/conoce-colombia/calificacion-crediticia/-/document_library/uvdx/view_file/2968461**.
White, N. (2025) Colombia Turns Down Debt-for-Nature Deals Over Ratings Anxiety, Bloomberg. **www.bloomberg.com/news/articles/2025-03-17/colombia-turns-down-debt-for-nature-deals-over-ratings-anxiety**

64 Ibid White, N. (2025).

65 Ellmers, B. (2025) The price of money: High capital costs as an obstacle to development, Briefing No. 1025, Global Policy. p. 6. **https://www.globalpolicy.org/sites/default/files/download/Briefing_1025_The_Price_of_Money_0.pdf**

66 Tratado de Libre Comercio entre la República de Colombia y los Estados Unidos de América. (2011) Artículo 2.16: Comité de Comercio de Mercancías. Recuperado de Capítulo Dos: Trato nacional y acceso de mercancías al mercado, **www.tlc.gov.co/acuerdos/vigente/acuerdo-de-promocion-comercial-estados-unidos/2-contenido-del-acuerdo/texto-final-del-acuerdo**

67 Botero García, J. (2019) ¿En qué quedó la ley de financiamiento? Razón Pública. **https://razonpublica.com/en-que-quedo-la-ley-de-financiamiento/**; Moreno Quevedo, A. (2023) Política petrolera en Colombia. Forbes Colombia. **https://forbes.co/2023/08/08/economia-y-finanzas/politica-petrolera-en-colombia**;
Zerda Sarmiento, A. (2014) La industria en Colombia: Tres décadas sin política sectorial — consecuencias sobre empleo e ingresos en el sector (Publicado el 7 de agosto de 2014). SSRN. **https://doi.org/10.2139/ssrn.2585644**

68 Ministerio de Hacienda y Crédito Público. (2024) Marco fiscal de mediano plazo 2024 (p. 107). **www.minhacienda.gov.co/documents/20119/2169404/MFMP+2024.pdf**

69 Woolfenden, T. (2023). The debt–fossil fuel trap: Why debt is a barrier to fossil fuel phase-out and what we can do

Colombia's reliance on fossil fuels and a limited range of other raw materials to finance imports of more diversified, higher–value–added manufactured goods generates persistent trade imbalances, in which export revenues are insufficient to finance imports. This dynamic is akin to a household whose income is insufficient to cover basic consumption needs, forcing it to either incur debt or seek additional sources of income.[70] In 2024, Colombia recorded an external deficit equivalent to 2.3 percent of GDP, or approximately US$10.6 billion.[71] To finance this gap, the country relied on new external borrowing and the inflow of foreign investment.[72] Persistent trade imbalances create ongoing creditor and internal pressure to continue fossil fuel extraction as a means of attracting foreign investment and earning the foreign currency required to service external debts.
In Colombia's case, dependence on oil exports is particularly significant in the reproduction of debt traps, as the following section analyses in greater detail.

Debt and fossil fuel outlook

Colombia's rising dependence on fossil fuel exports over the past two decades has increased the economy's vulnerability to shocks in global monetary and energy markets. A key challenge is the high sensitivity of Global South economies to fluctuations in global oil prices, which generate recurrent "boom-and-bust" cycles.[73] When crude oil prices decline, countries with limited economic diversification — whose fiscal revenues are highly dependent on oil market dynamics, such as Colombia — experience greater impacts than countries like the United States, which possess diversified economies with multiple sources of fiscal revenue. This cyclical vulnerability reinforces dependence on fossil fuels and constrains the political and fiscal space necessary for Colombia to implement a just energy transition.

Figures 5 and 6 depict the correlation between energy prices, resource revenue, and economic growth in Colombia. Since 2010, higher prices have been linked to short-term economic gains through higher revenues and export earnings. While this could enable higher public spending on infrastructure and social programmes, these conditions also incentivise continued investment in fossil fuel-related sectors at the expense of renewable energy, as fossil fuels remain more profitable in the short term. Conversely, declines in oil prices correlate with lower fiscal revenues, reduced export earnings, and slower economic growth, all of which contribute to higher debt levels.

about it. Debt Justice (p. 14). **https://debtjustice.org.uk/wp-content/uploads/2023/08/Debt-Fossil-Fuel-Trap-Report_2023.pdf**

70 For example, in 2020, the government took a debt with the IMF by USD 5.400 million to finance its budget and the external trade imbalance Amaya, J. S. (2020) "Colombia recibió préstamo del Fondo Monetario Internacional por US$ 5.400 millones". 3 Dec, La República. **www.larepublica.co/economia/colombia-recibio-prestamo-del-fondo-monetario-internacional-por-us-5-400-millones-3097532**

71 International Monetary Fund. (2025) IMF DataMapper – Profile: Colombia. International Monetary Fund. Retrieved 18 Dec at **www.imf.org/external/datamapper/profile/COL**

72 Banco de la República. (2025) Informe de la evolución de la balanza de pagos y de la posición de inversión internacional: Octubre a diciembre de 2024 (Informe trimestral) (p. 21). **https://repositorio.banrep.gov.co/server/api/core/bitstreams/16aebc3a-2596-465f-960a-8a8bc7517e53/content** ;
Ministerio de Hacienda y Crédito Público. (2025a) Marco fiscal de mediano plazo 2025 (p. 148). **https://img.lalr.co/cms/2025/06/13232122/Marco-Fiscal-Mediano-Plazo-2025.pdf**

73 Steadman, et al. (2023) Indebted: How to support countries heavily reliant on oil and gas revenues to secure long-term prosperity, ODI Report, Overseas Development Institute (p. 24-26). **https://odi.org/en/publications/indebted-how-to-support-countries-heavily-reliant-on-oil-and-gas-revenues-to-secure-long-term-prosperity/**

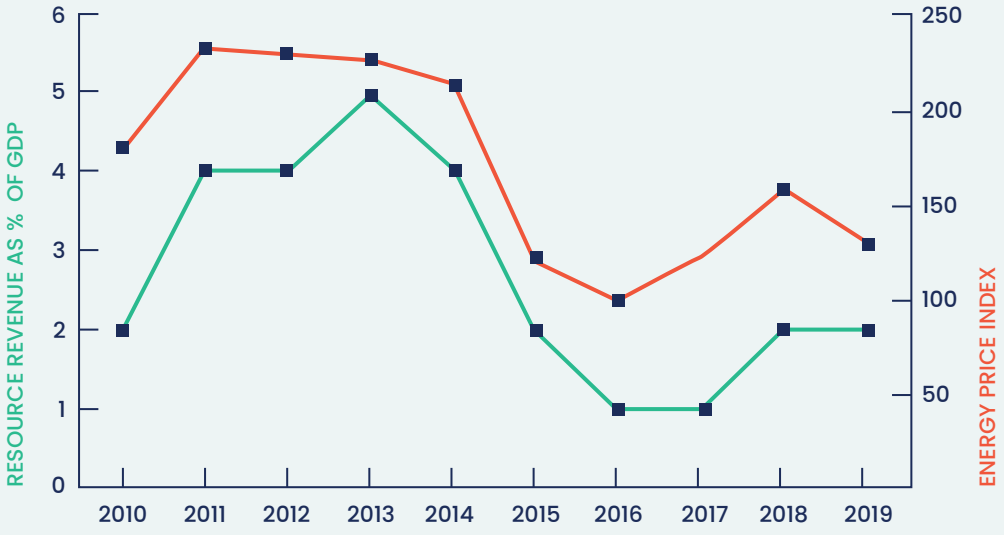

Figure 5. Resource revenue as a share of the GDP and energy prices in Colombia from 2010 to 2019.

Source: Steadman et al. (2023, p.63).[74]

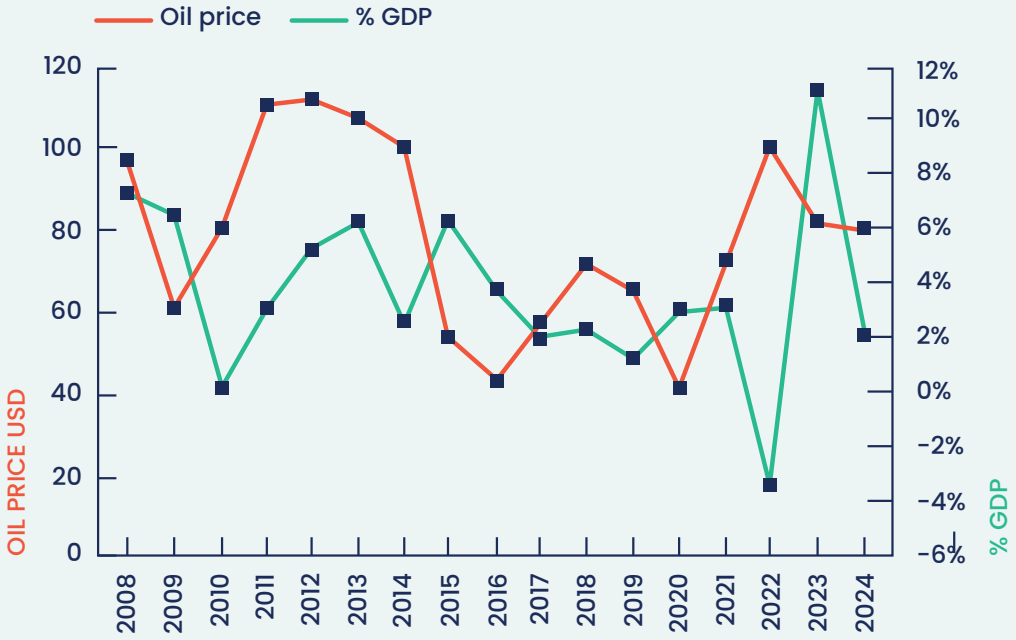

Figure 6. Oil price in USD dollars per barrel and economic growth in % GDP for Colombia. 2008-2024.

Source: World Bank (2026) and Dane (2025c)[75]

74 Steadman, et al. (2023) Indebted: How to support countries heavily reliant on oil and gas revenues to secure long-term prosperity, ODI Report, Overseas Development Institute (p. 63). **https://odi.org/en/publications/indebted-how-to-support-countries-heavily-reliant-on-oil-and-gas-revenues-to-secure-long-term-prosperity/**

75 World Bank. (2026) Commodity Markets. Retrieved 20 Jan, at www.worldbank.org/en/research/commodity-markets. ; Departamento Administrativo Nacional de Estadística (DANE). (2025c) PIB: Información técnica. **www.dane.gov.co/index.php/estadisticas-por-tema/cuentas-nacionales/cuentas-nacionales-trimestrales/pib-informacion-tecnica**

Figure 7 shows the relationship between oil prices and Colombia's fiscal deficits. Since 2008, the only year in which Colombia registered a fiscal surplus was 2012, which coincided with historically high oil prices. Conversely, the sharp decline in oil prices in 2014 contributed to a widening of the fiscal deficit.

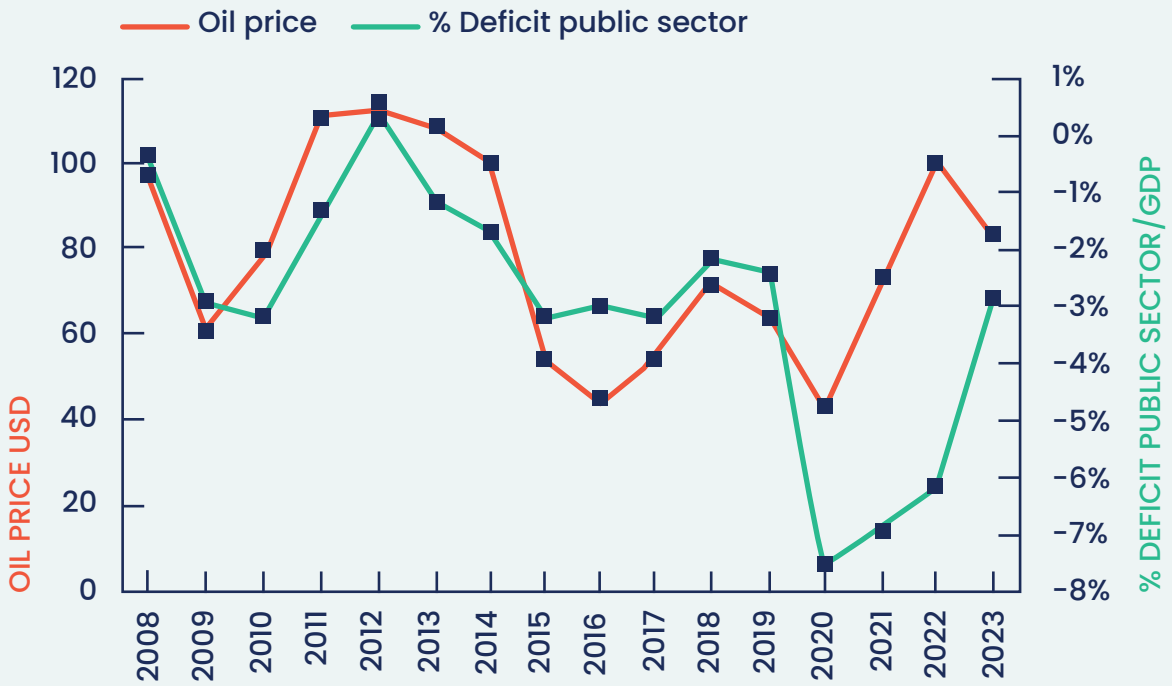

Figure 7. Oil price per barrel in USD and the public sector fiscal deficit as % of GDP in Colombia. 2008-2023.

Source: World Bank. (2026) and IMF (2025a)[76]

Figure 8 shows the correlation between oil prices and Colombia's external debt, which has spiked over the past decade. Between 2007 and 2014, when oil prices were relatively high, Colombia's external debt remained below 27 percent of GDP. However, in 2014, a sharp decline in oil prices led to a rise in external debt from 27 to 34 percent in a single year. This rise was largely attributable to the depreciation of the Colombian peso and to lower oil prices, which affect exports, increasing the external imbalance and forcing the country to cover the deficit by taking on more external debt.[77]

76 World Bank. (2026) Commodity Markets. Retrieved 20 Jan, at **www.worldbank.org/en/research/commodity-markets**. International Monetary Fund. (2025a) IMF DataMapper – Profile: Colombia. International Monetary Fund. Retrieved 18 Dec, at **www.imf.org/external/datamapper/profile/COL**

77 This correlation should be only analysed before or after the Covid-19. In 2020, the government took on more debt due to the crisis, reducing the influence of the oil price.

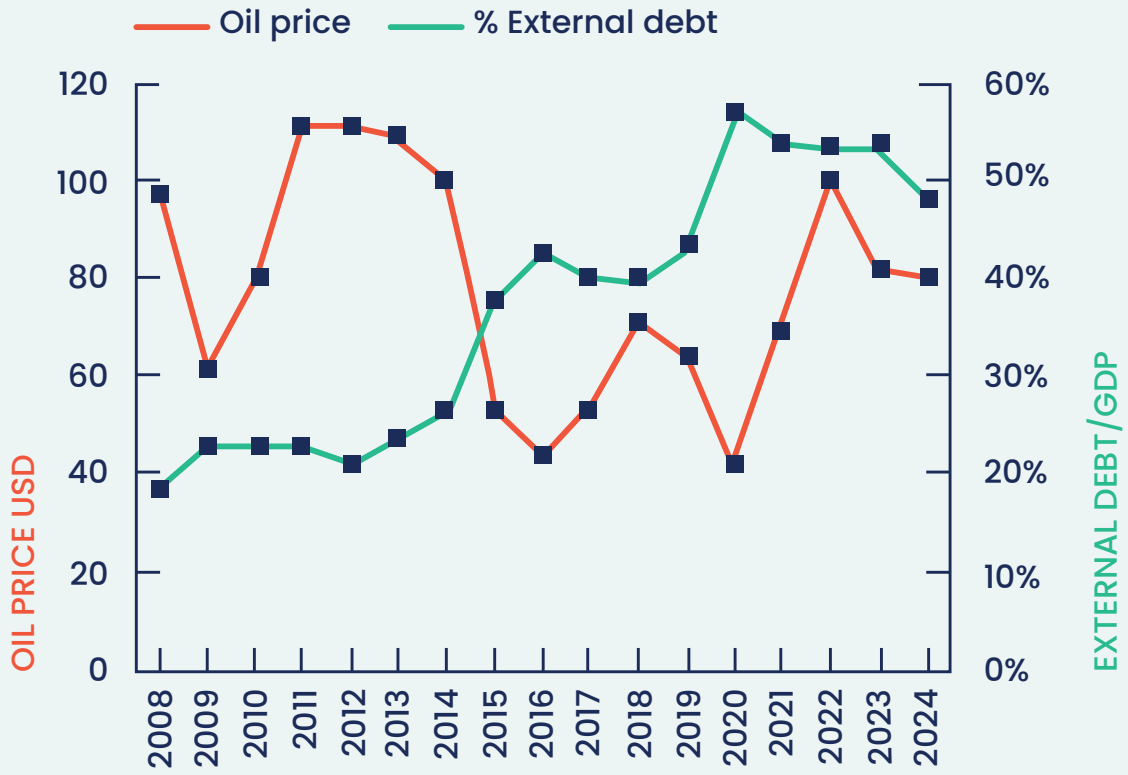

Figure 8. Oil price in USD and external debt as % of GDP in Colombia, 2000-2024.

Source: Contraloría General de la República (2025) and World Bank (2026)

Recent investigations have shown that most fossil fuel–dependent economies classified as low- and middle-income have struggled to service their external debt since 2014.[78] Colombia, Ecuador and Mozambique are among the countries exhibiting the most significant imbalances. In Colombia and Mozambique, the local currency depreciated by 52 percent and 101 percent, respectively, from 2014 to 2016.[79] This sharp depreciation significantly increased the external debt-to-GDP ratio, creating a debt trap.

This analysis shows that debt and fossil fuels are deeply interconnected, creating significant challenges for the energy transition in the Global South. Colombia faces a profound challenge in phasing out fossil fuel production while maintaining economic and financial stability. Sudden declines in fossil fuel export revenues could trigger foreign-currency shortages and broader financial shocks.

These risks will persist even without a proactive shift away from fossil fuels, as Colombia's fossil fuel reserves are already in structural decline.[80] It is unlikely that there is a viable pathway to maintain

78 Steadman, et al. (2023). Indebted: How to support countries heavily reliant on oil and gas revenues to secure long-term prosperity, ODI Report, Overseas Development Institute (p. 35). **https://odi.org/en/publications/indebted-how-to-support-countries-heavily-reliant-on-oil-and-gas-revenues-to-secure-long-term-prosperity/**

79 Own calculations based on the database of the World Bank. (2025.) Official exchange rate (LCU per US$, period average) (PA.NUS.FCRF). World Development Indicators. **https://data.worldbank.org/indicator/PA.NUS.FCRF**

80 International Monetary Fund. (2024) Building on strengths: Past lessons for diversifying exports (IMF Country Report No. 24/83) (p. 12). **www.elibrary.imf.org/view/journals/002/2024/083/article-A002-en.xml**

current levels of oil and gas production or exports. While companies have invested in techniques to slow decline rates, most onshore fields are mature and increasingly depleted. Active exploration in licensed onshore areas has yielded limited results, even prior to the government's ban on new exploration contracts.[81] An economic case study of licensed oil exploration blocks in Colombia's Amazon found that further investment in extraction would not be economically viable, even before accounting for environmental costs and risks to local livelihoods.[82]

The government's energy transition plan similarly recognizes Colombia's vulnerability as a fossil fuel exporter, noting that the country's oil and coal production entails higher costs and requires higher breakeven prices than those of many competitors.[83] Controversial efforts to develop fracking have faced strong community opposition and, if revived, would face uncertain prospects given the high capital intensity and resource requirements associated with new unconventional production.[84]

Ecopetrol is pursuing development of a recent offshore gas discovery that could help stabilise domestic gas production after 2030. However, the project must still pass community consultations and overcome final investment decision hurdles.[85] More broadly, analysis indicates that over 30 percent of Ecopetrol's investment pipeline through the 2030s would be unprofitable under a moderately paced global energy transition scenario.[86] Reversing structural declines in production would require large-scale investment in offshore production and/or fracking infrastructure, alongside worker retraining and extensive community consultation, and such investments carry substantial risks substantial risks of failing to deliver commensurate energy or economic returns.

To address these challenges, the current Colombian government has designed a set of policies aimed at avoiding a debt trap while advancing a just energy transition. The government has developed a comprehensive energy transition plan that articulates multiple policies and programmes, including:

1. End all new fossil fuel exploration licensing;

2. Boosting renewable energy generation, with the goal that by 2030, up to 100% of electricity generation could come from renewable energy sources;

3. Modifying the legal structure of Ecopetrol (the largest public oil company) to generate renewable energy;[87] and

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81 Mahajan, A. (2022) Colombia bets on offshore and unconventional plays to boost petroleum output. Upstream Commentary, Rystad Energy.

82 Earth Insight, IISD & OPIAC. (2025) Oil and Gas Expansion in the Colombian Amazon: Navigating Risks, Economics, and Pathways to a Sustainable Future. Earth Insight. **https://earth-insight.org/report/colombian-amazon-oil-gas/**

83 Ministerio de Minas y Energía. (2025) Transición energética justa: Hoja de ruta (p.12-14). **https://minenergia.gov.co/documents/13272/Hoja_de_ruta_transicion_energetica_justa_TEJ_2025.pdf**

84 Fundación Heinrich Böll & Alianza Colombia Libre de Fracking. (2019) La inviabilidad del fracking frente a los retos del siglo XXI (cap. "La inviabilidad económica del fracking, subsidios estatales y crisis fiscal en Colombia") (p. 66-67). **https://co.boell.org/sites/default/files/2019-11/20191114_hb%20fracking%202019_web.pdf**

85 Reuters. (2025) Colombia's offshore energy hopes deflate amid poor discoveries, stricter regulations. 8 Aug, **www.reuters.com/business/energy/colombias-offshore-energy-hopes-deflate-amid-poor-discoveries-stricter-2025-08-08/**

86 Manley, D., Furnaro, A., Olk, C., & Tagliani, G. (2025). National Oil Company Profile: Ecopetrol. Natural Resource Governance Institute, 3 Apr, **https://resourcegovernance.org/publications/national-oil-company-profile-ecopetrol**

87 Chavez, D., & Peñaranda, L. (2024) State-run oil companies and the energy transition: The case of Colombia's Ecopetrol.

4. Advancing a broader reindustrialisation strategy[88].

Regarding the fiscal situation, the government has implemented a progressive fiscal strategy, including higher taxes on fossil fuel exports, to finance social, economic and environmental programmes. In addition, it has undertaken several financial operations aimed at reducing the debt-to-GDP ratio.

In relation to Ecopetrol, its workforce has successfully resisted various privatization attempts, maintaining its status as a state-owned enterprise.[89] Recognizing the company's strategic importance, the Colombian government is now repositioning Ecopetrol as a public-sector leader in the global energy transition. This public status is vital as it creates the opportunity to shape a smooth transition for workers and prioritise energy justice goals over short-term private shareholder returns. To facilitate this shift, the government has eased legal constraints on corporate diversification and committed 40 percent of the 2024 investment portfolio to energy transition initiatives.[90]

As a result of all these policies, solar and wind energy rose from being only two percent of Colombia's electricity matrix in 2022 to 15 percent by January 2026.[91] There have also been positive outcomes in economic policies. The debt-to-GDP ratio declined from 61 percent in 2022 to 58 percent in 2025.[92] Non-traditional exports, like pharmaceuticals and electrical transformers, increased by 21 percent between January and November 2025.[93] This provides a potential model for other governments in the Global South to advance a just energy transition while minimising economic impacts.

While these outcomes represent significant progress, additional policies and sustained efforts will be required to achieve a full just energy transition. Three major challenges remain: first, fiscal revenues continue to depend heavily on fossil fuels. Second, a substantial share of public expenditure is devoted to debt servicing, limiting the government's capacity to invest in social and environmental priorities. Third, high levels of external indebtedness create pressure to continue exporting fossil fuels in order to generate the foreign currency required to service public debt. To confront and overcome these structural barriers, Colombia is proactively building international partnerships, including leading the First Global Conference on Fossil Fuel Phase-Out and establishing a borrower's club, among other initiatives.[94]

Transnational Institute. **www.tni.org/en/article/state-run-oil-companies-and-the-energy-transition?translation=es**

88 Ministerio de Minas y Energía. (2025) Transición energética justa: Hoja de ruta. https://minenergia.gov.co/documents/13272/Hoja_de_ruta_transicion_energetica_justa_TEJ_2025.pdf

89 Chavez, D., & Peñaranda, L. (2024) State-run oil companies and the energy transition: The case of Colombia's Ecopetrol. Transnational Institute. **www.tni.org/en/article/state-run-oil-companies-and-the-energy-transition?translation=es**

90 Ibid Chavez, D., & Peñaranda, L. (2024).

91 Ministerio de Minas y Energía. (2026) Colombia acelera la transición energética: las energías limpias ya representan el 15,6 % de la matriz eléctrica. **www.minenergia.gov.co/es/sala-de-prensa/noticias-index/colombia-acelera-la-transicion-energetica-las-energias-limpias-ya-representan-el-156-de-la-matriz-electrica/**

92 International Monetary Fund. (2025a) IMF DataMapper – Profile: Colombia. International Monetary Fund. Recuperado el 18 de diciembre de 2025, de **https://www.imf.org/external/datamapper/profile/COL**

93 Redacción Economía. (2026) Exportaciones no mineras crecieron 21,6 % en 2025: agro y café lideran el impulso. 9 Jan, El Espectador. **www.elespectador.com/economia/exportaciones-no-mineras-crecieron-216-en-2025-agro-y-cafe-lideran-el-impulso/**

94 Opacic, N., & ElBadrawi, M. (2025) Building blocks for change: Reflections on FfD4 and the Compromiso de Sevilla. 18 Jul, Center for Economic and Social Rights. **https://www.cesr.org/building-blocks-for-change-reflections-on-ffd4-and-the-compromiso-de-sevilla/**

Conclusion

Colombia has demonstrated leadership in the energy transition by developing an ambitious national plan that includes halting the issuance of new oil and gas exploration licenses. These measures seek to reduce the socioeconomic vulnerabilities associated with fossil fuel dependence, promote sustainable economic diversification, support global efforts to reduce greenhouse gas emissions and advance a more just society. However, Colombia's capacity to advance their energy transition remains constrained by the international monetary system and global energy markets, which are largely dominated by actors in the Global North.

Volatility in global energy and monetary markets generates recurrent boom-and-bust cycles that have exacerbated Colombia's debt crisis. Consequently, over the past two decades, public debt has increased from 32 to 58 percent of GDP, prompting the adoption of stringent fiscal austerity policies. As a result, in 2025, debt servicing accounts for 21 percent of the national budget (US$28.9 billion). Meanwhile, critical social programs continue to face significant funding gaps, with only US$3 billion allocated to the energy transition plan, despite estimated cumulative financing needs of US$122 billion.

Although some structural changes are required to guarantee a just energy transition, the Colombian case demonstrates that governments in the Global South retain domestic policy options to advance in the energy transition. In particular, Colombia has shown that it is possible to reduce debt levels, promote renewable energy production and diversify exports through coordinated fiscal, industrial, and energy policies, even within existing financial constraints.

MAN GETTING READY TO HOP INTO LOCAL VAN, CAIRO, EGYPT
Credit: Monoram

EGYPT: FOSSIL EXPANSION AND THE EROSION OF ENERGY SOVEREIGNTY UNDER STRUCTURAL DEBT AND AUSTERITY

HABIBA FOUAD & IBRAHIM ELHATIMI, MENAFEM MOVEMENT FOR ECONOMIC, DEVELOPMENT AND ECOLOGICAL JUSTICE

Introduction

Egypt's current political trajectory captures one of the Global South's defining dilemmas -how to pursue sustainable, just development and maintain fiscal stability while facing rising climate risks, mounting external debt and deep dependence on commodity exports. Like many postcolonial states, Egypt's energy system and debt regime were built within an unequal global trade and financial order,[1] historically shaped by former colonial powers. Today, it is enforced through the conditionalities and investment structures of Western International Financial Institutions (IFIs) like the International Monetary Fund (IMF), World Bank and more recently, Gulf sovereign wealth funds.

Despite many people attributing the 2011 Arab uprisings to the failure of the economic and social policies promoted by International Financial Institutions, the interventions by these institutions post-revolution replicated the same policies that had proven to be unsuccessful prior to the Arab Spring. These include fiscal austerity and subsidy reduction, aggressive privatisation in parallel to trade and investment liberalisation and a failure to promote employment-intensive investment by persisting with the export growth model.[2]

Since 2016, Egypt has taken out three different loan packages from the IMF. The first was a US$12 billion three-year arrangement under the Extended Fund Facility (EFF). In 2016,[3] a second 46-month arrangement was made in 2022 also under the EFF worth around US$3 billion.[4] A third US$ 1.3 billion loan approved in March 2025 from the Fund's Resilience and Sustainability Facility. The IMF approved the expansion of the 2022 loan to US$8 billion in March 2024. This puts Egypt among the IMF's most indebted countries, ranking fourth after Argentina, Ukraine and Ecuador.[5]

While the IMF owns around 10 percent of Egypt's external debt,[6] the impact of this debt is far reaching across all sectors of the economy. This is because generations to come will continue to pay the

1 Hickel, J., Dorninger, C., Wieland, H., & Suwandi, I. (2022) Imperialist appropriation in the World Economy: Drain from the Global South through unequal exchange, 1990–2015. Global Environmental Change, 73, 102467. **https://doi.org/10.1016/j.gloenvcha.2022.102467**

2 Mossallem, M. (2015) The IMF in the Arab World: Lessons Unlearnt. Report, Bretton Woods Project. **https://www.bretton-woodsproject.org/wp-content/uploads/2015/12/final-MENA-report.pdf**

3 IMF (2016) "IMF Executive Board approves US$12 billion extended arrangement under the Extended Fund Facility for Egypt". Press Release, 15/501, 11 Nov. **www.imf.org/en/news/articles/2016/11/11/pr16501-egypt-executive-board-approves-12-billion-extended-arrangement**

4 IMF (2022) IMF Executive Board approves 46-month US$3 billion extended arrangement for Egypt. Press Release, 22/441, 16 Dec. **www.imf.org/en/news/articles/2022/12/16/pr22441-egypt-imf-executive-board-approves-46-month-usd3b-extended-arrangement**

5 Total IMF credit outstanding movement from November 01, 2025 to December 01, 2025. Member Financial Data. (n.d.). **https://www.imf.org/external/np/fin/tad/balmov2.aspx?type=TOTAL**

6 World Bank (2025) The International Debt Report 2025. Washington DC: World Bank. **https://openknowledge.worldbank.org/server/api/core/bitstreams/b097dece-76e1-4f68-a74b-79f0a9f0e8e9/content**

price at the cost of better public services and also due to strict austerity-based conditionalities that the IMF imposes with its loan packages. Additionally, the approval of these packages often signal a pseudo economic stability which may cause a ripple effect of further debt from other sources.

At the time of writing, a delegation from the IMF touched down in Cairo to begin its final review of the US$8 billion loan program.[7] The two-week-visit is expected to address delays in the government's privatization program, which led to the postponement of the fifth loan review and its consolidation with the sixth.

In general, Egypt's total external debt has surged from US$36.8 billion in 2010 to US$156 billion in 2024.[8] This represents a whopping 323.9 percent increase. 36 percent of this debt comes from multilateral banks, 39 percent in the form of private loans and 25 percent are from other countries, mainly the Gulf, as shown below.

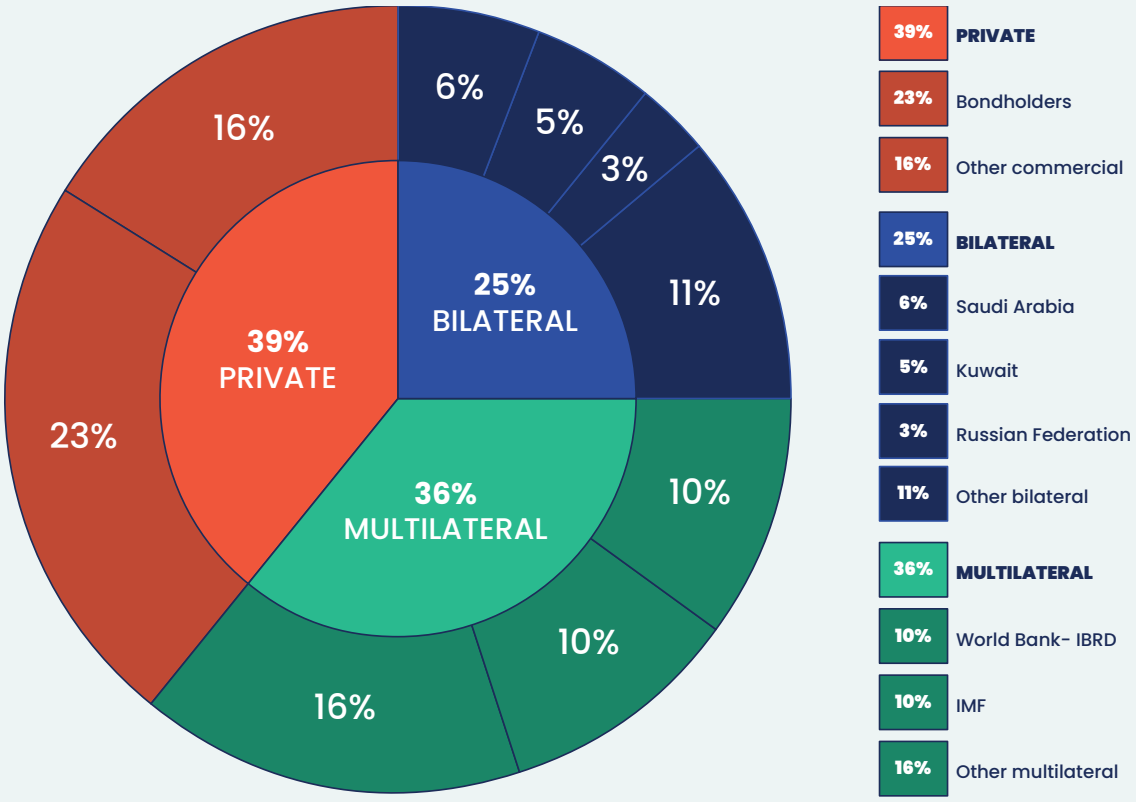

Figure 1. Public and publicly guaranteed debt, by creditor and creditor type in 2024, including IMF credit.

Source: World Bank (2025)[9]

7 Seif Eddin, S. (2025). "IMF in Cairo to discuss privatization, over-reliance on short-term borrowing", Dec 1, Mada Masr. **www.madamasr.com/en/2025/12/01/news/u/imf-in-cairo-to-discuss-privatization-over-reliance-on-short-term-borrowing/**

8 World Bank (2025) The International Debt Report 2025. Washington DC: World Bank. **https://openknowledge.worldbank.org/server/api/core/bitstreams/b097dece-76e1-4f68-a74b-79f0a9f0e8e9/content**

9 World Bank (2025) The International Debt Report 2025. Washington DC: World Bank. **https://openknowledge.worldbank.org/server/api/core/bitstreams/b097dece-76e1-4f68-a74b-79f0a9f0e8e9/content**

As of 2023, 17.5 percent of Egypt's external debt was short-term,[10] which exerts significant depreciative pressure on its currency. The Egyptian pound has faced three devaluations in the last decade as part of the conditionalities, or the Structural Adjustment Programs (SAPs) to get its IMF loans approved. In 2016 the Egyptian pound was devalued by 45 percent, in January 2023 it was devalued by another 40 percent to US$0.03, and in March 2024 it was floated dropping the value to US$0.02.[11] At the same time, long-term debt undermines reserves due to a large amount of loans spent on non-revenue-generating projects.

After Russia's invasion of Ukraine in 2022, Egypt faced a crushing dollar shortage which exposed its high reliance on hot money flows (foreign investor capital locked into short-term government debt) for its current account liquidity after foreign investors withdrew at least US$20 billion from Egypt.[12]

In efforts to attract foreign currency to pay off massive debts with a now weakened currency and to avoid any possibility of another dollar shortage, the country is on a trajectory to expand fossil fuel infrastructure, issue new oil and gas exploration licenses and negotiate long-term export agreements with European and regional partners. For example, Egypt is slated to drill 14 exploratory wells in the Mediterranean Sea in 2026, targeting an estimated 12 trillion cubic feet of gas.[13] In October 2025, Egypt's Minister of Petroleum and Mineral Resources said that the country plans to drill 480 new oil and gas exploration wells by the end of the decade, with total investments expected to exceed US$5.7 billion. 101 wells are already scheduled in 2026, distributed across Egypt's main petroleum regions, namely the Western Desert, Mediterranean, Gulf of Suez and Nile Delta.

Egypt's appetite to expand the fossil fuel sector is longstanding as reflected by the large role the sector plays in the economy. In the 2022/23 fiscal year, oil and gas extractions in Egypt stood at US$9.5 billion contributing to 5.8 percent of GDP.[14] In 2023, the top two exporting sectors in monetary terms were Refined Petroleum, at US$4.34 billion and Petroleum Gas at US$3.39 billion.[15] Egypt's fiscal stability relies heavily on foreign currency revenues obtained from the fossil fuel sector through dividends, royalties, profit shares and tax payments.[16]

This reliance, along with long standing relationships with international oil companies, has pushed Egypt's Minister of Petroleum to revise down the country's renewable energy target from 58 to 40 percent while

10 Dasgupta, S., Agnolucci, P., Prinsloo, Z., & Bolch, K. (2025) Short-term debt (% of total external debt) - Egypt, Arab Rep. World Bank Open Data. Retrieved 25 Nov at **https://data.worldbank.org/**

11 Agarwal, R., & Mazarei, A. (2024) "Egyptian pound devaluations have induced recurring crises since 1952". 9 Aug, Peterson Institute for International Economics, **www.piie.com/research/piie-charts/2024/egyptian-pound-devaluations-have-induced-recurring-crises-1952**

12 Seif Eddin, S. (2025) "IMF in Cairo to discuss privatization, over-reliance on short-term borrowing", Dec 1, Mada Masr. **www.madamasr.com/en/2025/12/01/news/u/imf-in-cairo-to-discuss-privatization-over-reliance-on-short-term-borrowing/**

13 Elkabany, H., & Abu Shamala, R. (2025) "Egypt announces New Gas Discovery in Western Desert", 8 Nov, Anadolu Ajansı. **www.aa.com.tr/en/middle-east/egypt-announces-new-gas-discovery-in-western-desert/3738707**

14 American Chamber of Commerce in Egypt (2024) Overview of the energy market. Clean Energy Industry Insight, June. www.amcham.org.eg/publications/industry-insight/issue/79

15 Observatory of Economic Complexity (OEC) (2025) Egypt (EGY) exports, imports, and trade partners. **https://oec.world/en/profile/country/egy**

16 Mesa Puyo, D. (2024) Key challenges faced by fossil fuel exporters during the Energy Transition. Staff Climate Notes, 2024(001), 1. **https://doi.org/10.5089/9798400270147.066**

emphasising that natural gas will remain a key part of the country's energy mix for years.[17] This dynamic reinforces what some describe as a debt–fossil fuel trap. Debt repayment and fiscal pressures demand foreign currency, which Egypt attempts to obtain through hydrocarbon exports, foreign investment in the fossil sector, or bilateral assistance tied to energy projects. Fossil fuel dependence thus becomes not merely a legacy of past development choices, but an active strategy for securing liquidity, meeting IMF targets and stabilizing the exchange rate. Yet this strategy deepens vulnerability to external shocks such as commodity price volatility, geopolitical disruptions and climate impacts that increasingly damage agriculture, water security and infrastructure.

Egypt's experience reflects broader patterns seen in many resource-dependent economies, while retaining its own specific features. The country relies heavily on fossil fuels as collateral for external borrowing and as a foundation of its creditworthiness. It also faces the risks of carbon lock-in, weak institutional oversight and political pressures to channel resource revenues into short-term, consumption-driven spending rather than long-term structural transformation. Egypt's simultaneous crises - recovery from a severe dollar shortage, mounting climate impacts on food security and a government that restricts transparency and violently clamps down on independent scrutiny of fiscal and environmental decision-making - have a compounding effect.

This trap can be observed through a set of macro-financial and energy-sector indicators, including external debt service relative to foreign-exchange inflows, the contribution of fossil fuel exports to export earnings, net foreign exchange retained by the state after international oil company cost recover, and the accumulation of energy-sector arrears during periods of foreign exchange scarcity. Additional signals include reliance on foreign-currency-denominated financing in energy investments, the prioritisation of Liquid Natural Gas (LNG) exports during domestic supply constraints and the share of public expenditure absorbed by debt service relative to energy investment and social spending. The case study applies an analytical framework that links macro-fiscal vulnerability, fossil fuel dependence and climate risk to assess whether Egypt's current development model is compatible with a just and sustainable transition.

This chapter proceeds in six sections. Section 1 will trace Egypt's fossil fuel and economic history, linking colonial financing patterns to today's energy dependence. Section 2 will examine contemporary debt dynamics, including IMF conditionalities, energy-sector arrears, and the political economy of foreign exchange shortages. Section 3 will explore the governance ecosystem around fossil fuels, including transparency deficits, oversight gaps and the role of multinational corporations. Section 4 expands on these by examining how energy policy choices and infrastructure investments are increasingly shaped by the imperatives of external debt servicing, reinforcing Egypt's structural dependency on fossil fuels and limiting space for domestic policy transformation. Section 5 analyzes the socioeconomic and environmental consequences of this debt–energy configuration, highlighting how households, workers and vulnerable communities shoulder disproportionate burdens as the financial benefits flow to external actors. Section 6 advances a set of policy recommendations focused on restoring sovereign decision-making, restructuring financial governance and enabling a transition that prioritizes social justice and long-term resilience.

17 Reuters. (2024) "Egypt cuts 2040 renewable energy target to 40%, keeps focus on natural gas", 20 Oct, **www.reuters.com/sustainability/climate-energy/egypt-cuts-2040-renewable-energy-target-40-keeps-focus-natural-gas-2024-10-20/**

The case shows how Egypt's development model - anchored in fossil expansion and external borrowing - reproduces cycles of vulnerability that undermine fiscal sustainability and climate resilience. It highlights the profound political, economic, and institutional transformations required to break the debt–fossil fuel trap and open viable pathways for a just transition.

Egypt's economic and fossil fuel history

A LEGACY OF EXTERNALLY FINANCED "MODERNIZATION"

Egypt's debt–energy relationship did not begin in the 21st century. Its origins stretch back to the mid-20th century, when grand infrastructure projects - most famously the Aswan High Dam - were financed through arrangements that mortgaged the country's export earnings, toll revenues and long-term economic strategy. The Dam promised sovereignty and development but was embedded in a system where foreign financiers controlled capital flows while Egypt bore the risks.[18] Suez Canal revenues, cotton exports, and other national assets effectively served as collateral for geopolitical visions of "modernization."[19]

This pattern of external financing for energy and infrastructure that ultimately strengthens creditor power remains structurally intact today. Instead of British or American engineering firms, the dominant players are now the IMF, Gulf sovereign funds, multinational oil companies and European energy security agendas. Egypt's fiscal and energy policies remain shaped by external actors long after the rhetoric of state-led modernity faded.

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BUILDING A FOSSIL FUEL DEVELOPMENT MODEL

From the 1960s to the early 2000s, Egypt built an energy system centred on cheap oil, then cheap natural gas, to power industrialization and urbanization. Subsidized fuel prices kept electricity and transport affordable, sustained public support and underpinned a political social contract where the state delivered low-cost energy in exchange for limited political participation.

But this model increasingly required expanding extraction, attracting foreign investors and using fuel exports to earn foreign exchange. By the 1990s, Egypt's oil output plateaued and began to decline due to maturity of Gulf of Suez fields.[20] Meanwhile, domestic consumption rose steadily, shrinking export margins and eventually turning Egypt into a net importer of fossil fuels.

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18 Mitchell, T. (2014). Economentality: How the Future Entered Government. Critical Inquiry, 40(4), 479–507. **https://doi.org/10.1086/676417**

19 Ibid. Mitchell, T. (2014).

20 Ibrahim, A. (2012) Renewable Energy Sources in the Egyptian Electricity Market. Renewable and Sustainable Energy Reviews 16(1): 216–230. **www.sciencedirect.com/science/article/pii/S1364032111003960**

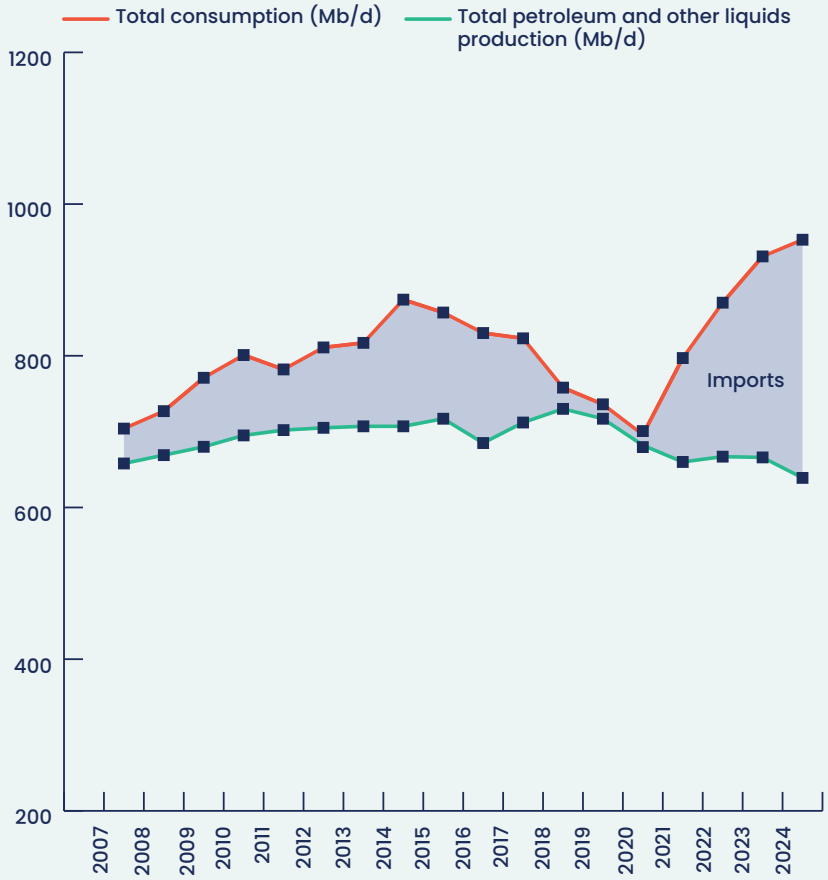

Figure 2. Egyptian Annual Petroleum & Other Oil-Products Production.

Source: U.S Energy Information Administration, Internation Energy Statistics database[21]

Natural gas emerged as the new cornerstone of energy security. International companies like BP, BG Group (later Shell), Eni and Apache invested heavily in offshore fields, pipelines, LNG facilities and combined-cycle power stations. The government adopted a "gas-first" strategy, which aimed to preserve the remaining oil for export and foreign exchange earnings, lower electricity generation costs and provide feedstock for heavy industry.

By the mid-2000s, gas had become the dominant fuel for electricity and a major export commodity, shipped through the Arab Gas Pipeline and liquefied at the Idku and Damietta LNG terminals.[22]

Egypt's government formally controls the country's strategic energy decisions, but in practice much of the operational authority lies with multinational corporations and with regulatory frameworks shaped by IFIs. Production-sharing agreements guarantee that foreign companies recover their costs before the state receives its share, while concession contracts contain balancing clauses that

21 US Energy Administration Initiative (EIA) (2026) Egypt: Petroleum and other liquids. Retrieved 20 Jan. **https://www.eia.gov/international/data/country/EGY/petroleum-and-other-liquids/more-petroleum-and-other-liquids-data?pd=5&p=0000001000000000000000000000000000g&u=0&f=A&v=mapbubble&a=-&i=none&vo=value&vb=170&t=C&g=none&l=249--64&s=1167609600000&e=1735689600000**

22 Shell (2014) BG Group Data Book 2014. **www.shell.com/investors/information-for-shareholders/bg-documents/_jcr_content/**

allow investors to renegotiate terms whenever new regulations could reduce their expected profits.[23] Most disputes are handled through international arbitration rather than Egyptian courts, reflecting the limited legal sovereignty the state retains over its own energy sector.[24]

These arrangements are reinforced by fiscal terms that overwhelmingly favour investors. International oil companies typically pay a royalty rate of just 10 percent—one of the lowest globally compared to the average range of between 12.5 and 25 percent. They also benefit from extensive exemptions from VAT, customs duties, capital gains taxes and other levies. This reduces the revenue available for public spending and narrows the state's ability to finance renewable energy, social services or climate adaptation.[25]

IFI involvement deepens this governance imbalance. Through conditionalities, loan design, and technical advice, institutions such as the IMF and World Bank shape Egypt's pricing rules, subsidy structures, tariff reforms, and investment conditions in ways that prioritise investor confidence over domestic welfare.[26] At the same time, capital-intensive infrastructure built and operated by multinational firms gives them additional influence over long-term policy direction. These structures severely limit democratic oversight and entrench an energy model oriented toward generating liquidity for debt repayment rather than supporting social needs or advancing a resilient transition.[27]

Due to growing debt burdens owed to international oil companies (IOCs), Egypt's Petroleum Ministry has been offering further incentives in negotiations as a way to clear its dues. For example in October 2025 Shell exported natural gas directly from the Idku liquefaction plant on Egypt's north coast to Italy, instead of diverting their gas output to the government first, a requirement the government had put in place to ensure local demand for energy supply was met before any volume was exported.[28]

Political upheaval between 2011 and 2014 exposed the fragility of this model. Fuel shortages, blackouts, and mounting arrears to foreign companies stalled gas production and created a fiscal crisis.[29] The government's response — guided by the IMF — was subsidy reform, VAT expansion, and austerity. These measures aimed to restore fiscal balance but instead effectively raised household and industrial energy costs, reduced disposable income, failed to produce significant social spending gains and redirected the bulk of fiscal "savings" to debt service.[30]

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23 Onyema, E. & Saxena, A. (2025) The Energy Transition in Contractual Practice, ICSID Review - Foreign Investment Law Journal, 40 (2) (p. 295–314). **https://doi.org/10.1093/icsidreview/siaf004**

24 Ibid Onyema, E. & Saxena, A. (2025).

25 Offshore Technology. (2021) "Egypt bids in 2021 aim to use industry interest despite fiscal terms". 2 June, Global Data Energy. **www.offshore-technology.com/analyst-comment/egypt-bids-interest-terms/?cf-view**

26 Hanieh, A. (2014) "Shifting Priorities or Business as Usual? Continuity and Change in the post-2011 IMF and World Bank Engagement with Tunisia, Morocco and Egypt", British Journal of Middle Eastern Studies.

27 MENAFem Movement & Greenpeace MENA. (2025) Beyond Extractivism: Towards a Feminist and Just Economic Transition in Morocco and Egypt. **https://menafemmovement.org/beyondextractivism/**

28 Seif Eddin, S. (2025a) "Govt agrees on export share with gas companies to 'improve cash flows'". 14 Oct, Mada Masr. **www.madamasr.com/en/2025/10/14/news/u/govt-agrees-on-export-share-with-gas-companies-to-improve-cash-flows/**

29 Ouki, M. (2018) Egypt: A Return to a Balanced Gas Market? OIES Paper, 131. Oxford Institute for Energy Studies. www.oxfordenergy.org/publications/egypt-return-balanced-gas-market/

30 Diab, O. (2023) The IMF and ending energy subsidies in Egypt: A Tale of Class War and Greenwashing. Long Read, 20 Sep, Transnational Institute. **www.tni.org/en/article/the-imf-and-ending-energy-subsidies-in-egypt**

This austerity period also produced one of the most consequential energy investments of the decade. The Siemens megaproject consists of three massive gas-fired power plants which total 14.4 GW and cost US$7 billion.[31] While the project launched in 2018 ended electricity shortages, it has locked Egypt into gas-fired generation likely for decades to come, creating long-term obligations to provide feedstock even during shortages. The project — which at the time was Siemen's largest foreign investment — also put Egypt in a long-term requirement to pay back the consortium of lenders, namely Deutsche Bank AG, HSBC and KfW-IPEX.

Only three years after the project was operational, the government announced that it was looking to sell some stakes in one of the three plants, citing debt burdens as the reason.[32] To this day the government has not been able to sell its stake, despite the country's Sovereign Wealth Fund (SWF) expressing plans to acquire 30 percent of the power stations in 2022. The government tried again in 2023 when it announced to sell up to 70 percent of one of the stations, revealing its desperation to offload its debt burdens, as well as its lack of long-term planning.[33] The Siemens case also reveals that it is European companies and banks that stand to win from these contracts, at the expense of the Egyptian population that will continue to carry the burden of these debts.

Another important example of a rush to extract or produce fossil fuels without considering the impacts of incurring more debt was the discovery of the Zohr gas field in 2015, hailed as the largest gas field discovered in the Mediterranean Sea.[34] Fast-tracked development of the gas field restored temporary gas self-sufficiency and enabled LNG exports, which Egypt framed as part of its emerging role as a regional gas hub.

Yet this comeback was short-lived. Production at Zohr field unexpectedly started declining in 2022 and eventually came to complete halt, with some citing a fall in reservoir pressure and unexpected water influxes as the reason behind the decline.[35] However, according to one report citing an anonymous source in the Egyptian Ministry of Petroleum, Eni intentionally stopped production in the field due to the mounting debt it was owed by the government, which had reached USD 1.7 billion in arrears in mid-2024.[36]

The gas shortage forced renewed imports during summer peaks. Meanwhile, regional agreements, such as the 2022 EU-Egypt-Israel energy pact and the USD 35 billion 2025 Leviathan deal, tie Egypt's LNG flows to European energy security, rather than domestic needs. The latter deal was announced amidst the ongoing genocide in Gaza, despite local and global calls to boycott Israel, again exposing

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31 Siemens AG. (2018) The Egypt Megaproject: Boosting Egypt's energy system in record time. Report. **https://assets.new.siemens.com/siemens/assets/api/uuid:38ad89c9f4532436a921ed151da1d987a985deec/siemens-egypt-megaproject.pdf**

32 Reuters. (2021) "Egypt plans power plant share sale". 21 Dec, **https://www.reuters.com/markets/europe/egypt-plans-power-plant-share-sale-2021-12-29/**

33 Salah, F. (2023) "Egypt hires HSBC to negotiate with German lenders for Siemens station sale", 29 Aug, Daily News Egypt **www.dailynewsegypt.com/2023/08/29/egypt-hires-hsbc-to-negotiate-with-german-lenders-for-siemens-station-sale/**

34 Eni. (2026) Zohr, the giant oil field in Egypt's offshore. Retrieved 20 Feb at **www.eni.com/en-IT/actions/global-activities/egypt/zohr.html**

35 Tatschner, K. (2025) The Zohr Field – the rise and fall of a Mediterranean gas giant. 15 May, C&C Reservoirs. **https://ccreservoirs.com/the-zohr-field-the-rise-and-fall-of-a-mediterranean-gas-giant/**

36 Ramadan, I., & Behary, M. (2024) "Zohr Field's declining output: A threat to Egypt's Energy Future". 30 Jun, زاوية ثالثة. **https://zawia3.com/en/zohr-field/**

Egypt's reliance on fossil fuels, and lack of long term planning to transition to renewable energy though amending local regulations and using public finances productively. These arrangements generate long-term lock-in effects that extend well beyond the current crisis. By anchoring LNG infrastructure, pipeline flows, and contractual commitments to European demand, Egypt's energy system becomes structurally oriented toward export obligations rather than domestic energy planning. Even if local gas production were to recover to previous levels, increased output would likely be absorbed by existing export contracts and regional transit agreements, limiting the scope for redirecting supply toward domestic consumption or price stabilization. At the same time, these fossil fuel lock-ins divert regulatory attention, public investment and institutional capacity away from accelerating a renewable energy transition.

Fossil fuel and gas investment could also exacerbate Egypt's debt crisis by increasing the cost of borrowing due to growing risks of stranded assets.[37] As global demand for fossil fuels is expected to decline, particularly in the EU Egypt's largest trading partner, investors and credit rating agencies may view long-term gas infrastructure as increasingly risky, raising interest rates on future lending.

This risk is amplified by the EU's climate policies, including the Carbon Border Adjustment Mechanism (CBAM), which will impose tariffs on carbon-intensive imports. As a result, Egypt is projected to face significant export losses in key sectors, including electricity transmission (-8.3 percent), oil (-4.3 percent), and chemicals and fertilizers (-3.9 percent).[38]

Consequently, the strategy of expanding fossil fuel investment to generate foreign currency could ultimately backfire. While increased gas exports may bring short-term revenue, declining global demand and EU climate policies are likely to reduce earnings in other export sectors, potentially offsetting or even outweighing any gains from fossil fuels.

Current economic and debt status

Egypt's debt dynamics today reflect a convergence of structural vulnerabilities. They include an import-dependent economy, a chronic shortage of foreign currency, fossil fuel obligations that crowd out domestic investment and repeated IMF programs that prioritize macro stability over structural transformation. Together, these forces have created a situation in which debt service, fossil fuel dependence and external creditor expectations reinforce each other, narrowing the country's policy options and deepening the debt–fossil fuel trap.

A RECORD-HIGH EXTERNAL DEBT BURDEN

Egypt's external debt has reached historic levels, rising from around US$55.8 billion in 2015 to US$161 billion by mid-2025. This surge has significantly altered the structure of the state's financial obligations. Today, roughly US$130 billion consists of long-term external debt, and nearly US$31 billion is short-term debt — reflecting acute liquidity pressures.[39] Domestic debt has risen in parallel, now

37 Fodha, M., Kirat, D., & Zaki, C. (2021) On Stranded Assets And Climate Risk: Are Financial Markets the Last Resort? Working Paper, 1526, Economic Research Forum. **https://erf.org.eg/app/uploads/2021/12/1640587265_119_912537_1526.pdf**

38 World Bank Group. (2021) Egypt: Country Climate and Development Report. World Bank: Washington DC. **https://openknowledge.worldbank.org/server/api/core/bitstreams/c2a8d937-5947-5320-9625-559251c55662/content**

39 Khalil, S. & Hamzawy, A. (2025) "Egypt's challenges and opportunities in climate-related finance and governance". 13 Mar, Article, Carnegie Endowment for International Peace. **https://carnegieendowment.org/research/2025/03/egypts-challenges-and-opportunities-in-climate-related-finance-and-governance**

accounting for 64.3 percent of total public debt.[40]

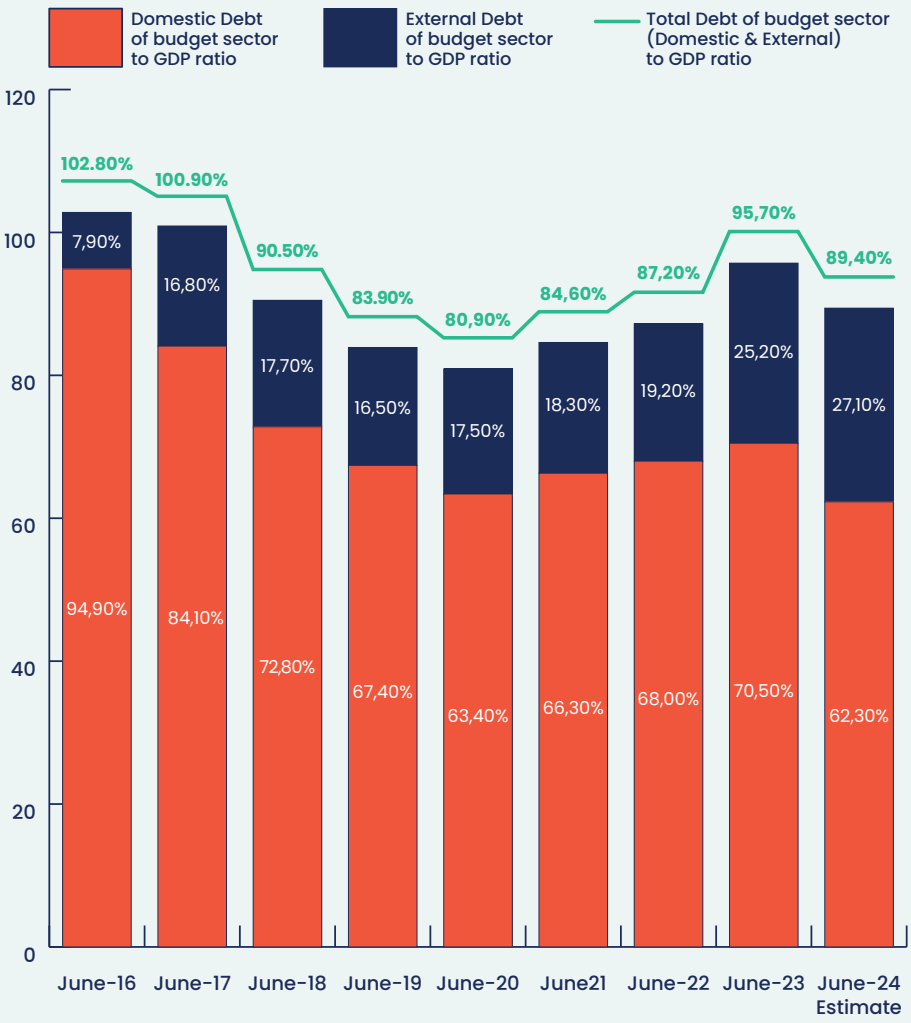

Figure 3. Total Central Gov. Budget Sector Debt (% of GDP) / (2016-2024).

The balance between external and domestic obligations matters. Egypt increasingly relies on shorter-term borrowing instruments, particularly high-yield treasury bills denominated in Egyptian pounds but holding foreign investors' capital.

Public debt service is one of the clearest indicators of this dynamic. In fiscal year 2023/24, Egypt allocated approximately 0.3 percent of GDP to interest payments (US$1.413 billion).[41] In the year before it was 1.1 percent (US$4.034 billion). To put this in perspective, approximately 1.16 percent of Egypt's GDP was allocated to government spending on health in the new general budget for fiscal year 2025/24 and 1.7 percent on education.[42] This is despite the 2014 Constitution mandating the

40 Ministry of Finance, Arab Republic of Egypt (2024) The Financial Monthly Bulletin: Executive Summary, June. **https://assets.mof.gov.eg/files/a2ca48a0-4d6b-11ef-a06f-934f1fcc1d99.pdf**

41 Ministry of Finance, Arab Republic of Egypt (2024) The Financial Monthly Bulletin: Executive Summary, June. **https://assets.mof.gov.eg/files/a2ca48a0-4d6b-11ef-a06f-934f1fcc1d99.pdf**

42 Kassab, B. (2024) "New Budget: Health, education spending less than half constitutionally required amount", 24 Apr, Mada Masr. **www.madamasr.com/en/2024/04/24/news/u/new-budget-health-education-spending-less-than-half-constitutionally-required-amount/**

government to allocate a minimum of 6 percent of GDP to its annual spending on education and higher education and 3 percent of GDP for health spending.[43]

When looking at the portion that interest payments take compared to the government's total fiscal expenditures, the percentage could be higher. This is different from GDP in that it considers only what the government spends and not the total value of all goods and services produced in the economy from both the public and private sector. In fact, Egypt paid around 47 percent of expenditure in the fiscal year 2024/2025 budget to interest on borrowing.[44] Even without accounting for the principal, interest payments represent the largest allocation in the budget:

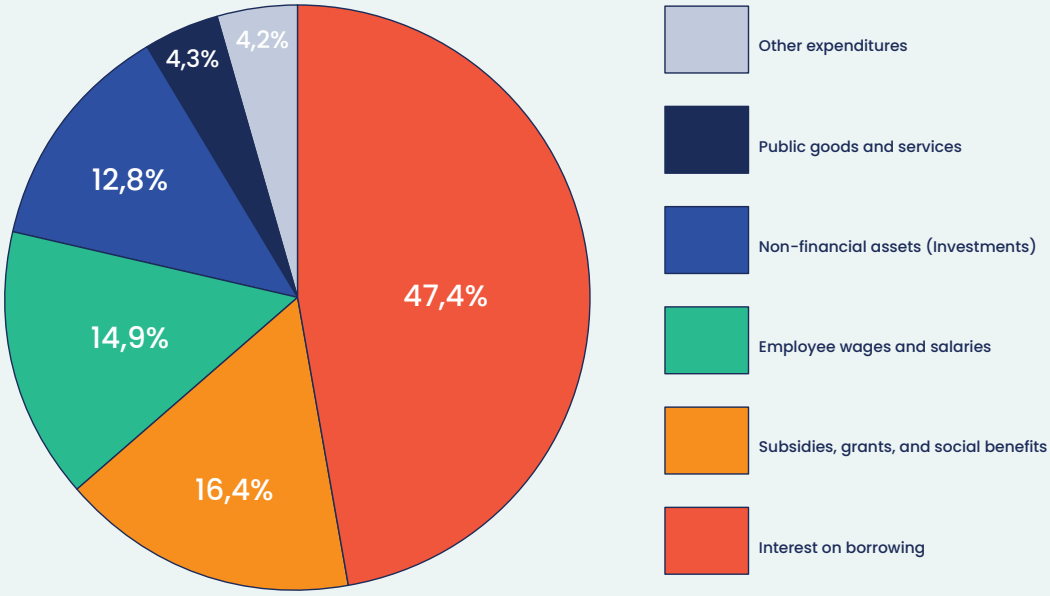

Figure 4. Total public expenditure FY2024/2025.[45]

Egypt is amongst the five countries recording the highest interest payments on external debt relative to export earnings in 2024, with the other four being Mozambique, Senegal, Mongolia and Colombia.[46] Egypt's new draft budget for fiscal year 2025/2026 will dedicate over 65 percent of total government spending in the coming fiscal year for debt service (including interest and principal payments).[47] It's important to note that the increase in interest payments comes despite a projected decline in the average interest rate on treasury bills and bonds to 16 percent, down from 25 percent in the last budget. According to the budget statement at the time, this was due to the Egyptian pound being devalued.

43 Kassab, B. (2024) "New Budget: Health, education spending less than half constitutionally required amount", 24 Apr, Mada Masr. **www.madamasr.com/en/2024/04/24/news/u/new-budget-health-education-spending-less-than-half-constitutionally-required-amount/**

44 Kassab, B. (2024) "Interest on borrowing to consume almost 50% of public spending in coming fiscal year", 18 Apr, Mada Masr. **www.madamasr.com/en/2024/04/18/news/u/interest-on-borrowing-to-consume-almost-50-of-public-spending-in-coming-fiscal-year/**

45 Ibid. Kassab, B. (2024).

46 World Bank (2025) The International Debt Report 2025. Washington DC: World Bank. **https://openknowledge.worldbank.org/server/api/core/bitstreams/b097dece-76e1-4f68-a74b-79f0a9f0e8e9/content**

47 Kassab, B. (2025) "Draft budget: 65% of total expenditure allocated for debt service, le3.5 trillion in new borrowing", 16 Apr, Mada Masr. **www.madamasr.com/en/2025/04/16/news/u/draft-budget-65-of-total-expenditure-allocated-for-debt-service-le3-5-trillion-in-new-borrowing/**

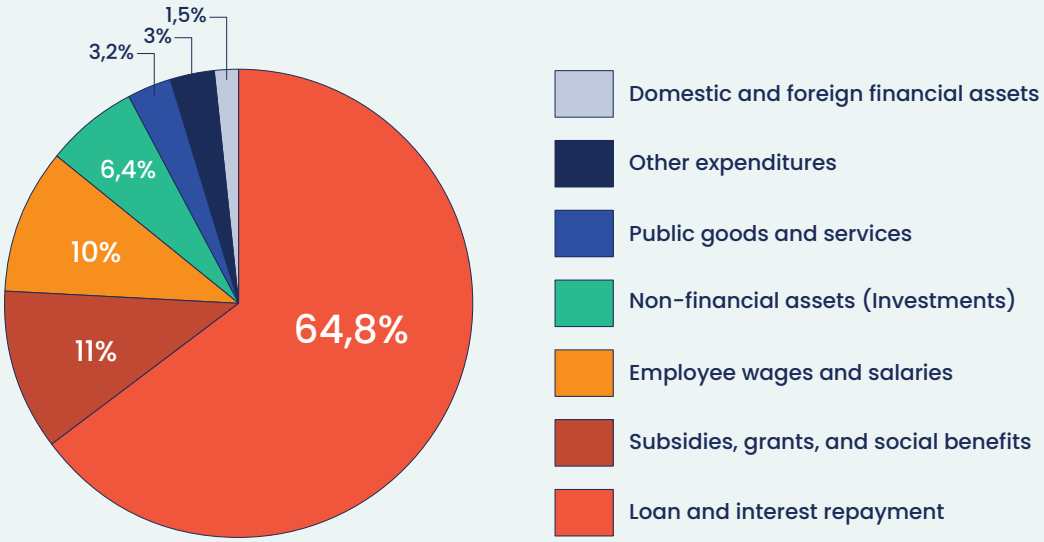

Figure 5. Egypt's (draft) public spending FY 2025/2026[48]

Source: Draft budget and Mada Masr's calculations.

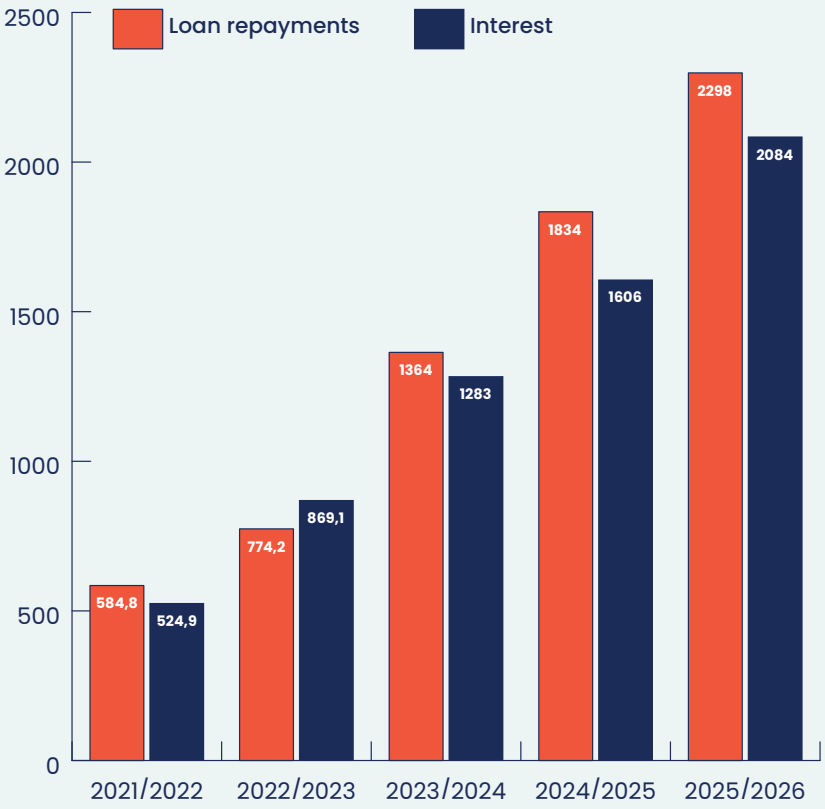

Figure 6. Debt service allocations over past 5 years (EGP billions)[49]

Source: Analysis report for the new draft budget.

48 Kassab, B. (2025) "Draft budget: 65% of total expenditure allocated for debt service, LE3.5 trillion in new borrowing, 16 Apr, Mada Masr. **https://www.madamasr.com/en/2025/04/16/news/u/draft-budget-65-of-total-expenditure-allocated-for-debt-service-le3-5-trillion-in-new-borrowing/**
Ministry of Finance of Egypt. (2025) "Financial analysis on the draft state budget for the fiscal year 2025/2026", Apr. **https://assets.mof.gov.eg/files/c00e6560-2ff4-11f0-98a2-abcafccf59cc.pdf**

49 Ibid. Kassab, B. (2025).

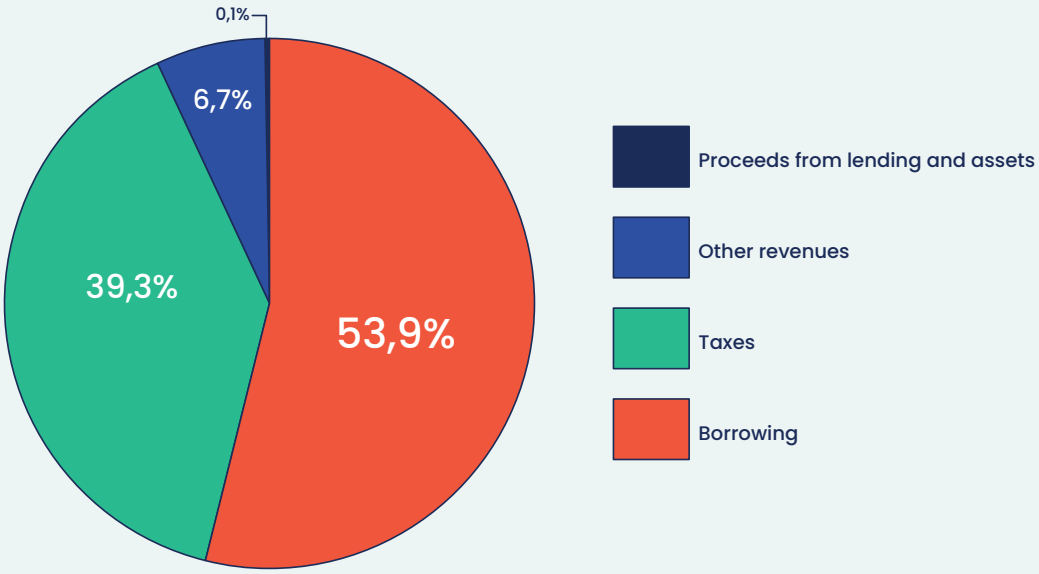

Figure 7. Resources for draft budget FY 2025/2026[50]

Source: Finance Ministry analytical report on the government's draft budget for FY2025/2026.

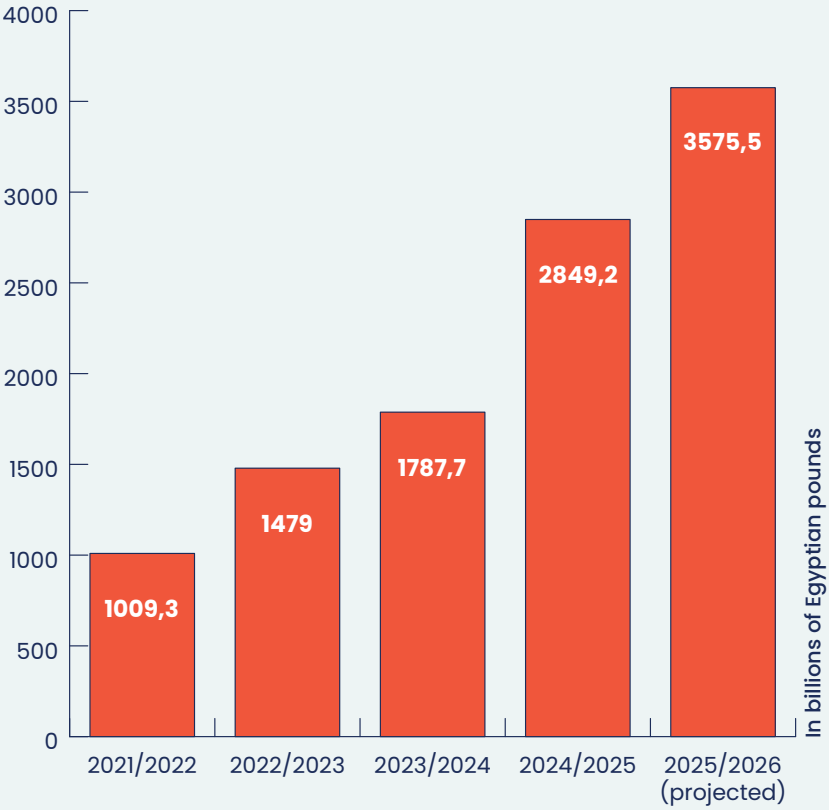

Figure 8. Borrowing volume from FY 2021/22 - Present[51]

Source: Analysis report for the new draft budget.

50 Kassab, B. (2025) "Draft budget: 65% of total expenditure allocated for debt service, LE3.5 trillion in new borrowing, 16 Apr, Mada Masr. **https://www.madamasr.com/en/2025/04/16/news/u/draft-budget-65-of-total-expenditure-allocated-for-debt-service-le3-5-trillion-in-new-borrowing/**

51 Ibid. Kassab, B. (2025).

Part of Egypt's interest bill consists of IMF surcharges, which the Fund imposes on top of regular interest and fees. For example, in 2021 alone, surcharges increased IMF borrowing costs by 104.7 per cent and represented 51.1 per cent of Egypt's total IMF borrowing costs.[52] The Fund falsely justifies this surplus interest as an incentive for the early repayment of large, long-outstanding loans and discouraging over-reliance, but in fact they are structured to extract additional payments from heavily indebted Global South countries, intensifying fiscal strain while increasing the IMF's own revenues. In fact, between 2021 and 2028, Egypt is expected to be the second-largest payer of IMF surcharges after Argentina.[53] In Egypt's 2024 budget, surcharge payments reached around EGP 78 billion (USD 1.5 billion) equivalent to 23% of total subsidies, 55% of food subsidies, and nearly 60% of the energy subsidy.[54] These surcharges have only proved to be counterproductive, increasing rather than decreasing debt dependencies.

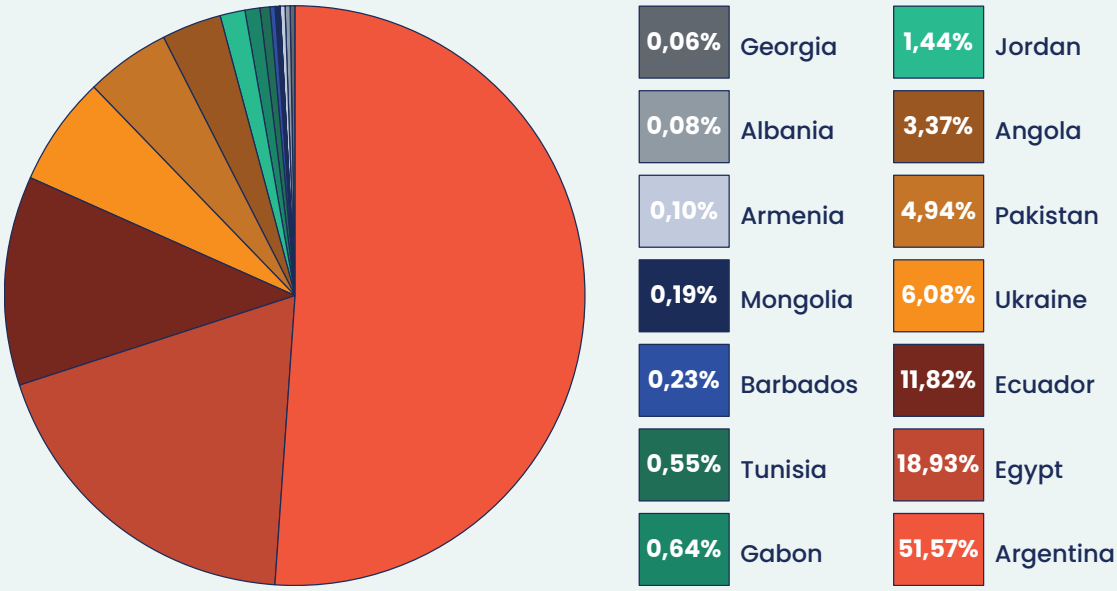

Figure 9. Distribution of surcharges payments due to the IMF by country 2021-2028 (US$ Millions)[55]

Source: Author calculations based on latest IMF staff country reports

The IMF, however, does have an instrument in its toolbox that can, and has proven to, help meet the urgent and growing financing needs of developing countries in ways that do not create additional debt burdens or impose undue policy conditionalities. This instrument is the Special Drawing Right (SDR), an international reserve asset that the IMF can issue to complement the official reserves of its member countries.[56] SDRs are not loans and do not have to be repaid to the IMF. Instead, countries

52 Eurodad. (2021) IMF Surcharges - Egypt. **https://infogram.com/1p127p715l76m5cml0gmyd5dj9a66wp5dww?live**

53 Eurodad. (2021) A guide to IMF surcharges. **www.eurodad.org/a_guide_to_imf_surcharges**

54 Hassan, S & MENAFem. (2025) The IMF & World Bank's Grip on MENA. **https://menafemmovement.org/wp-content/uploads/2025/12/The-IMF-World-Banks-Grip-on-MENA.pdf**

55 Ibid. Eurodad. (2021) IMF Surcharges.

56 MENAFem. (2025) MENAFem Joins 70 Civil Society Organizations Urging IMF to Fulfill Global Pledge for an SDRs Playbook. **https://menafemmovement.org/menafem-joins-70-civil-society-organizations-urging-imf-to-fulfill-global-pledge-for-an-sdrs-playbook/**

incur annual interest only when their current SDR holdings fall below their original allocation, for example if they exchange SDRs for hard currency to spend, while the cost can net to zero if they retain the SDRs as reserve assets.[57]

While the stated purpose of such an allocation, according to the IMF, is 'to help meet a long-term global need,' 'bolster international economic resilience,' and 'help stabilize vulnerable countries,' the IMF's quota system is rooted in colonial legacies, meaning that SDRs are distributed first to those who need them least.[58] Yet the USD 650 billion SDR allocation issued by the IMF during the economic fallout of the Covid-19 pandemic proved, by the IMF's own assessment, to provide developing countries with crucial liquidity without contributing to inflation, helping to fund lifesaving programs such as vaccine provision and social support. Despite this, the IMF has not responded to repeated calls from organizations, experts, and governments to issue a similar SDR allocation that could help relieve Global South countries from unfair debt burdens and conditionalities, as well as from deepening climate and economic crises.

The dollar crisis and the fossil–debt nexus

Today, Egypt's recent chronic shortage of foreign currency is one of the central drivers of its debt–fossil fuel cycle. The country relies heavily on imports for wheat, fuel, industrial inputs, and essential goods, which makes even minor exchange-rate pressures immediately destabilising. Repeated IMF-mandated devaluations have intensified rather than eased foreign-currency shortages, raising import costs and deepening liquidity needs, thus making external debt more expensive for Egypt. The 2024 Red Sea disruptions — cutting Suez Canal revenues by nearly 70 percent — exposed just how fragile Egypt's foreign-currency position has become.[59] With one of its most reliable hard-currency sources suddenly compromised, the government struggled to finance imports, contain inflation and service external debt simultaneously.

Within this constrained environment, fossil fuel exports are increasingly framed as a stabilising mechanism. LNG cargoes and pipeline agreements appear to policymakers as one of the few sources of hard currency perceived as immediately accessible. Investors and credit-rating agencies now treat Egypt's gas reserves and energy infrastructure as collateral anchoring future repayment capacity. Expectations of continued fossil extraction are woven directly into assessments of Egypt's creditworthiness — making rapid phase-out financially risky unless global lending rules change.

While calls for unconditional debt cancellation are normatively grounded in climate justice and historical responsibility, the political economy of debt restructuring remains deeply contested. Creditor coordination failures, the power of private bondholders, credit rating agencies, and the institutional incentives of multilateral development banks shape what is politically feasible in the

57 IMF (2021). QUESTIONS AND ANSWERS ON SPECIAL DRAWING RIGHTS (SDR) **https://www.imf.org/en/about/faq/special-drawing-right**

58 MENAFem. (2023) Civil society calls for new IMF Special Drawing Rights allocation at COP28, with fairer distribution to countries in need. **https://menafemmovement.org/civil-society-calls-for-new-imf-special-drawing-rights-allocation-at-cop28-with-fairer-distribution-to-countries-in-need/**

59 Khalil, S., & Hamzawy, A. (2025) "Egypt's challenges and opportunities in climate-related finance and governance". 13 Mar, Article, Carnegie Endowment for International Peace. **https://carnegieendowment.org/research/2025/03/egypts-challenges-and-opportunities-in-climate-related-finance-and-governance**

short term. Recognising these constraints does not imply endorsing existing financial architectures; rather, it clarifies how justice-based demands confront entrenched power relations and why transition pathways are negotiated under conditions of structural asymmetry.

While fossil fuel exports are often framed as a critical source of foreign exchange, the net value captured by the Egyptian state is significantly constrained by the structure of upstream contracts and financing arrangements. Under production-sharing agreements, international oil companies recover costs and repatriate profits before the state receives its share, while low royalty rates and extensive tax exemptions further limit public revenue. During periods of foreign currency scarcity, the need to clear arrears owed to energy companies diverts scarce foreign currency away from other uses, reducing the stabilising effect of hydrocarbon exports. As a result, gross export earnings overstate the effective contribution of fossil fuels to easing Egypt's external financing gap.

A similar value-capture problem characterises Egypt's renewable energy sector. Utility-scale renewable projects developed through independent power producers and public–private partnership models rely heavily on foreign ownership, imported equipment and long-term power purchase agreements denominated in US dollars. These structures guarantee investor returns while shifting currency risk onto the state and limiting domestic value creation through local manufacturing, employment or technological spillovers. Consequently, both fossil and renewable investments generate foreign-exchange liabilities alongside revenues, reinforcing a pattern in which energy projects support short-term liquidity and investor confidence but deliver limited net gains for fiscal stability or energy sovereignty.

ENERGY-SECTOR ARREARS: A CRISIS WITHIN A CRISIS

Egypt's debt vulnerability is most visible in its energy sector, where the state owes billions to international oil companies (IOCs). Although arrears aren't officially calculated as a portion of public debt in Egypt, they still act as one, and its highest in recent years reached US$7 billion, which put massive pressures on Egypt's dollar reserves. In 2024 the foreign currency shortage forced Egypt to pay back a portion of its dues to fossil fuel companies in Egyptian pounds. The companies disregarded the central bank rules that limited the purchase of US dollars in banks.[60]

Arrears to foreign energy companies in Egypt have caused so much instability and loss in investor confidence that the government decided to allow foreign partners to export their share of gas output as LNG to recover arrears and reinvest in new production. However, this means that the state-owned petroleum company has to import more oil products instead to power the electricity generation plants.[61] Therefore, not only is Egypt using a more polluting fossil fuel to prioritise hard currency from gas exports, but the increased importing adds further foreign currency pressure and increases the country's trade deficit. Egypt's persistent trade deficit necessitates borrowing to finance imports and the foreign currency shortages.

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60 Seif Eddin, S. (2024) "Sources: Govt paid portion of dues to foreign gas companies in Egyptian pounds", 2 Dec, Mada Masr. **www.madamasr.com/en/2024/12/02/news/u/sources-govt-paid-portion-of-dues-to-foreign-gas-companies-in-egyptian-pounds/**

61 El Wardany, S. (2025) "Egypt to Buy More Oil Products to Free Up Gas For LNG Exports", 21 Oct, Bloomberg. **www.bloomberg.com/news/articles/2025-10-21/egypt-to-buy-more-oil-products-to-free-up-gas-for-lng-exports?embedded-checkout=true**

In January 2026, Egypt paid back around US$5 billion in overdue bills to foreign oil and gas partners, leaving US$1.2 billion outstanding. One of the ways it was able to do so was because of the major debt-for-development swap agreement that Egypt made with the United Arab Emirates (UAE) in 2024, the largest debt swap made globally that year.[62] Under the agreement, the UAE converted US$11 billion of the outstanding short term and medium term deposits it had extended to Egypt into investments to develop Egypt's Ras El-Hekma peninsula by the Mediterranean Coast.[63] Another US$24 billion in liquid foreign currency was injected into the Ras El-Hekma project as further equity investment. The deal drew heavy criticism for transferring development rights over a massive swathe of land to the UAE, a move that many argue undermines Egypt's sovereign control over its own territory and development priorities.

While the deal relieved Egypt's foreign currency and import crisis at the time, it should still be viewed within a growing fossil fuel-debt trap for a couple of reasons. First, this deal is what paved the way for a new agreement with the IMF as it provided the means to meet a key IMF condition, namely devaluing the currency against the US dollar.[64] Second, the debt swap alone was not enough to ease debt burdens in the long term given that the way freed up resources are spent and whether effective debt restructuring is made, is crucial for sustainable debt reduction. For example, similar inflows from the UAE and Saudi Arabia in 2022 which also came in parallel to an IMF loan failed to remedy the shortage of foreign currency inflows and rising external debt burden at the time.[65] After US$11 billion was wiped off Egypt's external debt books, it began to rise again after the effects of the deal wore off, increasing by around US$3 billion between July and September 2024.[66]

Overall, arrears have many cascading effects including the state diverting scarce foreign currency to repay oil companies instead of importing vital goods or investing in renewables and indirectly prioritizing arrears clearance to maintain energy output and investor confidence. This raises concerns about cost recovery and production delays. When output underperforms, the fiscal burden falls on the state, not on private operators.

HOT MONEY, HIGH YIELDS AND DISTORTED INCENTIVES

Egypt's high real interest rates, reaching nearly 10 percent in inflation-adjusted terms, make its treasury bills among the most lucrative assets in emerging markets. This has attracted tens of billions of dollars in speculative capital, which some sources speaking to Mada Masr estimate reached approximately US$50 billion in recent months.[67] However these inflows are extremely

62 Widdershoven, C. (2026) "Egypt Pays Its Energy Debts—but the Real Test Is Just Beginning", 26 Jan, Oil Price, **https://oilprice.com/Energy/Natural-Gas/Egypt-Pays-Its-Energy-Debtsbut-the-Real-Test-Is-Just-Beginning.html**

63 World Bank (2025) International Debt Report 2025. Washington DC: World Bank. **https://openknowledge.worldbank.org/server/api/core/bitstreams/b097dece-76e1-4f68-a74b-79f0a9f0e8e9/content**

64 Shawkat, Y. (2024) Understanding Egypt's Ras Al-Hekma Land Deal: No Panacea. 12 Mar, Tahir Institute for Middle Easy Policy. **https://timep.org/2024/03/12/understanding-egypts-ras-al-hekma-land-deal-no-panacea/**

65 Mada Masr. (2024) "Egypt, UAE agree on US$35 bn Ras al-Hikma development project", 3 Feb. **www.madamasr.com/en/2024/02/23/news/u/egypt-uae-agree-on-us35-bn-ras-al-hikma-development-project/**

66 Kabil, M. (2025) 2025/2026 Budget: Egypt in the Grip of Debt. Report, The Egyptian Initiative for Personal Rights. **https://eipr.org/sites/default/files/reports/pdf/egypt_in_the_grip_of_debt_4_0.pdf**

67 Seif Eddin, S. (2025) "IMF in Cairo to discuss privatization, over-reliance on short-term borrowing", 1 Dec, Mada Masr. **www.madamasr.com/en/2025/12/01/news/u/imf-in-cairo-to-discuss-privatization-over-reliance-on-short-term-borrowing/**

volatile and can be withdrawn by investors overnight, while creating incentives for the government to maintain high yields to keep foreign investors engaged.[68] The political economy of this situation produces three distortions. Domestic investment is crowded out, credit becomes too expensive for Egyptian firms,and the state becomes beholden to the preferences of short-term investors.

To stabilize the currency without lowering interest rates, the government seeks alternative foreign currency inflows which in practice means doubling down on fossil fuel exports. This explains why Egypt continues to pursue new oil and gas exploration licenses, despite global projections of peak demand.

SOCIAL CONSEQUENCES: INEQUALITY, AUSTERITY, AND SHRINKING PUBLIC SERVICES

Austerity measures imposed by IFIs have reshaped Egypt's social landscape, disproportionately burdening the poor and middle classes, pushing millions into poverty and widening income inequality.[69] The poverty rate in Egypt reached 34 percent according to a national survey published in 2021/22, an increase of 4.3 percent compared to the previous survey in 2019/20. This marks the highest national poverty rate since the survey was launched in 1999/2000. In the same period the extreme poverty rate reached 5.81 percent, representing an increase of approximately 1.31 percent. Real wages have stagnated. Informal work has increased. Meanwhile, currency depreciation and subsidy removal have pushed the cost of living to historic highs.[70]

Cuts to public spending have also eroded service quality. Hospitals face shortages of supplies and staff, schools are overcrowded, underfunded and understaffed. Public transport costs have risen, pricing out low-income families. The groups most harmed by fossil fuel extraction and austerity are those with the least political power. This includes rural farmers, informal workers, women in low-wage sectors, residents of polluted industrial zones and communities living near extraction sites.

This is exacerbated by the impacts of climate change. For example, the sugar shortage in 2023 which caused the rationing of sugar and surging prices, was initially due to unusually high temperatures forcing many farmers to refrain from planting sugar beet, resulting in a decrease in crop volumes.[71]

A STRUCTURALLY CONSTRAINED TRANSITION

Just transition pathways cannot be uniform across the Global South. Fossil fuel exporting countries face different fiscal and political constraints than fossil importers. Meanwhile, middle-

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68 Alternative Policy Solutions. (2024) "Hot Money Flows in Unstable Economies, Fuels Fiscal Crises", 19 Aug. **https://aps.aucegypt.edu/en/articles/1419/hot-money-flows-in-unstable-economies-fuels-fiscal-crises**

69 Elsayid, E. (2016) The Hidden Role of WB and IMF in Developing Countries. Egypt, Malaysia and Turkey. Saarbrucken: AV Akademikerverlag.

70 Kassab, B. (2025) "بيانات غير منشورة من "الدخل والإنفاق" تكشف أسباب دفنه لسنوات", Aug 9, Mada Masr. **https://www.madamasr.com/2025/08/09/feature/%D8%A7%D9%82%D8%AA%D8%B5%D8%A7%D8%AF/%D8%A8%D9%8A%D8%A7%D9%86%D8%A7%D8%AA-%D8%BA%D9%8A%D8%B1-%D9%85%D9%86%D8%B4%D9%88%D8%B1%D8%A9-%D9%85%-D9%86-%D8%A7%D9%84%D8%AF%D8%AE%D9%84-%D9%88%D8%A7%D9%84%D8%A5%D9%86%D9%81%D8%A7%D9%82/**

71 Arafat, N. (2023) "Unsweetened days: How the sugar crisis was stirred by government policy missteps", 9 Dec, Mada Masr. **www.madamasr.com/en/2023/12/09/feature/economy/unsweetened-days-how-the-sugar-crisis-was-stirred-by-government-policy-missteps/**

income economies such as Egypt confront debt-servicing pressures, foreign-exchange scarcity and industrial-policy trade-offs distinct from those of low-income countries. Any just transition framework must therefore be context-specific, differentiated and sequenced according to binding national constraints rather than framed as a single universal model.

Despite hosting COP27 and announcing renewable energy goals, Egypt's fiscal constraints limit meaningful action. The state lacks the liquidity to invest in large-scale renewables without long term national planning coupled with external grants and highly concessional financing to avoid entrenching indebtedness in the name of climate action.

Projects like Benban Solar Park demonstrate potential, yet Egypt's renewable transition remains heavily dependent on foreign ownership, dollar-denominated Power Purchase Agreements (PPAs) and guarantees that increase long-term liabilities in the same way fossil infrastructure does.

Without debt restructuring or alternative financing models, the energy transition risks reproducing the same dependency patterns,even if the fuel source changes.

Creditors, Governance, and Fossil Fuel Power Structures

The relationship between Egypt's creditors, its governance institutions and its fossil fuel sector reveals the deeper architecture of the country's debt–energy trap. Debt is not simply a financial outcome of past borrowing. It is a structural condition that shapes how the state governs its economy and negotiates its future. In this environment, fossil fuels become more than an energy source. They are a stabilizing mechanism, a diplomatic tool and a form of collateral. The result is a political economy in which debt and hydrocarbons reinforce one another, narrowing the country's policy space and locking it into short-term strategies that privilege liquidity over long-term resilience.

HOW CREDITORS SHAPE EGYPT'S ENERGY POLICY

External creditors have played a decisive role in defining the contours of Egypt's energy and fiscal strategy. Since 2016, the IMF has been the central architect of Egypt's macroeconomic framework promoting a familiar menu of policy reforms—subsidy cuts, VAT expansion, currency devaluation, high interest rates and strict limits on public spending which are all presented as essential steps toward restoring macroeconomic confidence.

In practice, these reforms have deepened Egypt's dependence on external borrowing and fossil fuel revenues. The IMF assumes that subsidy removal and market liberalisation will attract private investors and promote export diversification. Instead, in a highly import-dependent economy with a politically centralised governance structure, these reforms have raised living costs, squeezed domestic industries and forced the state to rely even more heavily on external revenues to stabilise the balance of payments. Austerity has not created fiscal space for climate adaptation or economic diversification — it has instead constrained the state's ability to invest in anything other than debt repayment.

This configuration gives creditors effective influence over how Egypt uses its scarce foreign currency.

Under IMF supervision, the government has prioritised clearing arrears owed to international oil companies, maintaining high interest rates to retain portfolio investors, and reassuring rating agencies of its commitment to fiscal consolidation. Although the IMF never explicitly calls for expanding fossil fuel production, its policy framework creates an economic structure in which fossil revenues become necessary for meeting external obligations and maintaining political stability.

GULF LEVERAGE AND THE GEOPOLITICS OF LIQUIDITY

Alongside the IMF's technocratic influence, Gulf allies—particularly Saudi Arabia, the United Arab Emirates and Qatar — have become Egypt's most important emergency financiers. Since 2013, these states have provided tens of billions of dollars in central bank deposits, budget support, low-interest loans and state-asset purchases. Their support is not merely economic. It also reflects the perception that Egypt's stability is vital to the region's political balance and security architecture.

Gulf financing has repeatedly prevented Egypt from sliding into default. During the 2024 energy crunch — when domestic gas output fell sharply and the country struggled to meet summer electricity demand — Saudi Arabia and Libya intervened to finance hundreds of millions of dollars' worth of LNG cargoes.[72] These interventions highlight a crucial asymmetry: in moments of crisis, it is not domestic policy but external patronage that determines whether Egyptians face blackouts or food shortages.

This pattern reinforces Egypt's fossil–debt trap. Gulf states provide liquidity in ways that reinforce fossil fuel priorities: through joint ventures in petrochemicals, gas exploration deals and acquisitions of state-owned energy infrastructure. In return, Egypt aligns itself with Gulf geopolitical interests and continues to market itself as a regional gas hub. This arrangement stabilises the macro-economy but also delays meaningful structural reforms, as Gulf support eases immediate pressure without altering the underlying vulnerabilities.

INVESTMENT PROTECTIONS AND THE LEGAL ARCHITECTURE OF DEPENDENCY

Egypt's reliance on foreign capital is reinforced through a dense network of bilateral investment treaties and Investor-State Dispute Settlement (ISDS) mechanisms. These agreements give foreign firms, especially oil and gas companies,the legal authority to sue the state for any policy change that might reduce their profits. Globally, such mechanisms have forced governments to pay more than US$100 billion to fossil fuel and mining companies, chilling efforts to regulate energy markets or accelerate climate transitions.[73] Egypt's production-sharing agreements with multinational firms such as Eni, BP, Shell and Chevron often include terms that prioritise investor cost recovery over public revenue. When production underperforms or operational costs rise, the financial burden shifts to the state.

Dollar-denominated power-purchase agreements for renewable energy create additional

72 Rashad, M., Landini, F., Ezz, M. & El Safty, S. (2024) "Exclusive: Egypt counts on foreign funds to buy gas as power crisis worsens", 2 Sep, Reuters. **www.reuters.com/business/energy/egypt-counts-foreign-funds-buy-gas-power-crisis-worsens-2024-09-02/**

73 Diab, O. (2023) The IMF and ending energy subsidies in Egypt: A Tale of Class War and Greenwashing. Long Read, 20 Sep, Transnational Institute. **www.tni.org/en/article/the-imf-and-ending-energy-subsidies-in-egypt**

foreign-currency liabilities, meaning that even "clean" investment can deepen Egypt's dependence on external creditors. ISDS mechanisms further discourage the government from altering fiscal terms, enforcing environmental regulations, or revising royalties. In effect, the legal architecture surrounding foreign investment shrinks Egypt's sovereignty over its own energy transition.

THE INSTITUTIONAL LANDSCAPE: A GOVERNANCE SYSTEM WITHOUT CHECKS AND BALANCES

Egypt's fossil fuel sector governance is dominated by a cluster of powerful state institutions - chief among them the Ministry of Petroleum and Mineral Resources, the Egyptian General Petroleum Corporation (EGPC) and the Egyptian Natural Gas Holding Company (EGAS). These entities negotiate exploration agreements, manage revenue flows, and maintain relationships with international firms. Their authority is reinforced by an executive branch that exercises tight control over economic policy and suppresses political dissent.

Oversight bodies, such as the Ministry of Environment and the Egyptian Environmental Affairs Agency, have limited capacity and little political weight. Environmental permitting processes tend to follow political directives rather than scientific assessments, and communities affected by extraction rarely have avenues to challenge decisions. Judicial oversight is minimal, and civil society organisations face severe restrictions, making it almost impossible to mount legal challenges against environmental violations, emissions, or unsafe operational practices.

The imbalance of power between multinational companies and the Egyptian state produces a situation where foreign firms often possess more technical data, more negotiating leverage, and more legal protections than the public institutions tasked with regulating them.

THE MISSING FISCAL ANCHOR: POLITICALLY DRIVEN MEGAPROJECTS OVER LONG-TERM INVESTMENT

In contrast to countries that have attempted to use resource revenues to build long-term fiscal buffers, Egypt lacks a clearly defined fiscal anchor that guides public investment or ensures intergenerational equity. There is no sovereign wealth fund dedicated to future generations, no structural balance rule and no transparent allocation of fossil revenues. Instead, public spending is funnelled toward politically visible megaprojects — new administrative capitals, urban expansions, highways and real estate developments often linked to military-affiliated contracting entities.

These projects serve political functions. They signal state power, absorb unemployed labour and create short-term growth spikes. At the same time, they often generate low or uncertain economic returns, deepen the state's financing needs and divert resources away from climate adaptation, public services and economic diversification. The absence of transparency means citizens are largely unable to determine how resource revenues are spent or which debts are being contracted in their name.

CLIMATE VULNERABILITY WITHOUT ADAPTATION: A STRUCTURAL RISK MULTIPLIER

Egypt is one of the world's most climate-vulnerable countries, facing rising temperatures, water scarcity, agricultural losses, sea-level rise in the Nile Delta, coastal erosion and frequent extreme-weather shocks. Yet investment in adaptation remains extremely limited, largely because debt service absorbs so much of the state budget.[74]

This imbalance creates a dangerous feedback loop. Climate shocks — such as the recent sugar crisis linked to mismanagement, drought and extreme heat—reduce agricultural output, increase food import dependence, and force additional borrowing to cover losses. Agriculture, which supports millions of livelihoods, is likely to suffer further under rising temperatures, salinisation and water stress.

Egypt's diplomatic stance on global climate finance reflects this tension. Although the country has publicly supported calls for increased adaptation finance and hosted COP27, it has been cautious in embracing frameworks like the Bridgetown Initiative that would reconfigure global lending rules. This caution stems from the state's balancing act. It must advocate for climate finance while maintaining favourable relations with creditors and fossil fuel partners who underpin its short-term macroeconomic stability.

STRUCTURAL ROOTS OF EGYPT'S DEBT–ENERGY TRAP

Egypt's surging external debt, one of the highest in the MENA region, is tightening fiscal space and forcing policymakers to prioritize foreign-exchange generation over long-term structural transformation. Under these conditions, fossil fuel exports — especially natural gas — become less a component of energy or development strategy and more a mechanism for liquidity management. Revenues from LNG exports are often allocated directly toward debt repayment, creating what Debt Justice describes as a "structural dependency loop", where debt begets fossil fuel expansion and fossil fuel volatility intensifies debt vulnerability.[75]

When a state is structurally indebted, its energy decisions are shaped not by developmental considerations, but by the urgent need to secure hard currency and satisfy external creditors.[76] As a result, Egypt's fossil fuel sector evolves according to global market pressures rather than domestic needs, reinforcing a cycle that entrenches dependency and limits the feasibility of a sovereign, just transition.

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74 Khalil, S., & Hamzawy, A. (2025) "Egypt's challenges and opportunities in climate-related finance and governance". 13 Mar, Article, Carnegie Endowment for International Peace. **https://carnegieendowment.org/research/2025/03/egypts-challenges-and-opportunities-in-climate-related-finance-and-governance?lang=en&utm_source=-chatgpt.com**

75 Wolfenden, T. (2023) The debt-fossil fuel trap: Why debt is a barrier to fossil fuel phase-out and what we can do about it. Debt Justice Coalition. **https://debtjustice.org.uk/wp-content/uploads/2023/08/Debt-Fossil-Fuel-Trap-Report_2023.pdf**

76 MENAFem Movement & Greenpeace MENA. (2025) Beyond Extractivism: Towards a Feminist and Just Economic Transition in Morocco and Egypt. **https://menafemmovement.org/beyondextractivism/**

TOTAL EXTERNAL DEBT (USD YEAR BN)	DEBT SERVICE (% GOV SPENDING)	FX EXPOSURE OF ENERGY SECTOR	NOTES
2013 - 43 bn	18%	Low	Before Subsidy
2016 - 55 bn	26%	Medium	After first flotation
2018 - 96 bn	33%	High	Peak import bill
2020 - 125 bn	41%	High	Covid shocks
2022 - 155 bn	48%	Very High	Second flotation
2024 - 165-168 bn	50%	Very High	Record debt levels

Table 1. Egypt's External Debt and Energy Sector Exposure (2013–2024)

Source: Central Bank Of Egypt (2014-2024); IMF Article Report (2016-2023); ANND Debt Trends (2024)[77]

POLICY REFORM	BENEFICIARIES	LOSERS	EVIDENCE –BASED MECHANISM
Fuel Subsidy Removal	Multinational oil companies	Households	Fuel prices*5
Electricity tariff hikes	IPPS* Private investors	SMEs +families	Tariffs + 300 %
Currency flotation	Exporters, LNG Operators	Consumers	Inflation surge
Market liberalization	Corporate operators	State utilities	Private generation

*IPPs refer to Independent Power Producers operating under long-term power purchase agreements (PPAs), often denominated in foreign currency.

Table 2. Distributional Impact of IMF-Driven Energy Reforms (2014–2023)

Source: World Bank (2022); IMF (2025); CAPMAS (2017–2023); EBRD (2023)[78]

77 Central Bank Of Egypt (2026) External Debt 2014-2024 **www.cbe.org.eg/en/economic-research/time-series/downloadlist?category=2596CC0C64D5474C865C49E48A24D483** ; IMF (2023) Request For Extended Arrangement Under The Extended Fund Facility—Press Release and Staff Report; IMF Country Report, 23/2, **www.imf.org/-/media/files/publications/cr/2023/english/1egyea2023001.pdf** ; Ramadan, M. (2025) Sovereign Debt Crisis in Egypt. Arab NGO for Development (ANND). **https://annd.org/debt_tax/uploads/publications/290408823c4a0d3c15aa507c0c4f6c46.pdf**

78 World Bank (2023) Egypt Country Climate and Development Report. **https://documents1.worldbank.org/curated/en/099510011012235419/pdf/P1772920072 5ff0170ba05031a8d4ac26d7.pdf** ; Jeong Dae, L. Nashin, J., Bilal Tabti, B., & Troug, H. (2025) "Reforming Energy Subsidies in the Arab Region." IMF Note 2025/001, International Monetary Fund, Washington, DC. **www.imf.org/en/-/media/files/publications/imf-notes/2025/english/insea2025003.pdf** ; European Bank for Reconstruction and Development (EBRD). (2023) Transition Report 2023-24: Transitions big and small. Country Assessments - Egypt. **https://2023.tr-ebrd.com/countries/index.html#**

ENERGY HUB STRATEGY AND EXPANSION OF FOSSIL FUEL INFRASTRUCTURE

Following the discovery of the Zohr gas field in 2015, Egypt advanced an ambitious strategy to position itself as a regional "energy hub," emphasizing LNG export capacity, deep-water gas extraction and pipeline integration. In 2025 alone, the Ministry of Petroleum awarded more than US$340 million in exploration and production contracts to ENI, Shell, BP and ADNOC,[79] demonstrating the intensity of multinational investment in Egyptian hydrocarbon resources.
This export-oriented vision generates short-term foreign-exchange inflows but deepens exposure to global gas markets whose long-term outlook is increasingly uncertain. The International Energy Agency warns that global natural gas demand is expected to peak before 2030 and decline thereafter, raising significant risks of stranded assets and revenue instability for countries expanding LNG and pipeline infrastructure.[80]

The hub strategy prioritizes export commitments over domestic needs. Despite record gas extraction, Egyptian households and small industries have faced continuous tariff hikes and periodic supply constraints. This reflects another structural tension identified in the Debt Justice report. When national energy systems are governed by external financing imperatives, domestic welfare becomes secondary to maintaining export flows needed for debt repayment.

DESCRIPTION	COMPONENT	IMPLICATION
Developing **Idku*** Damietta terminals	LNG export expansion	Exposure to market volatility
Zohr,**West Nile Delta** fields	Offshore deep-water extraction	Increased foreign corporate influence
Gas inflows from **Eastern Mediterranean**	Pipeline integration	Geopolitical dependence
Processing external gas for export	Re-export hub	Short-term FX gains only

*Idku and Damietta are Egypt's existing LNG export terminals, developed or expanded as part of the country's energy hub strategy rather than newly constructed facilities.

Table 3. Core Components of Egypt's Energy Hub Strategy (2015–2025)
Source: Ministry of Petroleum (2025); ENI Operations Update (2024); IEA Gas Market Outlook (2024); Debt Justice (2023)[81]

79 ENI (2024) Operations Update: our activities in Egypt. **https://www.eni.com/en-IT/actions/global-activities/egypt.html**

80 IEA Global Gas Security Review. (2024) **https://www.iea.org/reports/global-gas-security-review-2024**

81 Ministry Of Petroleum and Mineral Resources (2022) Egyptian Petroleum Sector Energy Efficiency Strategy 2022-2035. Arab Republic of Egypt. **www.petroleum.gov.eg/ar-eg/energy-efficiency/PublishingImages/Pages/default/Petroleum%20Sector%20EE%20Strategy%202022%20-%202035.pdf** ; ENI (2024) Operations Update: our activities in Egypt. **https://www.eni.com/en-IT/actions/global-activities/egypt.html** ; International Energy Agency (IEA) (2024) Global Gas Security Review. **www.iea.org/reports/global-gas-security-review-2024**; Wolfenden, T. (2023) The debt-fossil fuel trap: Why debt is a barrier to fossil fuel phase-out and what we can do about it. Debt Justice Coalition. **https://debtjustice.org.uk/wp-content/uploads/2023/08/Debt-Fossil-Fuel-Trap-Report_2023.pdf**

INTERNATIONAL FINANCIAL INSTITUTIONS AND DEBT-FINANCED HYDROCARBON EXPANSION

IFIs - including the World Bank, European Bank for Reconstruction and Development (EBRD), African Development Bank (AfDB), European Investment Bank (EIB), and International Finance Corporation (IFC) - have played a decisive role in financing Egypt's hydrocarbon infrastructure over the past decade. Although these institutions increasingly brand their lending as "energy transition" or "climate-aligned," empirical evidence shows that the majority of energy-related financing between 2018 and 2024 supported fossil fuel projects rather than renewable or community-based systems.

A notable example is the US$610 million Chevron–Leviathan pipeline financing package, which enables the re-routing of Israeli gas from offshore fields in the Eastern Mediterranean through Egyptian LNG facilities before re-exporting it to global markets. This arrangement reinforces Egypt's role as a transit and liquefaction hub rather than an energy-sovereign producer, tying domestic infrastructure and fiscal exposure to regional gas flows driven primarily by external demand and geopolitical considerations.

Although framed as enhancing regional integration, the project imposes significant financial risks on the Egyptian state through dollar-denominated loans, sovereign guarantees and risk-transfer clauses. Portfolio reviews reveal that over 70 percent of Egypt's energy-sector financing from IFIs since 2018 has flowed to privately owned or foreign-dominated infrastructure, such as gas-fired plants, transmission lines designed for export flows and LNG shipping and processing capacity. These lending patterns reflect a structural alignment between international finance and fossil fuel expansion, embedding Egypt's energy future within global commodity circuits while restricting domestic policy options.

As Debt Justice notes, IFIs play a dual role. They provide the financing that fuels fossil infrastructure while simultaneously shaping regulatory frameworks that ensure the profitability of private investors. This dynamic deepens the debt–energy trap and complicates efforts to achieve a genuinely sovereign energy transition.

DESCRIPTION	PROJECT TYPE	VALUE(USD)	FINANCING TERM	IMPACT
EBRD	Gas – fired plants	300m	Tariff reform+ privatization	Expands private ownership
AFDB	LNG logistics – Pipelines	170m	Fx repayment obligations	Increases dollar exposure
EIB	Gas transmission	150m	Sovereign guarantees	Long-term fiscal burden
IFC	Benban renewable PPP	653m	FX- denominated PPAs	Profit repatriation abroad

Table 4. IFI Financing for Fossil Fuel Infrastructure in Egypt (2018–2024)

Source: Reuters; AfDB; EIB ; IFC.[82]

82 Lewis, A. (2022) "EBRD to help fund transition from gas to wind power in Egypt", 11 Sep, Reuters **www.reuters.com/business/energy/ebrd-help-fund-transition-gas-wind-power-egypt-2022-09-11/** ; AfDB (2024) "Egypt: African Devel-

RENEWABLE ENERGY WITHOUT SOVEREIGNTY: LIMITS OF THE CURRENT TRANSITION MODEL

Egypt's renewable energy landscape — frequently celebrated for ambitious targets - reveals structural limitations when examined through ownership, financing and value-chain dynamics. The Benban Solar Park (1.65 GW), the flagship of Egypt's renewable energy sector, is financed and operated under Independent Power Producer (IPP) public-private partnerships that are dominated by foreign investors. These IPPs finance construction through hard-currency loans and sign long-term power purchase agreements (PPAs) with the state, denominated in US dollars.

While smaller-scale and distributed solar initiatives do exist in Egypt, including rooftop installations and medium-sized commercial projects, their expansion has been constrained by regulatory barriers, limited access to local-currency financing and policy frameworks that prioritize large-scale IPP models. As a result, these alternative pathways have remained marginal, leaving utility-scale projects such as Benban to dominate Egypt's renewable energy landscape.

As a result, the Egyptian government bears the currency risk and the long-term financial obligation, while investors enjoy guaranteed returns regardless of domestic economic fluctuations. Furthermore, Benban's industrial integration is minimal. Solar panels, inverters and control systems are imported. Domestic manufacturing participation is negligible and the project's employment impact is limited largely to temporary construction labor. Recent IRENA assessments indicate that Egypt's renewable energy projects continue to suffer from weak local supply chains, limited technology transfer and insufficient capacity-building mechanisms.[83]

The renewable sector replicates many of the dependency patterns found in fossil fuel systems: foreign ownership, profit repatriation, FX-denominated financing and limited domestic value capture. This structure risks producing a "transition without sovereignty", where the appearance of decarbonization masks deeper patterns of dependency and vulnerability.

DIMENSION	FOSSIL FUEL MODEL	INDEPENDENT POWER PRODUCERS (IPPS) PARTICIPATING IN BENBAN SOLAR PARK	STRUCTURAL EFFECT
OWNERSHIP	State-owned enterprises and multinational corporations	Foreign IPPs	Weak national sovereignty
FINANCING	Sovereign borrowing and IFI-supported financing	Long-term Power Purchase Agreements (PPAs) under Egypt's Feed-in Tariff Program	Fiscal vulnerability

opment Bank Approves $170 Million for Egypt's Largest Wind Energy Project", 3 Dec, Press Release. African Development Bank **www.afdb.org/en/news-and-events/press-releases/egypt-african-development-bank-approves-170-million-egypts-largest-wind-energy-project-7918**; EIB (2026) "Egypt: EIB Global announces $150 million financing for the biggest hybrid solar PV project in Africa." 12 Jan, Press Release, European Investment Bank. **www.eib.org/en/press/all/2026-003-egypt-eib-global-announces-usd150-million-financing-for-the-biggest-hybrid-solar-pv-project-in-africa?utm_source=chatgpt.com** ; IFC (2020) Nubian Suns (Egypt): Scale at Speed. International Finance Corporation Washington, D.C.. **http://documents.worldbank.org/curated/en/218131582523637055**

83 IRENA (2023) Socio-economic footprint of the energy transition: Egypt. International Renewable Energy Agency, Abu Dhabi **www.irena.org/-/media/Files/IRENA/Agency/Publication/2023/Nov/IRENA_Socio-economic_footprint_Egypt_2023.pdf**

PROFIT STRUCTURE	Returns distributed to equity stakeholders	Returns distributed to IPP equity sponsors	Low domestic value added
EMPLOYMENT PROFILE	Capital-intensive, limited long-term employment	Construction-intensive, limited long-term operational employment	Weak job creation
INDUSTRIAL INTEGRATION	Limited downstream integration	Utility-scale solar deployment with imported components	Dependency persists

Table 5. Structural Comparison: Fossil Fuel vs. Renewable Investment Models in Egypt

Source: Based on project documentation and institutional reports, i.e. IFC, AIIB, World Bank, IRENA, and IEA.[84]

Note: The table presents a comparative structural overview based on publicly available institutional documentation. Interpretations are analytical in nature.

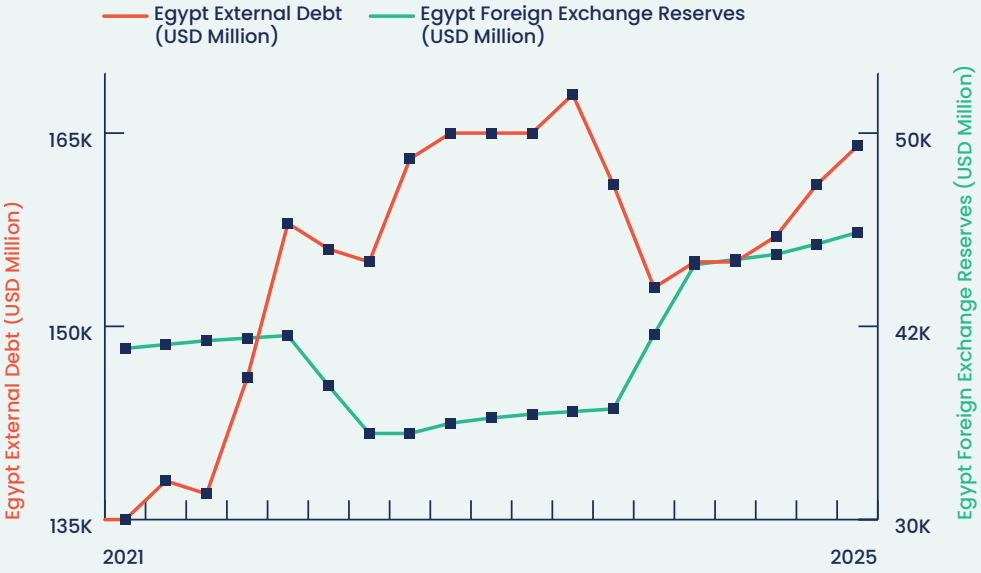

Figure 10. Egypt's Total External Debt and Foreign Exchange Reserves (USD Million)[85]

The co-movement of Egypt's foreign-exchange reserves and external debt further illustrates this dynamic. As shown in the graph above, periods of reserve weakness are accompanied by a steady rise in external borrowing, while reserve recoveries are relatively short-lived and coincide with continued debt accumulation. This pattern suggests that energy projects structured around foreign ownership, FX-denominated contracts and profit repatriation have not durably relieved balance-of-payments pressure. Instead, limited net state take from both fossil and renewable

84 IFC (2020) Nubian Suns (Egypt): Scale at Speed. International Finance Corporation: Washington, D.C. **http://documents.worldbank.org/curated/en/218131582523637055** ; Asian Infrastructure Investment Bank (2017) Egypt Round II Solar PV Feed-in Tariffs Program, AIIB: Beijing. **www.aiib.org/en/projects/details/2017/approved/Egypt-Egypt-Round-II-Solar-PV-Feed-in-Tariffs-Program.html**; World Bank (2022). The Employment Benefits of an Energy Transition in Egypt. World Bank MENA Energy, **http://hdl.handle.net/10986/38392**; IRENA (2024) World Energy Transitions Outlook 2024. International Renewable Energy Agency: Abu Dhabi.; IEA (2026) "Egypt". INternational Energy Agency: Paris. Retrieved 20 Jan at **www.iea.org/countries/egypt**.

85 Trading Economics (2026) Egypt Total External Debt. Retrieved 20 Feb at **https://tradingeconomics.com/egypt/external-debt**; Trading Economics (2026) Egypt Foreign Exchange Reserves. Retrieved 20 Feb at https://tradingeconomics.com/egypt/foreign-exchange-reserves

investments has left Egypt reliant on additional external borrowing to stabilize its currency position, reinforcing the very debt vulnerabilities that these projects are meant to alleviate.

This reinforces the need for financing models that reduce foreign-currency exposure — such as concessional lending, local-currency instruments and restructured PPA terms — rather than reliance on FX-intensive project structures that amplify debt vulnerability.

Debt and fossil fuel outlook — impacts and risks

SOCIOECONOMIC IMPACTS: RISING HOUSEHOLD BURDENS, INEQUALITY, AND THE RECONFIGURATION OF DOMESTIC ENERGY JUSTICE

Egypt's debt-driven fossil fuel model, shaped by IMF-backed subsidy cuts, repeated devaluations and market liberalisation, has been accompanied by sharp increases in electricity and fuel prices between 2014 and 2023, contributing to rising costs for households, workers, and small enterprises.[86]

These increases, along with broader inflation, sharply reduced household purchasing power, especially for low- and lower-middle-income groups whose wages failed to keep up.[87] Rising energy costs weakened the competitiveness of small enterprises, leading to layoffs and greater informalisation, while reforms shifted financial gains upward to foreign gas corporations and IPPs benefiting from FX-denominated, state-backed contracts.[88] Their revenues remain shielded from domestic currency volatility, while the financial risks are shifted onto the state and ultimately onto consumers. The increase in electricity prices are reinforced by Egypt's fossil fuel subsidy structure and the way in which it is phasing it out, which remains fiscally inefficient and regressive, with the burden falling most heavily on low-income and vulnerable groups. While subsidy reform is necessary for the energy transition, abrupt subsidy removal without a just transition framework risks disproportionately burdening low-income and vulnerable households.

This creates a system where ordinary citizens bear the burden while financial benefits flow to external actors.[89] The export-oriented gas strategy frequently triggers domestic supply shortages, slowing industrial activity and weakening employment and wages. This investor-driven energy model prioritizes creditor interests over social welfare, transforming energy from a public good into a stratified commodity. As a result, access becomes less equitable, inequalities deepen and households face reduced economic mobility. Socioeconomic vulnerability, therefore, is not a side effect of the debt–fossil fuel nexus but its structural outcome.

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86 World Bank (2022) "Recent economic developments and outlook", in Strengthening Resilience through Fiscal and Education Sectors Reforms, Egypt Economic Monitor, Fall, **www.worldbank.org/en/country/egypt/publication/egypt-economic-monitor-fall-2022-strengthening-resilience-through-fiscal-and-education-sectors-reforms**

87 Ibid. World Bank. (2022)

88 Ibid. World Bank. (2022)

89 World Bank (2022) "Recent economic developments and outlook", in Strengthening Resilience through Fiscal and Education Sectors Reforms, Egypt Economic Monitor, Fall, **www.worldbank.org/en/country/egypt/publication/egypt-economic-monitor-fall-2022-strengthening-resilience-through-fiscal-and-education-sectors-reforms**

ENVIRONMENTAL AND TRANSITION RISKS: ECOLOGICAL DEGRADATION, STRANDED ASSETS, AND THE EROSION OF ENERGY SOVEREIGNTY

Egypt's commitment to expanding fossil fuel infrastructure under conditions of heavy indebtedness introduces not only economic and social risks but also severe environmental and long-term transition challenges that threaten the country's ecological health, resource security and policy autonomy. Offshore gas projects such as Zohr and West Nile Delta are associated with methane leakage, marine disruption, water contamination, and significant emissions from LNG transport and processing. Methane leakage, in particular, is identified by IEA and UNEP as one of the most climate-intensive byproducts of offshore extraction globally.[90] These impacts are not abstract. Research by Carnegie and Greenpeace documents polluted coastlines, degraded marine ecosystems and chronic air contamination in extraction zones such as the Gulf of Suez.[91] These environmental stresses compound existing climate vulnerabilities — water scarcity, rising temperatures and intensifying heatwaves — creating a multidimensional ecological risk profile.

Another profound challenge lies in transition risk. As global markets move toward clean energy, fossil assets financed through FX-denominated loans may become unprofitable long before their debt is repaid. The IEA predicts a structural decline in gas demand post-2030. This exposes LNG terminals, pipelines and long-term extraction projects to growing stranded-asset risks, whose financial losses would likely be nationalized given their reliance on sovereign guarantees and FX-denominated debt. In parallel, Egypt's renewable energy sector remains dominated by foreign-owned Independent Power Producers (IPPs) operating under long-term dollar-denominated Power Purchase Agreements (PPAs), characterized by minimal domestic industrial integration, weak technology transfer and limited employment generation. Together, these dynamics produce a form of "dual dependency" in which Egypt remains fiscally tied to fossil fuels while renewable investments fail to support a sovereign and resilient development pathway. As the Transnational Institute warns, such hybrid dependency models tend to reproduce external control over transition pathways rather than enable genuine economic transformation.

In this context, environmental risk becomes inseparable from economic and political risk. Ecological degradation weakens community resilience, stranded assets undermine fiscal stability and externally governed renewables restrict transition sovereignty. Together, these forces challenge the very foundations of Egypt's energy governance and raise urgent questions about the long-term viability of its development model.

Conclusions and Policy Recommendations

TOWARD AN OPERATIONAL JUST TRANSITION PATHWAY

Moving from a justice-based critique to an implementable transition pathway requires identifying minimum structural components that translate principles into policy direction. In the Egyptian

90 IEA. (2023) Global Methane Tracker 2023. International Energy Agency: Paris. **www.iea.org/reports/global-methane-tracker-2023**

91 MENAFem Movement & Greenpeace MENA. (2025) Beyond Extractivism: Towards a Feminist and Just Economic Transition in Morocco and Egypt. **https://menafemmovement.org/beyondextractivism/**

context, a just energy transition must integrate: (i) labour and regional transition planning, (ii) affordability and social-protection mechanisms during subsidy reform, (iii) reduced foreign-exchange exposure in energy financing, and (iv) governance and accountability frameworks to prevent elite capture. These components provide a sequencing logic for the recommendations below, ensuring that decarbonisation does not deepen debt vulnerability or social injustice.

Within this framework, the following recommendations outline how such a pathway can be operationalised at the level of international financial governance.

IMMEDIATE: ADVOCATING FOR GRANT-BASED AND HIGHLY CONCESSIONAL FINANCING

Breaking out of the debt–fossil fuel trap requires a fundamental shift in how IFIs operate. Instead of prioritizing the traditional stabilization model — fiscal consolidation, subsidy removal, and market liberalization — IFIs must adopt an integrated approach that links debt sustainability with climate objectives and long-term energy sovereignty.

This shift entails designing financing instruments that reduce foreign-currency exposure in the energy sector, protect public budgets from stranded-asset risks and allow countries to expand renewable energy without compromising macroeconomic stability. Such instruments include grant-based financing, scaling up concessional lending for publicly owned renewable-energy infrastructure, supporting integrated planning frameworks that connect industrial policy with the energy transition and developing unified risk-assessment tools that incorporate climate, debt and social-equity indicators.

MEDIUM-TERM: DEBT RESTRUCTURING AND CLIMATE FINANCE - RESTORING SOVEREIGN POLICY SPACE

As the first operational layer of this transition pathway, a sustainable and socially just energy transition cannot occur under the burden of rising external debt. IFIs should therefore play a central role in establishing meaningful debt-restructuring mechanisms linked to climate action. These mechanisms may include:

- Reduced interest rates and extended maturities for countries accelerating decarbonization;
- Immediate suspension of IMF surcharge payments;
- The full deployment of new and existing Special Drawing Rights by the IMF to help Egypt meet its Paris Climate Agreement and Sustainable Development Goal agendas;
- A systemic shift away from long-term, FX-denominated energy contracts toward local-currency financing;
- Without such restructuring, energy policy will remain driven by the narrow imperative of securing foreign currency, inevitably promoting fossil fuel expansion even as its global viability declines; and,

Climate finance must also be redesigned to reinforce public ownership and local value creation, directing grants and concessional loans toward:

- State-owned and other domestically owned renewable energy initiatives, including municipal,

cooperative, and locally rooted private actors;
- Grid modernization and expansion,;
- Energy-storage infrastructure;
- Energy-efficiency programs
- And domestic supply-chain development.

At the same time, IFIs must recognize that countries require sovereign policy space — not additional conditionalities — to design transition pathways that meet their social and economic needs. This includes the ability to regulate energy markets, restructure subsidies in equitable ways and negotiate contract terms that protect consumers and the public budget. A just transition is impossible without a parallel shift in financial governance that places social welfare above creditor demands.

LONG-TERM: STRUCTURAL MEASURES FOR A SOVEREIGN, RESILIENT, AND FAIR ENERGY FUTURE

Building a fair and sovereign energy future requires coordinated transformations across financial, institutional, and sectoral systems. First, IFIs should invest in strengthening public institutional capacity — including independent regulatory bodies, transparent procurement systems and capable state-owned enterprises that can develop and operate renewable energy infrastructure.

Second, financing strategies must move away from short-term, project-based logics toward national transition frameworks that integrate energy planning with industrial strategy, job creation and technological development.

Third, IFIs should ensure that future energy investments — whether fossil or renewable — do not lock countries into rigid, FX-denominated payment structures or expose them to global price volatility. This requires supporting domestic manufacturing, technology transfer, regional energy integration based on equitable principles and climate-adaptation projects that enhance community resilience.

Finally, IFIs should commit to phasing out fossil fuel financing — including LNG terminals, upstream exploration, and hydrocarbon-based industrial infrastructure — and redirect their portfolios toward energy-efficiency programs, public transport, energy storage, green-hydrogen research and decentralized renewable systems.

If adopted, these structural reforms would allow countries like Egypt to transition from a model defined by dependency, volatility and external control to one grounded in energy sovereignty, social justice and long-term economic resilience. The goal is not merely to switch energy sources, but to transform the development model so that it serves the needs of the state and society rather than the demands of global markets and debt structures.

KAIETEUR FALLS, GUYANA
Credit: Cody Hinchliff

GUYANA AT THE CROSSROADS: NAVIGATING DEBT, OIL WEALTH, CLIMATE VULNERABILITY AND THE PURSUIT OF A JUST ENERGY TRANSITION

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Introduction

Caribbean Small Island Developing States (SIDS) and Small States confront a persistent triple development crisis: acute climate vulnerability, chronically limited fiscal space and entrenched structural dependence on global financial flows. Despite contributing minimally to global greenhouse gas (GHG) emissions, these countries suffer disproportionately from climate impacts such as sea-level rise, ecosystem degradation and increasingly frequent and intense hydro-meteorological disasters.[1] The repeated cycles of disaster response and recovery - combined with narrow production bases and volatile external conditions - have trapped many Caribbean SIDS in a debt–climate feedback loop, where the weight of public debt constrains the very investments needed for resilience, social protection, and low-carbon development.[2]

This paper positions Guyana within this wider policy dilemma. The nation represents one of the most striking paradoxes in contemporary climate and development discourse: an exceptionally complex and revealing case at the intersection of climate vulnerability, debt-relief history and rapid fossil fuel expansion. Until the early 2000s, Guyana was a Heavily Indebted Poor Country (HIPC), burdened by unsustainable external debt. At the same time, it is also a high-forest, low-deforestation (HFLD) state that remains net-zero due to its vast land area covered by the Amazon rainforest. Today, Guyana is experiencing one of the world's fastest oil-driven economic expansions. This juxtaposition renders Guyana a critical case study for four reasons. First, it exposes the tensions — and opportunities — within global climate governance when a net-zero nation becomes a major fossil fuel producer. Second, it provides a real-time test of how emerging petro-states navigate the risks of the resource curse,

1 Nurse, L.A., McLean, R.F., Agard, J., Briguglio, L.P., Duvat-Magnan, V., Pelesikoti, N., Tompkins, E. & A. Webb. (2014) Small Islands. In: Climate Change 2014: Impacts, Adaptation, and Vulnerability, in: Barros, V.R., Field, C.B., Dokken, D.J.,et. al. (Eds.), Part B: Regional Aspects. Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC). Cambridge University Press. Cambridge **www.ipcc.ch/site/assets/uploads/2018/02/WGIIAR5-Chap29_FINAL.pdf** ; Acevedo, S. (2016) Gone with the Wind: Estimating Hurricane and Climate Change Costs in the Caribbean. IMF Working Paper, WP/16/199, International Monetary Fund, Washington, DC **www.imf.org/en/publications/wp/issues/2016/12/31/gone-with-the-wind-estimating-hurricane-and-climate-change-costs-in-the-caribbean-44333** ; IPCC. (2023) Climate Change 2023: Synthesis Report. Contribution of Working Groups I, II, and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change. [Core Writing Team, H. Lee and J. Romero (eds.)]. IPCC, Geneva, Switzerland, 184 pp., **www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_FullVolume.pdf**

2 Mohan, P. & E. Strobl. (2021) The impact of tropical storms on the accumulation and composition of government debt. International Tax and Public Finance 28:483-496. **https://link.springer.com/article/10.1007/s10797-020-09622-5** ; Rambarran, J., Mohan, P. Sawas, A. (2024) "Urgent Action to Address Energy Access, Debt and Finance for Renewable Energy in the Caribbean Region: Can a New Generation of Debt-for-Renewables Swaps Help?" Independent Expert Group on Just Transition Finance. Fossil Fuel Non-Proliferation Treaty Initiative. **https://static1.squarespace.com/static/5dd3cc5b-7fd99372fbb04561/t/6733dc44b26cb1002dc5138c/1731451982345/FINAL+REPORT+-+Urgent+action+to+address+energy+access%2C+debt+and+finance+for+renewable+energy+in+the+Caribbean+region.pdf**

Dutch Disease and long-term carbon lock-in.[3] Third, it illustrates how the transformation of oil revenues, if strategically managed over time, could break the region's entrenched debt–climate nexus. Finally, Guyana encapsulates the central challenge of the Just Energy Transition: whether climate-vulnerable economies can leverage natural resource wealth to eradicate poverty and build resilience without undermining national or global climate change commitments.[4] It illustrates both the transformative potential and the structural risks faced by climate-vulnerable states suddenly endowed with resource wealth.

The contribution of this study lies in its novel integrated analytical framework. It connects macro-fiscal vulnerability, fossil fuel dependency and development aligned to the Paris Agreement on Climate Change. While these domains are often treated separately, Guyana's experience demonstrates their deep interdependence. Considering these interdependencies as a story of climate transition is no doubt controversial. However, in the current context we feel it is important to tell these complex stories, to grapple with the decision-making realities of nations entrapped by unsustainable debt and massive structural hurdles to diversify their economies and transition away from fossil fuels. By analysing how historical debt constraints intersect with new petro-financial risks and emerging governance challenges, the study provides an assessment of the viability and long-term sustainability of Guyana's development trajectory.

The paper addresses four interrelated research questions:

1. What opportunities and constraints shape Guyana's prospects for a fair and sustainable energy transition amidst unprecedented oil-driven economic growth?

2. How can oil revenues be managed to reduce debt vulnerabilities, avoid Dutch Disease and support broad-based economic transformation in line with a transition away from fossil fuels?

3. What role can the Fossil Fuel Treaty (FFT) Initiative play in supporting Guyana's long-term energy transition?

4. What institutional and international partnerships are necessary for aligning Guyana's current growth model with resilience, equity, and decarbonisation objectives?

The paper is organised as follows: Section 2 discusses the Guyana case study, while Section 3 analyses the connection between Guyana's debt and climate change vulnerabilities. Section 4 examines Guyana's reliance on fossil fuels and the political economy of oil. Section 5 introduces the FFT Initiative and offers some policy suggestions for a fair and sustainable energy transition in Guyana. Section 6 draws conclusions based on the evidence.

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3 Corden, W. M., & Neary, J. P. (1982) Booming sector and de-industrialisation in a small open economy. The Economic Journal, 92(368), 825–848. **https://academic.oup.com/ej/article/92/368/825/5220457** ; Auty, R. M. (1993) Sustaining development in mineral economies: The resource curse thesis. Routledge. **www.taylorfrancis.com/books/mono/10.4324/9780203422595/sustaining-development-mineral-economies-richard-auty** ; Unruh, G. C. (2000). Understanding carbon lock-in, Energy Policy, 28(12), 817–830. **www.sciencedirect.com/science/article/pii/S0301421500000707**

4 Asheim, G. B., et al. (2022) A Fossil Fuel Non-Proliferation Treaty: Conceptual Underpinnings and Policy Pathways. Nature Energy, 7(9), 835–842.; Baptiste, A. K., & Rhiney, K. (2016) Climate justice and the Caribbean: An introduction. Geoforum, 73, 17-21. **www.sciencedirect.com/science/article/abs/pii/S0016718516301403**

The Guyana context

Guyana's economic transformation is among the most dramatic across the developing world. In the early 2000s, the country was classified as a Heavily Indebted Poor Country (HIPC), burdened with unsustainable external debt that constrained development spending and long-term planning. Guyana became one of only two Caribbean states — alongside Haiti — to secure comprehensive debt relief under the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI), temporarily restoring fiscal space for social investment.[5]

However, structural vulnerabilities remained. Weak governance, limited capacity and a heavy reliance on a few primary commodities — bauxite, sugar, and rice — left the economy undiversified and susceptible to commodity and climate shocks. This development model made the country highly vulnerable to external volatility and climate-related losses, perpetuating a cycle of fiscal fragility.[6]

THE OIL DISCOVERY AND THE BIRTH OF A PETRO-ECONOMY

The discovery of massive offshore oil reserves in the Stabroek Block by ExxonMobil and its partners in late 2015 marked a profound turning point. With estimated recoverable reserves exceeding 11 billion barrels of oil equivalent - representing roughly 13,200 barrels per Guyanese citizen - the nation holds the second-highest per capita oil reserves in the world, surpassing major producers such as Qatar and the UAE.[7] For a population of 831,000, this scale of resource wealth is historically unprecedented.

Crude oil production expanded exponentially, reaching 225 million barrels in 2024 — more than doubling from 2022 levels. As a result, Guyana has become one of the world's fastest-growing economies, with extraordinary real GDP growth averaging 47 percent annually between 2022 and 2024 (see Table 1). Indeed, Guyana is the only HIPC country to have ever transitioned to high-income status. Its GNI per capita soared from US$6,594 in 2019 to an estimated US$30,962 in 2024.

	2019	2020	2021	2022	2023	PREL. 2024
Per capita GDP (US$)	6.594	6.593	9.778	18.745	21.307	30.962
Crude oil production (mn barrels)	0.5	9	43	101	142	225

5 International Monetary Fund (IMF) (2004) Guyana: Enhanced Initiative for Heavily Indebted Poor Countries—Completion Point Document. IMF Country Report No. 04/123. Washington, DC: IMF. **www.imf.org/external/pubs/ft/scr/2004/cr04123.pdf ;** World Bank, Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative—Status of Implementation. **https://documents.worldbank.org/en/publication/documents-reports/documentdetail/757051468323977619**

6 World Bank, (2020) A Pivotal Moment for Guyana: Realizing the Opportunities. Systematic Country Diagnostic (SCD) Report. **https://openknowledge.worldbank.org/entities/publication/4ed72a0f-43f4-5291-9fbd-c6fe9569daf1**

7 International Monetary Fund (IMF). (2025) Guyana: 2025 Article IV Consultation—Staff Report. IMF Country Report No. 25/103. Washington, DC: IMF. **www.imf.org/en/publications/cr/issues/2025/05/07/guyana-2025-article-iv-consultation-press-release-staff-report-and-statement-by-the-566712**

Real GDP growth (percentage change)	5.4	43.5	20.2	62.3	33.8	43.6
Fiscal balance (% of GDP)	-2.8	-7.9	-7.2	-5.1	-5.7	-7.3
Public debt (% of GDP)	43.6	51.1	43.2	26.0	26.7	24.3
Current account balance (% of GDP)	-53.3	-16.4	-25.9	23.8	9.9	24.6
Gross international reserves (US$ mn)	576	681	811	932	896	1.010
End of year balance of Natural Resources Fund (NRF) (US$ mn)	0	198	608	1.272	1.973	3.100

Table 1. Guyana: Selected Economic Indicators, 2018-2024

Source: IMF (2022), (2023), and IMF (2025).[8]

Fiscal revenues surged, enabling an expansion of public investment. Although the fiscal deficit widened to roughly 7.5 percent of GDP in 2024 due to accelerated capital spending, public debt declined to approximately 25 percent of GDP — half its 2020 level. Lessons from the HIPC era underscore the importance of maintaining fiscal discipline and avoiding reliance on external borrowing. The current account registered a surplus of 24.6 percent of GDP in 2024, reserves surpassed US$1 billion and deposits in the Natural Resource Fund (NRF) – Guyana's sovereign wealth fund established to manage oil revenues, stabilise government finances and support long-term national objectives[9] - reached US$3.1 billion (12.5 percent of GDP). ExxonMobil's production plans suggest output could double again by 2029, positioning oil as the dominant driver of Guyana's medium-term growth.[10] Hydrocarbons now account for more than 90 percent of total exports. Petroleum revenues constitute roughly 40 percent of government revenues.[11]

A NET-ZERO PETRO-STATE?: GUYANA'S STRATEGIC PARADOX

Research across a number of regions has illustrated major risks when it comes to the discovery of fossil fuels. For example 'Dutch Disease', where emphasis on one economic sector such as oil, may be done at the expense of non-booming tradable export sector performance, affecting economic

8 International Monetary Fund (IMF). (2025) Guyana: 2025 Article IV Consultation—Staff Report. IMF Country Report No. 25/103. Washington, DC: IMF. **www.imf.org/en/publications/cr/issues/2025/05/07/guyana-2025-article-iv-consultation-press-release-staff-report-and-statement-by-the-566712**

9 Government of Guyana. (2021) Natural Resource Fund Act 2021. Georgetown: Ministry of Finance. **https://finance.gov.gy/natural-resource-fund-act/**

10 International Monetary Fund (IMF). (2025) Guyana: 2025 Article IV Consultation—Staff Report. IMF Country Report No. 25/103. **www.imf.org/en/publications/cr/issues/2025/05/07/guyana-2025-article-iv-consultation-press-release-staff-report-and-statement-by-the-566712**

11 Ibid. IMF (2025).

growth and stability in the long run.[12] This has been observed in many developing countries, including the neighbouring Trinidad and Tobago, who failed to maximise the benefits of the sovereign wealth fund it set up to manage surplus oil revenues, leading to insufficient economic diversification from fossil fuels.[13]

Guyana's oil boom introduced both the potential to improve debt sustainability and new macro-fiscal and geo-political risks. The rapid expansion of production exposes the economy to commodity price volatility, Dutch Disease pressures and long-term carbon lock-in.[14] Without robust governance, transparent management and disciplined fiscal policy, oil revenues could recreate structural dependencies that the HIPC Initiative aimed to resolve two decades ago.

Guyana's situation is further complicated by its status as a net-zero country. Approximately 85 percent of its territory is covered by the Amazon rainforest, enabling it to absorb more carbon than it emits.[15] Under its Low Carbon Development Strategy (LCDS) 2030, Guyana has emerged as a global leader in forest conservation and carbon finance. It pioneered payment-for-performance forest partnerships, most notably with Norway — at the time the world's second-largest interim REDD+ arrangement[16] and has monetised high-quality carbon credits purchased by Hess Corporation. These revenues support Indigenous Amerindian communities, who account for about 10 percent of Guyana's population and live in large portions of the country's forested landscape.

This dual identity as a major emerging oil producer and a net-zero forest nation magnifies the contradiction at the heart of its development pathway. Reconciling these competing imperatives is central to any credible, just and sustainable transition.

Since 'paragraph 28' of the United Arab Emirates Global Stocktake Decision at COP28 - to transition away from fossil fuels in energy systems[17] - the political momentum on the 'how' has been fragmented and highly contested.[18] While this fragmentation is occurring in the political sphere, the markets are moving ahead, creating serious risks for fossil fuel producing countries, who could see a

12 The term was coined in 1977 by The Economist to describe the decline of the manufacturing sector in the Netherlands after the discovery of the large Groningen gas field in 1959. It has been observed in a number of countries that have discovered oil, gas and mineral resources, and poses a risk for developing countries, where it also appears to be most prevalent. See: Mien, E., & Goujon, M. (2021) 40 years of Dutch Disease literature: lessons for developing countries. Comparative Economic Studies, 64(3), 351. **https://pmc.ncbi.nlm.nih.gov/articles/PMC8609513/**

13 Surtees, J. (2025)" 'A defining moment': Trinidad and Tobago at a crossroads as oil runs out", 19 Sep, Guardian. **www.theguardian.com/global-development/2025/sep/19/trinidad-tobago-economy-oil-gas-fossil-fuels-climate-green-transition** ; Wenner, M. D., Bollers, E., & Hosein, R. (2018) The Dutch disease phenomenon and lessons for Guyana: Trinidad and Tobago's experience. Technical Note: IDB-TN-1470, InterAmerican Development Bank. **https://publications.iadb.org/en/dutch-disease-phenomenon-and-lessons-guyana-trinidad-and-tobagos-experience** ; Auty, R. & Gelb, A. (1986) Oil Windfalls in a Small Parliamentary Democracy: Their Impact on Trinidad and Tobago. World Development, 14(9). **www.sciencedirect.com/science/article/pii/0305750X8690118X**

14 Unruh, G. C. (2000) Understanding carbon lock-in, Energy Policy, 28(12), 817–830. **www.sciencedirect.com/science/article/pii/S0301421500000707**

15 Government of Guyana. (2022) Low Carbon Development Strategy 2030. Georgetown: Office of the President. **https://lcds.gov.gy/wp-content/uploads/2022/08/Guyanas-Low-Carbon-Development-Strategy-2030.pdf**

16 Norwegian Ministry of Climate and Environment. (2019) Guyana–Norway Partnership on Climate and Forests: Summary of results and payments. Oslo: Government of Norway. See: **www.guyanareddfund.org/about-us/**

17 United Nations Framework Convention on Climate Change. (2023) Outcome of the first global stocktake: Draft decision -/CMA.5. **https://unfccc.int/sites/default/files/resource/cma2023_L17_adv.pdf**

18 Hickman, L., & Evans, S. (2025) "Revealed: Leak Casts Doubt on COP30's 'Informal List' of Fossil Fuel Roadmap Opponents", 28 Nov, Carbon Brief. **www.carbonbrief.org/revealed-leak-casts-doubt-on-cop30s-informal-list-of-fossil-fuel-roadmap-opponents/**

drop of 51 percent in government oil and gas revenues over the next two decades.[19]

In this context, climate-vulnerable Small Island Developing States with fossil resources face a dilemma. Firstly, how should they pursue socio-economic development in the context of an escalating climate-debt trap? Secondly, in the absence of meaningful support, let alone any global plan for managing the transition away from fossil fuels, does their current leveraging of oil wealth actually strengthen long term debt sustainability and finance development, while the rest of the world accelerates their transition to renewables based diversified economies? Finally, what options do they have to move forward to diversify economically, while maintaining debt sustainability without relying on fossil fuels? This tension embodies the moral and developmental paradox confronting many resource-rich developing nations.

The broader global shift toward a just energy transition intensifies this dilemma. The transition aims not only to reduce emissions but also to ensure fairness, inclusion and economic justice.[20] For Guyana, the combined momentum of oil revenues and climate vulnerability raises the stakes considerably.[21] Without a carefully managed transition framework, Guyana risks embedding new patterns of dependency and perpetuating existing inequities that the HIPC Initiative once sought to alleviate. The proposed Fossil Fuel Treaty (FFT) Initiative calls for a managed phase-out of fossil fuels, implemented with a lens of global equity.[22] This means that there is a timeline of 'extraction equity' where those nations most responsible for global climate change phase out the first and the fastest, offering financial and technical support to developing countries who have the lowest responsibility and capacity to phase out.[23] If widely adopted, a Fossil Fuel Treaty could reshape global oil markets, disrupt fiscal assumptions and accelerate the timeline for a just energy transition in countries like Guyana.[24] In this global context, the core policy challenge for Guyana is thus how to harness and plan the long-term phase out of oil revenues to build resilience, secure long-term fiscal sustainability and finance a just transition that is both equitable and aligned with global climate goals. This is a challenge that fossil fuel dependent developing countries can learn from each other about, which is why this analysis not just important for Guyana, but more widely.

Regionally, Guyana's experience reflects a broader Caribbean effort to reshape development models through justice-centred climate and financial reform. The CARICOM Energy Policy prioritises regional energy security and a gradual shift toward renewable energy sources.[25] The Bridgetown

19 Coffin, M. & Grant, A. (2021) Beyond Petrostates: The burning need to cut oil dependence in the energy transition. Carbon Tracker. **https://carbontracker.org/reports/petrostates-energy-transition-report/** ; Prince, G. (2023) PetroStates of Decline: oil and gas producers face growing fiscal risks as the energy transition unfolds. **https://carbontracker.org/reports/petrostates-of-decline/**

20 Olsen, L. & La Hovary, C. (2015) User's manual to the ILO's Guidelines for a just transition towards environmentally sustainable economies and societies for all. International Labour Organization (ILO): Geneva. **www.ilo.org/sites/default/files/wcmsp5/groups/public/@ed_dialogue/@actrav/documents/publication/wcms_826060.pdf**

21 International Energy Agency (IEA). (2024) World Energy Outlook 2024. Paris: OECD/IEA. **https://www.iea.org/reports/world-energy-outlook-2024**

22 Howard, C., Beagley, J., Eissa, et. al. (2022) Why we need a fossil fuel non-proliferation treaty. The Lancet Planetary Health, 6(10), e777-e778. **https://pmc.ncbi.nlm.nih.gov/articles/PMC9534771/**

23 Civil Society Equity Review (2023) An Equitable Phase Out of Fossil Fuel Extraction: Towards a reference framework for a fast and fair rapid global phase out of coal, oil and gas. https://**www.equityreview.org/extraction-equity-2023**

24 Fossil Fuel Non-Proliferation Treaty Initiative (2024) Financing a Fair and Fast Energy Transition. London: Fossil Fuel Treaty Secretariat. **https://static1.squarespace.com/static/5dd3cc5b7fd99372fbb04561/t/679c91692a7878622d4a9b1b/1738314111026/Just+Transition+Financing+Brief+-+updated+Jan+2025.pdf**

25 CARICOM Secretariat. (2013) CARICOM Energy Policy. Georgetown, Guyana: Caribbean Community Secretariat. **https://**

Initiative, championed by Barbados, calls for transforming the global financial architecture to ensure fair access to concessional climate finance and debt relief.[26] Additionally, the UN-endorsed Multidimensional Vulnerability Index (MVI) seeks to correct long-standing gaps in eligibility for concessional financing among SIDS.[27]

Against this backdrop, Guyana's dual identity makes it both a cautionary tale and a case study to learn from as its story evolves. Its policy choices will shape how Caribbean SIDS conceptualise the relationship between fossil fuel dependence, climate justice, and long-term sustainable development.

Debt-climate nexus in Guyana

Before the discovery of commercial oil in 2015, Guyana's macroeconomic profile closely resembled that of many small, commodity-dependent developing economies. With a modest GDP, a concentrated export base dominated by gold, rice, sugar and bauxite, and facing chronic balance-of-payments pressures, the country relied heavily on concessional finance, remittances and multilateral support to maintain macroeconomic stability.[28] Limited fiscal space, high public debt and widespread infrastructure deficits severely constrained investment in climate resilience, social development and economic diversification. These structural vulnerabilities positioned Guyana firmly within the debt–climate nexus that afflicts SIDS, where climate shocks exacerbate fiscal pressures and high indebtedness limits the ability to invest in adaptation and resilience.[29]

The rapid discovery and exploitation of Guyana's petroleum reserves - particularly in the Stabroek Block - has transformed this macro-fiscal landscape. However, oil wealth has not eliminated the debt–climate nexus. Instead, it has reshaped and in some ways, intensified the underlying structural risks. Oil revenues risk creating new forms of vulnerability, particularly if future petroleum revenues are used to collateralise borrowing or finance recurrent expenditures rather than productive, climate-resilient investments.[30] Moreover, the volatility of global oil prices, coupled with mounting climate-related losses, threatens to undermine fiscal stability and debt sustainability.

Guyana's debt–climate nexus now operates along two interconnected axes. The first is the historical structural vulnerability axis. Climate shocks impose recurring fiscal burdens. Frequent flooding, coastal

caricom.org/jsp/community_organs/energy_programme/CARICOM_energy_policy_in_a_nutshell.pdf

26 Government of Barbados. (2022) The Bridgetown Initiative: Reforming the global financial architecture for climate and development. Bridgetown, Barbados.; Persaud, A. (2023) The Bridgetown Initiative: Reforming the Global Financial System for Climate Resilience. Barbados Ministry of Finance. **https://pmo.gov.bb/wp-content/uploads/2022/10/The-2022-Bridgetown-Initiative.pdf**

27 United Nations General Assembly (UNGA). (2024) "United Nations President of the General Assembly's High-Level Panel on the Development of a Multidimensional Vulnerability Index." Final edited version. New York. **https://www.un.org/ohrlls/sites/www.un.org.ohrlls/files/final_mvi_report_1.pdf**

28 World Bank & OECD (2016) Climate and Disaster Resilience Financing in Small Island Developing States. **www.oecd.org/en/publications/climate-and-disaster-resilience-financing-in-small-island-developing-states_9789264266919-en.html**

29 Alayza, N., Valerie Laxton, & Carolyn Neunuebel. (2023) "Developing Countries Will not Beat the Climate Crisis Without Tackling Rising Debt". Washington, DC: World Resources Institute. 22 Sep, Commentary. **www.wri.org/insights/debt-climate-action-developing-countries**

30 World Bank (2020) "A Pivotal Moment for Guyana: Realizing the Opportunities." Systematic Country Diagnostic (SCD) Report. World Bank: Washington DC. **https://openknowledge.worldbank.org/entities/publication/4ed72a0f-43f4-5291-9fbd-c6fe9569daf1**

erosion and salinisation pose significant threats to economic stability and food security. Guyana's low-lying coastal plain — home to 90 percent of the population — is experiencing sea-level rise at six times the global average.[31] With Georgetown, the capital city, projected to face severe inundation risks by 2030,[32] recurrent floods, saline intrusion and infrastructure damage threaten growth and fiscal stability. Guyana's coastal vulnerability is aggravated by its ageing infrastructure system, which is ill-equipped to handle higher water levels and more intense storm surges.[33] Approximately 25 percent of Guyana's coast is protected by seawalls, 60 percent by mangroves and 15 percent by natural sandbanks. Without robust adaptation investment, climate-related losses will inevitably lead to increased borrowing and renewed debt pressures. Consequently, investments in sea defences, drainage, irrigation and resilient housing are vital to safeguarding both fiscal and social stability.

The second is the emerging axis of oil-driven transition risks. Petroleum dependency introduces new vulnerabilities, including exposure to volatile global oil markets, declining long-term demand and the potential for stranded assets in a rapidly decarbonising world.[34] Oil revenue shocks or lower-than-expected production would intensify fiscal pressures, particularly if spending rigidities rise or revenues are used to finance recurrent expenditures. Guyanense experts fear that the cost of adaptation and loss and damage could outweigh the economic benefits of oil extraction and production.[35] Public interest litigations have challenged the permits being given to companies by the government on the basis of environmental and health risks and the need for greater standards of transparency and accountability.[36] The government plans to introduce legislation to ensure that companies are held liable for oil spills and they comply with regulations,[37] yet serious criticisms have been levelled by civil society,who call on the government to allow for greater parliamentary and public consultation.[38] These dynamics highlight the core of the debt–climate nexus: countries highly vulnerable to climate shocks face a recurring fiscal toll from disaster response and reconstruction, which forces them

31 International Monetary Fund (IMF). (2023) Guyana: 2023 Article IV Consultation Staff Report. IMF Country Report No.23/ 379. **www.imf.org/en/publications/cr/issues/2023/12/01/guyana-2023-article-iv-consultation-press-release-and-staff-report-541920**

32 Intergovernmental Panel on Climate Change (IPCC). (2021) Climate Change 2021: The Physical Science Basis: Contribution of Working Group to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change. Geneva: IPCC. **https://www.ipcc.ch/report/ar6/wg1/**

33 Hickey, C. & T. Weiss. (2012). The Challenge of Climate Change Adaptation in Guyana. Climate and Development, 4 (1). **https://research.fit.edu/media/site-specific/researchfitedu/coast-climate-adaptation-library/latin-america-and-caribbean/guyana-suriname-fr-guiana/Hickey-Weis.-2012.-The-Challenge-Of-CC-Adaptation-In-Guyana.pdf**

34 Caldecott, B., Clark, A., Koskelo, K., Mulholland, E., & Hickey, C. (2021) Stranded assets: environmental drivers, societal challenges, and supervisory responses. Annual review of environment and resources, 46(1), 417-447. **https://www.annualreviews.org/content/journals/10.1146/annurev-environ-012220-101430** ; International Energy Agency (IEA). (2024). "World Energy Outlook 2024". **https://www.iea.org/reports/world-energy-outlook-2024**

35 Juhasz, A. (2022) The Quest to Defuse Guyana's Carbon Bomb. Dec, Wired. **https://www.wired.com/story/the-quest-to-defuse-carbon-bomb-guyana/** ; Sukhnandan, S. (2023) "Will Guyana's capital city, Georgetown, sink by 2030?", 23 Nov, Climate Tracker Carribean, **https://climatetrackercaribbean.org/climate-justice/will-guyanas-capital-city-georgetown-sink-by-2030/**

36 Janki, M. (2025) Ramon Gaskin v Minister of Natural Resources, Exxon, Hess and CNOOC. Case summary, **www.melindajanki.org/work/ramon-gaskin-v-minister-of-natural-resources-exxon-hess-and-cnooc** ; Bispo, F. (2025) "ExxonMobil consolidates 'petrostate' despite environmental complaints in Guyana". 8 Apr, InfoAmazonia. **https://infoamazonia.org/es/2025/04/08/exxonmobil-consolida-petroestado-pese-a-las-denuncias-ambientales-en-guyana/**

37 Government of Guyana. (2025) Oil Pollution, Prevention, Preparedness, Response and Responsibility Act 2025. Parliament of the Co-operative Republic of Guyana. **www.parliament.gov.gy/publications/acts-of-parliament/oilpollutionpreventionpreparednessresponseandresponsibilityact2025act6of2025**

38 Commonwealth Lawyers Association (CLA) (2025) "CLA Statement on Guyana's Oil Pollution Prevention Preparedness Response and Responsibility Bill", 29 May. **www.commonwealthlawyers.com/statement/cla-statement-on-guyanas-oil-pollution-prevention-preparedness-response-and-responsibility-bill/**

to borrow further, undermining long-term debt sustainability.[39] It is critical that the nation embeds climate resilience into its public investment framework, to strengthen adaptive capacity.

OIL REVENUE AND DEBT DYNAMICS

Oil-driven growth has dramatically expanded Guyana's revenue base. Petroleum receipts,including royalties and profit oil, have grown exponentially since 2022, reaching an estimated US$1.6 billion in 2024, equivalent to 42 percent of total government revenue (Table 2). This influx has financed an unprecedented scale-up in public investment, with capital expenditure more than tripling between 2020 and 2024. Although the fiscal deficit increased to 7.3 percent of GDP in 2024, robust GDP growth has kept it within a manageable range.

	2019	2020	2021	2022	2023	2024
Oil price (US$/ barrel)	N.A.	N.A.	69	99	82	80
Oil revenue (US$ mn)	0	0	0	608	1.002	1.586
Oil revenue (% of total revenue)	0	0	0	30	35	42
Public debt (US$ mn)	2,254	2,796	3,309	3,654	4,508	5,985
Domestic	964	1,491	1,933	2,081	2,733	3,755
External	1,290	1,305	1,376	1,573	1,775	2,230
Public debt (% of GDP)	44%	51%	43%	26%	27%	24%

Table 2. Guyana: Oil Revenue and Public Debt, 2019-2024

Source: IMF (2022), (2023), and IMF (2025).[40]

39 Alayza, N., Valerie Laxton, & Carolyn Neunuebel. (2023) "Developing Countries Will not Beat the Climate Crisis Without Tackling Rising Debt". Washington, DC: World Resources Institute. 22 Sep, Commentary. **www.wri.org/insights/debt-climate-action-developing-countries**

40 International Monetary Fund (IMF). (2022) Guyana: 2022 Article IV Consultation—Staff Report. IMF Country Report No. 22/317. **www.imf.org/-/media/files/publications/cr/2022/english/1guyea2022001.pdf** ;
- (2023) Guyana: 2023 Article IV Consultation—Staff Report. IMF Country Report No. 23/379. **https://www.imf.org/en/publications/cr/issues/2023/12/01/guyana-2023-article-iv-consultation-press-release-and-staff-report-541920**
- (2025) Guyana: 2025 Article IV Consultation—Staff Report. IMF Country Report No. 25/103. **www.imf.org/en/publications/cr/issues/2025/05/07/guyana-2025-article-iv-consultation-press-release-staff-report-and-statement-by-the-566712**

Public debt has risen sharply in nominal terms — from US$2.2 billion in 2019 to nearly US$6 billion in 2024 — but has fallen from over 50 percent of GDP to 24 percent of GDP over the period, driven primarily by surging oil GDP rather than active debt reduction. The IMF's 2025 Debt Sustainability Analysis classifies Guyana's risk of debt distress as moderate, reflecting improvements in debt metrics but persistent sensitivity to oil volatility.[41] Importantly, Guyana retains statutory limits on domestic and external borrowing — an institutional legacy of the HIPC and MDRI eras that can be strengthened as financing needs evolve.

Despite improving ratios, emerging vulnerabilities merit caution. The expansion of government spending, financed by expectations of expanding oil revenues, heightens exposure to global oil price volatility.[42] Production delays, cost overruns or declining prices could quickly erode fiscal buffers in the Natural Resource Fund (NRF), reduce the country's ability to finance capital expenditure or force reliance on new debt. The IEA anticipates global peak oil demand by 2030 — underscoring the finite window within which Guyana needs to convert petroleum wealth into resilient assets.[43]

Dutch Disease pressures are also emerging. Rapid foreign-exchange inflows and higher public spending are driving structural shifts in the economy, including real exchange-rate appreciation and the crowding out of traditional export sectors. The resulting expansion of non-tradable sectors — construction, retail and services — risks deepening reliance on petroleum and undermining long-term competitiveness. In effect, an economy long dependent on concessional finance risks shifting into a new form of dependency on oilwithout achieving structural transformation.

Moreover, the composition of public debt is evolving in ways that heighten fiscal risks. Domestic debt, mainly in the form of short-term treasury instruments, now constitutes 63 percent of total public debt, up from 43 percent in 2019. This shift increases rollover risk and makes debt service more vulnerable to domestic interest-rate fluctuations. Critically, this rising reliance on domestic financing poses a risk of crowding out private-sector investment. By absorbing a significant portion of available domestic liquidity through treasury instruments, the government may inadvertently restrict access to credit for non-oil enterprises — such as agriculture and manufacturing — thereby contradicting the diversification goals essential to long-term resilience. Even with low debt-to-GDP ratios, higher nominal liabilities could tighten fiscal space if interest rates rise or oil receipts weaken.

Guyana's current oil boom is creating a different revenue base. However, it echoes the governance trade-offs of the HIPC Initiative era. Windfalls can either be institutionalised as long-term public goods or dissipated through short-term fiscal expansion and politically driven spending. The HIPC Initiative experience highlights the importance of robust institutions, particularly transparent resource revenue management, medium-term fiscal frameworks and independent oversight, in preventing the re-emergence of persistent debt problems.

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41 International Monetary Fund (IMF). (2025) Guyana: 2025 Article IV Consultation—Staff Report. IMF Country Report No. 25/103. **www.imf.org/en/publications/cr/issues/2025/05/07/guyana-2025-article-iv-consultation-press-release-staff-report-and-statement-by-the-566712**

42 International Energy Agency (IEA). (2023). Net zero by 2050: A roadmap for the global energy sector. Paris: OECD/IEA. **https://www.iea.org/reports/net-zero-by-2050** ; International Monetary Fund (IMF). (2025) Guyana: 2025 Article IV Consultation—Staff Report. IMF Country Report No. 25/103. **www.imf.org/en/publications/cr/issues/2025/05/07/guyana-2025-article-iv-consultation-press-release-staff-report-and-statement-by-the-566712**

43 International Energy Agency (IEA). (2025) Oil 2025. Paris: OECD/IEA. **https://www.iea.org/reports/oil-2025**

LOW-CARBON INVESTMENT, DIVERSIFICATION INITIATIVES AND TRANSITION RISKS

Guyana is a HFLD verified country. It's landmass is largely covered by intact rainforest, storing almost 19.5 billion tonnes of CO^2-equivalent. Guyana also anchors part of the Guiana Shield, which contains 18 percent of the world's tropical forest carbon and 20 percent of global freshwater reserves.[44] These assets position Guyana as a major provider of global ecosystem services and carbon sequestration.

Guyana's Low Carbon Development Strategy (LCDS) 2030, first introduced in 2009 and revised in 2022, outlines a vision for reinvesting petroleum revenues alongside payments for ecosystem services into climate-smart infrastructure, diversified economic sectors and improved social services. Notably, Guyana has monetised forest carbon through REDD+ initiatives and through direct ecosystem-service sales such as the Hess Corporation carbon credit agreement, with proceeds earmarked for Indigenous communities. REDD+ is a useful embodiment of the nation's contradictions - perceptions of its success are deeply dependent on the stakeholder, according to some analysts,and *"reliance on extractive activity in the form of continued gold mining and expanding offshore oil production has been deepening, overtaking REDD+'s capacity for meeting the expectations of local stakeholders and demonstrating as it does so how the failure of conservation and development initiatives makes space for the embrace of extractive activity".*[45]

The country's diversification challenges remain significant. Despite the Local Content Act (2021), linkages between oil and non-oil sectors remain weak, and absorptive capacity constraints limit the pace of structural transformation.[46] Renewable energy expansion — anchored in the Amaila Falls Hydropower Project, the Gas-to-Energy (GTE) initiative and off-grid solar systems — faces infrastructure bottlenecks and cost escalations. Over a quarter of electricity in Guyana is lost during transmission and distribution due to poor energy infrastructure.[47] The long-delayed Amaila Falls Hydropower Project illustrates these challenges, including financing disputes, technical concerns and shifting government priorities.[48]

The GTE Project is another example of the complex trade-offs inherent in Guyana's transition. The government's pursuit of GTE is rooted in two immediate imperatives - energy security and political survival. Decades of reliance on expensive, unreliable and environmentally dirty heavy fuel oil (HFO) generation, coupled with a national grid that loses over 25 percent of electricity during distribution, create a binding constraint on all development. The GTE project is positioned as a critical infrastructure intervention to solve both an economic problem (exorbitant electricity costs) and a

44 Government of Guyana. (2022) Low Carbon Development Strategy 2030. Georgetown: Office of the President. **https://lcds.gov.gy/wp-content/uploads/2022/08/Guyanas-Low-Carbon-Development-Strategy-2030.pdf**

45 Collins, Y. A. (2022) The extractive embrace: shifting expectations of conservation and extraction in the Guiana Shield, Environmental Politics, 31:4, 706-728, **https://doi.org/10.1080/09644016.2021.1959122**

46 Inter-American Development Bank (2023) IDB Group Country Strategy with the Co-operative Republic of Guyana (2023–2026). Washington, DC: IDB. **https://idbinvest.org/sites/default/files/2023-12/IDB%20Group%20Country%20Strategy%20with%20Guyana%202023-2026%20-%20Public.pdf**

47 nternational Monetary Fund (IMF). (2025) Guyana: 2025 Article IV Consultation—Staff Report. IMF Country Report No. 25/103. **www.imf.org/en/publications/cr/issues/2025/05/07/guyana-2025-article-iv-consultation-press-release-staff-report-and-statement-by-the-566712**

48 Government of Guyana. (2022) Low Carbon Development Strategy 2030. Georgetown: Office of the President. **https://lcds.gov.gy/wp-content/uploads/2022/08/Guyanas-Low-Carbon-Development-Strategy-2030.pdf** ; Guyana Business Journal. (2025) "The Guyana Paradox: How a Tiny Nation Became Ground Zero for the Future of Energy." 30 May, GBJ Deep Dive **https://guyanabusinessjournal.com/2025/05/the-guyana-paradox-how-a-tiny-nation-became-ground-zero-for-the-future-of-energy/**

political one (delivering stable, cheaper power to the electorate). While viewed by critics primarily through an emissions lens, the project addresses a binding constraint on economic diversification which iselectricity costs. High energy tariffs have long stifled the development of manufacturing and value-added agro-processing. By potentially lowering energy costs by 50 percent, the GTE project is arguably a prerequisite for the "Economic Justice" this paper advocates — providing the affordable baseload power necessary for the non-oil economy to compete. Without this reduction in operating costs, broader structural transformation may remain out of reach.

However, this long-term commitment simultaneously increases the likelihood of carbon lock-in. This is a phenomenon where infrastructure and institutional arrangements entrench high-carbon pathways while closing off sovereign space to pivot towards climate-aligned priorities.[49] The government's shift to a gas-to-energy strategy has further reduced the priority of large-scale hydropower, reflecting a trade-off between short-term energy security and long-term decarbonisation. Unless carefully integrated with a broader transition strategy, the project could crowd out investment in transformative renewables and impede progress toward the LCDS 2030 targets.

Exxon Mobil plans to produce more than 1 million barrels of oil a day. The company is famed for its efforts to undermine climate science[50] and as one of the companies with the greatest contributions to global climate-related disasters.[51] In 2022 the company did share an ambition statement for reducing operational emissions.[52] Yet, to date assessments question its credibility. Exxon does not have (currently) a clear plan to decarbonise, nor does its capital allocation make it possible.[53] In fact, in 2025 the company already backtracked, reducing its budget for low carbon technologies and projects by a third.[54] The point here is not about the government of Guyana's decision to extract its oil wealth in light of its Low Carbon Development Strategy. It is about the commitment of some of the multinational players involved to the ultimate delivery of that strategy. Additionally, Guyana is highly exposed to the risk of Investor State Dispute Settlements (ISDS) due to its oil and gas contracts with international corporations. With each new project, the nation exposes itself to major future financial risks - currently impacting 92 percent of projects and up to US$21 billion.[55]

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49 Unruh, G. C. (2000) Understanding carbon lock-in, Energy Policy, 28(12), 817–830. **https://www.sciencedirect.com/science/article/abs/pii/S0301421500000707** ; Seto, K. C., et al. (2016). "Carbon lock-in: Types, causes, and policy implications." Annual Review of Environment and Resources, 41(1), 425–452. **https://www.annualreviews.org/content/journals/10.1146/annurev-environ-110615-085934**

50 Noor, D. (2023) "New files shed light on ExxonMobil's efforts to undermine climate science", 14 Sep, Guardian. **www.theguardian.com/us-news/2023/sep/14/exxonmobil-documents-wall-street-journal-climate-science** ; Kinol A, Si Y, Kinol, J. & Stephens J.C. (2025) Networks of climate obstruction: Discourses of denial and delay in US fossil energy, plastic, and agrichemical industries. PLOS Clim 4(1): e0000370. **https://doi.org/10.1371/journal**

51 Quilcaille, Y., Gudmundsson, L., Schumacher, D.L. et al. (2025) Systematic attribution of heatwaves to the emissions of carbon majors. Nature, 645 (p.392–398). **https://www.nature.com/articles/s41586-025-09450-9**

52 ExxonMobil (2022) Advancing Climate Solutions Report. **https://corporate.exxonmobil.com/publications/advancing-climate-solutions#Aboutthereport**

53 Climate Action 100+ (2025) Company Assessment: Exxon-Mobil Corp. Assessed by the Transition Pathway Initiative. **www.climateaction100.org/company-assessments/exxon-mobil-corp/**

54 Kelly, M. & Muir, M. (2025) "ExxonMobil to slash low-carbon spending by a third". 9 Dec, Financial Times. **www.ft.com/content/dc0f4207-7eb3-482d-8f28-e2b15ed07e9f**

55 HIrchel-Burns, T., Thrasher, R. & Paredes, F. (2025) Defunding the Amazon: Mapping ISDS Risk from the Oil and Gas Sector in Amazonian Countries. Global Policy Development Center, Boston University. **https://www.bu.edu/gdp/files/2025/11/GEGI-PB-032-FIN.pdf** ; Tienhaara, K., Thrasher, R., Simmons, B. A., & Gallagher, K. P. (2022) Investor-state disputes threaten the global green energy transition. Science, 376(6594), 701-703. **www.science.org/stoken/author-tokens/ST-467/full** ; Woldenden, T. (2023) The Debt-Fossil Fuel Trap: Why debt is a barrier to fossil fuel phase-out and what we can do about it. Deb Justice Coalition **https://debtjustice.org.uk/wp-content/uploads/2023/08/Debt-Fossil-Fuel-Trap-Report_2023.pdf**

In summary, Guyana's low-carbon ambitions are substantive and well-articulated. However, their realisation depends on the country's ability to convert oil wealth into diversified, climate-aligned investments before global transition pressures intensify.

OPERATIONALISING THE DEBT-CLIMATE NEXUS

Without a deliberate strategy - as soon as possible - to plan for economic diversification underpinned by a transition away from fossil fuels (in the long term), Guyana risks entrenching a future of debt vulnerability, fiscal shocks and exposure to climate-driven loss and damage under the guise of short term prosperity.

Managing this nexus requires institutional and fiscal innovations including:

- A strengthened Natural Resource Fund (NRF) with enhanced transparency and medium-term fiscal anchors;
- Climate-linked fiscal rules to prioritise resilience and green investment;
- Financial instruments that convert liabilities into resilience assets; and
- Regional financing frameworks aligned with the Bridgetown Initiative and the UN MVI.

The challenge is not simply managing debt or maximising oil revenue - it is transforming both into durable, climate-resilient, inclusive development pathways that secure intergenerational equity.

Fossil Fuel Dependency and the Political Economy of Oil

OIL REVENUE GOVERNANCE AND FISCAL MANAGEMENT

Institutional dynamics indicate that Guyana's petroleum governance system is evolving but not yet robust enough to fully mitigate volatility, prevent politicisation or safeguard intergenerational wealth. Guyana's petroleum governance architecture is anchored in two sets of rules. One isthe 2016 Production Sharing Agreement (PSA) which determines revenue sharing between the government and the Exxon-led consortium. The other is the Natural Resource Fund (NRF) Act, which regulates the saving and spending of oil proceeds. These aim to prevent macroeconomic instability, avoid procyclical fiscal policy and safeguard wealth for future generations.

Under the PSA, the consortium is allowed substantial cost recovery, especially during the early years of production when capital expenditures are highest. As these costs decline, the share of profit oil accruing to the state will rise sharply, amplifying fiscal reliance on petroleum revenues. While this structure is typical in frontier oil economies, it reinforces the importance of transparent monitoring of recoverable costs and robust auditing capacity within the state.

The NRF Act - adopted in 2019 and overhauled in 2021 - represents a major institutional innovation in Guyana's fiscal framework.[56] Designed as a sovereign wealth mechanism, the Fund seeks to:

- Smooth volatility associated with oil revenue;
- Mitigate real exchange rate pressures;
- Preserve intergenerational equity,;and

56 Government of Guyana. (2021) Natural Resource Fund Act 2021. Georgetown: Ministry of Finance. **https://finance.gov.gy/natural-resource-fund-act/**

• Finance strategic national development and emergency expenditures.

Although the NRF partially aligns with the Santiago Principles, the 2021 amendments significantly altered its governance structure. The removal of direct parliamentary oversight, the curtailment of the Public Accountability and Oversight Committee and the creation of a politically appointed Board of Directors weakened the independence of its supervisory mechanisms.[57] Civil society organisations have raised concerns that these changes risk politicising spending decisions and undermining the Fund's credibility as an intergenerational savings vehicle.[58]

The recent pattern of withdrawals underscores this concern. Between 2022 and 2024, the government withdrew US$3.195 billion from the NRF, financing roughly half of the capital budget annually (see Table 3). The first withdrawal in 2022, which amounted to 100 percent of the previous year's deposit, effectively circumvented the rule-based approach envisaged in the 2019 Act. Subsequent amendments in 2024 further raised withdrawal ceilings, enabling the government to increase capital spending while maintaining a declining public debt-to-GDP ratio as oil production rises.

The National Assembly authorised a sizable withdrawal of up to US$2.463 billion for 2025. This brings the total withdrawals to US$5.658 billion, or 94 percent of the US$6.049 billion Guyana has received from oil sales and royalties as of December 2024. The NRF is therefore expected to retain approximately US$636 million in savings, plus interest income. Deposits of US$2.5 billion are projected for 2025 to supplement the residual balance.

YEAR	DEPOSITS INTO NRF (US$ MILLION)	WITHDRAWALS FROM NRF		
		US$ MILLION	% OF THE PREVIOUS YEAR'S DEPOSIT	% OF CAPITAL EXPENDITURE
2020	149	0	0%	0%
2021	459	0	0%	0%
2022	1.403	608	100%	49%
2023	2.076	1.002	72%	50%
2024	3.974	1,586	76%	52%
2025 EST.	2.500	2.463	62%	76%

Table 3. Guyana: Oil Revenue Deposits into and Withdrawals from NRF, 2020-2025

Source: IMF (2025), Bank of Guyana (2025).

57 International Monetary Fund (IMF). (2025) Guyana: 2025 Article IV Consultation—Staff Report. IMF Country Report No. 25/103. **www.imf.org/en/publications/cr/issues/2025/05/07/guyana-2025-article-iv-consultation-press-release-staff-report-and-statement-by-the-566712**

58 Transparency International. (2023) Natural Resource Fund Governance Assessment: Guyana Country Report.

Despite these challenges the NRF remains essential for macroeconomic stabilisation. A well-governed fund can help Guyana minimise the risks of boom–bust cycles. However, the absence of a clearly defined fiscal anchor - such as a structural balance target or an expenditure rule - creates the risk that petroleum revenues could drift toward consumption-driven fiscal pressures. Such weak governance could reintroduce macroeconomic instability reminiscent of pre-HIPC vulnerabilities. The IMF has advised that a strengthened medium-term fiscal framework, combined with a credible savings rule and greater independent oversight, would significantly improve fiscal resilience.[59]

The broader governance ecosystem - spanning the Ministry of Natural Resources, the Guyana Geology and Mines Commission and the Environmental Protection Agency - is institutionally stretched. Environmental permitting controversies, judicial rulings on liability caps and concerns over enforcement capacity illustrate asymmetric power relations between the state and multinational operators.

Notably, the EPA's regulatory oversight of ExxonMobil-led consortium operations has been challenged in civil society litigation over environmental permits, the use of unauthorised gas flaring with its serious environmental and health risks and financial liability caps.[60] The High Court's rulings in 2022–2023 revealed deficiencies in enforcement authority and the limited capacity of public institutions to hold multinational operators accountable. Additionally, in response to public interest litigation, in 2025 the High Court ruled that the EPA must include scope 3 emissions in environmental impact assessments of Exxon's Hammerhead project.[61] However the company itself has failed to account for its scope 3 emissions, until 2026 when it proposed a new approach to doing so which has been received with controversy. This raises a serious question about the authenticity of such an approach and a challenge for the EPA's capacity to deliver against this court order.[62]

These governance gaps raise concerns about asymmetric power relations between the state and foreign investors — a key feature of dependency dynamics in natural resource economies.

Guyana became a candidate country of the Extractive Industries Transparency Initiative (EITI) in 2017 and has since published regular reports on oil revenue receipts and licensing.[63] These disclosures have enhanced data availability but concerns persist regarding timely reconciliation of company payments and government receipts. Guyana has made substantial progress in meeting EITI requirements. However, there is a need for "institutional deepening" to ensure stronger compliance

59 International Monetary Fund (IMF). (2023) Guyana: 2023 Article IV Consultation Staff Report. IMF Country Report No.23/379. **www.imf.org/en/publications/cr/issues/2023/12/01/guyana-2023-article-iv-consultation-press-release-and-staff-report-541920**

60 Kaieteur News. (2025) "EPA faces another lawsuit for breach of court order in Exxon's 7th project". Georgetown.**https://kaieteurnewsonline.com/2025/07/30/epa-faces-another-lawsuit-for-breach-of-court-order-in-exxons-7th-project/** ; Bispo, F. (2025) "ExxonMobil consolidates 'petrostate' despite environmental complaints in Guyana". 8 Apr, InfoAmazonia. **https://infoamazonia.org/es/2025/04/08/exxonmobil-consolida-petroestado-pese-a-las-denuncias-ambientales-en-guyana/**

61 Kaieteur News (2025) High Court orders EPA to include carbon dioxide impacts in all Exxon's EIAs, 27 Mar. **https://kaieteurnewsonline.com/2025/03/27/high-court-orders-epa-to-include-carbon-dioxide-impacts-in-all-exxons-eias/**

62 Mundy, S. (2026) "Who cares about carbon accounting? ExxonMobil: New industry-backed initiative sparks fears of fragmenting standards", 30 Jan, Financial Times. **https://www.ft.com/content/37ad36c2-2efe-40a2-a288-2516f986ce67**

63 Guyana EITI. (2023) Guyana Extractive Industries Transparency Initiative 7th Report. Georgetown: GYEITI Secretariat. **https://eiti.gy/reports/explore-guyanas-seventh-eiti-country-report-fy-2023/**

regarding energy transition, environmental impacts,and gender aspects of extractive industries.[64]

The roles of civil society, the media and local communities are each vital for securing accountable governance. Guyana's EITI framework, parliamentary budget debates and emerging investigative journalism have enhanced transparency. Despite this, political polarisation and the opacity of production-sharing contracts remain significant obstacles. The 2016 Production Sharing Agreement (PSA) with ExxonMobil has faced widespread criticism for offering excessively favourable fiscal terms, including a 2 percent royalty and limited cost recovery ceilings that restrict future fiscal flexibility.[65]

Guyana's oil and gas sector is classified in the "weak" governance category on the 2021 Resource Governance Index, with a score of 55 out of 100 points.[66] Guyana is still developing its institutional framework to manage its oil and gas industry, despite production beginning five years ago. The government should focus on strengthening the governance framework. This involves improving institutional oversight, increasing access to contract data and encouraging local and indigenous, participatory, decision-making which are all crucial for building legitimacy in oil governance and preventing elite capture.

Economic Diversification and Structural Transformation

Guyana's rapid oil expansion has fundamentally altered its economic structure. Table 4 shows the dramatic rise of oil and gas from zero percent of GDP in 2018 to 65 percent by 2024 accompanied by a steep contraction in services, agriculture and manufacturing. Construction's declining GDP share, despite large-scale public investment, underscores capacity constraints and supply-side bottlenecks in the non-oil economy.

YEAR	OIL & GAS	SERVICES	AGRICULTURE	MANUFACTURING	CONSTRUCTION
2018	0	47	20	5	8
2019	0	45	18	5	8
2020	16	39	17	4	7
2021	33	31	13	3	6

64 International Monetary Fund (IMF). (2025) Guyana: 2025 Article IV Consultation—Staff Report. IMF Country Report No. 25/103. Washington, DC: IMF. **www.imf.org/en/publications/cr/issues/2025/05/07/guyana-2025-article-iv-consultation-press-release-staff-report-and-statement-by-the-566712**

65 Kaieteur News. (2023) "High Court dismisses case against EPA over permit that allows Exxon to flare gas", 5 Oct, **https://kaieteurnewsonline.com/2023/10/05/high-court-dismisses-case-against-epa-over-permit-that-allows-exxon-to-flare-gas/**

66 Natural Resource Governance Institute (NRGI). (2022) Resource Governance Index 2022—Guyana Profile. New York: NRGI. **https://resourcegovernance.org/countries/guyana**

2022	57	19	10	2	4
2023	57	19	10	2	5
2024	65	14	8	2	5

Table 4. Guyana: Economic Diversification Indicators, (% of GDP)

Source: Bank of Guyana (2025)[67]

The export composition (Table 5) reveals an even more substantial shift: crude oil rose from 42 percent of exports in 2020 to more than 90 percent by 2024, while traditional exports such as gold, rice and bauxite fell to single digits. This extreme export concentration heightens vulnerability to commodity price swings and weakens long-run competitiveness.

YEAR	CRUDE OIL	GOLD	RICE	BAUXITE	SHRIMP	RUM	SUGAR	TIMBER
2018	0	58	14	10	7	4	2	2
2019	0	59	15	5	5	2	2	2
2020	42	38	10	3	2	1	1	1
2021	69	20	5	2	1	1	0.5	1
2022	88	7	2	1	1	1	0.5	0.5
2023	90	6	2	1	0.5	0.5	0	0
2024	92	5	1	0.5	0.5	0	0	0

Table 5. Guyana: Export Diversification Indicators, (% of total exports)

Source: Bank of Guyana (2025)[68]

These patterns point to early symptoms of the Dutch disease including:[69]

- An appreciating real exchange rate (up nearly 9 percent since 2019);
- Rising costs in non-tradable sectors;

67 Bank of Guyana (2025) Half Year Report. **https://bankofguyana.org.gy/bog/images/research/publications/BOG%20Half%20Year%202025.pdf**

68 Bank of Guyana (2025) Half Year Report. **https://bankofguyana.org.gy/bog/images/research/publications/BOG%20Half%20Year%202025.pdf**

69 Corden, W. M., & Neary, J. P. (1982) Booming sector and de-industrialisation in a small open economy. The economic journal, 92(368), 825-848. **https://academic.oup.com/ej/article-abstract/92/368/825/5220457**

- Labour shortages and wage pressure in construction and services;
- Stagnant non-oil exports; and
- Rising reliance on petroleum-linked supply chains.

Although inflation remains moderate, anecdotal evidence of rising real estate prices and wage pressures suggests mounting strain on the non-tradable economy. With oil employing less than 3 percent of the labour force, the benefits of the boom are not broadly shared through labour markets.[70] The continuing expansion of petroleum production risks undermining nascent diversification efforts.

The government's public investment programme seeks to address these constraints by improving infrastructure, electricity supply and human capital. However, petroleum-funded spending continues to prioritise politically visible projects - housing, roads, administrative buildings - over renewable energy and adaptation investments which remain a small share of the budget (5–7 percent)[71] which raises concerns about carbon lock-in and long-term misalignment between resource wealth and climate-resilient development.

Overall, the evidence suggests that Guyana is not yet translating oil wealth into a broad-based structural transformation. Without strengthened competitiveness policies and targeted investment in high-value tradables, diversification will remain aspirational.

DISTRIBUTIONAL OUTCOMES AND SOCIAL INEQUALITY

Guyana has a legacy of jobless growth and deep geographic disparities and inequalities.[72] It remains among the poorest countries in the Western Hemisphere. In 2018, Guyana's national poverty rate was estimated at 45.9 percent, compared to an average of 22.6 percent for Latin America and the Caribbean.[73] Additionally, poverty rates are highest for Guyana's Indigenous communities in the rural interior, who have limited access to economic opportunities, education and healthcare. Over 80 percent of the country's poor live in rural areas.[74]

Coastal regions and Indigenous communities, which face disproportionate environmental risks — including rising sea levels, pollution from oil operations and deforestation pressures — often have limited access to revenue-sharing or compensation mechanisms as well as to basic services, employment, and climate-resilient infrastructure. These socioeconomic factors have contributed to high emigration rates, with almost 40 percent of Guyanese citizens residing abroad.[75]

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70 Inter-American Development Bank (IDB). (2023). IDB Group Country Strategy with the Co-operative Republic of Guyana (2023–2026). **https://idbinvest.org/sites/default/files/2023-12/IDB%20Group%20Country%20Strategy%20with%20Guyana%202023-2026%20-%20Public.pdf**

71 Ministry of Finance (Guyana). (2023) Budget 2023. Georgetown: Ministry of Finance. **https://finance.gov.gy/wp-content/uploads/2023/01/Budget%202023%20Final.pdf**

72 World Bank. (2020) "A Pivotal Moment for Guyana: Realizing the Opportunities". Systematic Country Diagnostic (SCD) Report. **https://openknowledge.worldbank.org/entities/publication/4ed72a0f-43f4-5291-9fbd-c6fe9569daf1**

73 Ibid Inter-American Development Bank (IDB). (2023).

74 Ibid Inter-American Development Bank (IDB). (2023).

75 Ibid World Bank. (2020).

Since 2022, the government has channelled rising oil revenues into public investments in education, health, water and human services, to help improve its progress on the Sustainable Development Goals (SDGs). The 2025 budget targeted several social transfer measures, including raising the old-age pension, public assistance, child support and a one-off GY$100,000 transfer to about 600,000 adults. The government started to deliver free university education starting in 2025.[76]

Despite these commendable efforts, some civil society observers have warned of a paradox of "dual Guyanas. It is a country both benefiting from petroleum wealth concentrated in the capital and service sectors and facing marginalisation and ecological vulnerability at the same time.[77] This highlights the ongoing structural inequality even amidst record oil revenues, indicating that, without targeted redistributive and participatory mechanisms, Guyana's oil economy may deepen social polarisation and regional disparities rather than alleviate social inequality. The IMF has advised that more targeted and integrated approaches as part of a medium-term fiscal framework could significantly reduce poverty.[78]

RESOURCE CURSE OR MANAGED DIVERSIFICATION?

Guyana now stands at a critical juncture. Many of the early warning signs associated with the resource curse from fiscal dependence, institutional strain and weak non-oil competitiveness to emerging carbon lock-in risks are evident. For example, while the construction sector saw initial gains from the oil boom, its declining share of GDP despite soaring infrastructure needs points directly to acute capacity constraints, labour shortages and rising input costs - a classic manifestation of Dutch Disease setting in. Nevertheless, the country also possesses an opportunity rare among frontier oil producers which is the ability to leverage unprecedented fiscal space, a globally significant forest asset base and a clearly articulated low-carbon strategy.

Historical experience under the HIPC Initiative underscores the risks of excessive borrowing and overreliance on volatile export markets. To prevent such cycles, Guyana has adopted fiscal rules emphasising budget discipline, macroeconomic stability and savings accumulation within the NRF. Furthermore, the country also demonstrates potential for managed diversification if governance reforms and investment priorities align with long-term sustainability. Guyana will need to accelerate investment in productive non-oil sectors with export potential particularly sustainable forestry, eco-tourism, agro-processing and digital services while ensuring oil-funded infrastructure lays the foundation for this diversification, rather than substituting for it.

Whether Guyana succumbs to the resource curse or pursues managed diversification will depend on three structural determinants. They include:

1. **Institutional quality:** including adherence to rule-based fiscal management, transparent NRF

76 University of Guyana. (2025) "Free tuition takes effect for new academic year 2025/26 at UG; applications will close May 16". 23 Apr, University of Guyana **https://uog.edu.gy/free-tuition-takes-effect-new-academic-year-202526-ug-applications-will-close-may-16-2025-students**

77 Guyana Business Journal. (2025) "The Guyana Paradox: How a Tiny Nation Became Ground Zero for the Future of Energy." **https://guyanabusinessjournal.com/2025/05/the-guyana-paradox-how-a-tiny-nation-became-ground-zero-for-the-future-of-energy/**

78 International Monetary Fund (IMF). (2025) Guyana: 2025 Article IV Consultation—Staff Report. IMF Country Report No. 25/103. Washington, DC: IMF. **www.imf.org/en/publications/cr/issues/2025/05/07/guyana-2025-article-iv-consultation-press-release-staff-report-and-statement-by-the-566712**

governance and strong environmental regulation;

2. **Strategic public investment:** focused on productivity-enhancing and export-oriented sectors rather than politically attractive but low-return projects; and

3. **Climate-aligned development:** ensuring that energy investments, such as the gas-to-energy project, do not entrench fossil fuels or crowd out renewables and investing in solutions that leverage Guyana's natural resources while keeping lifecycle emissions to a minimum.

International experience demonstrates that countries avoid the resource curse by institutionalising discipline and political-economic foresight. IImplementing fiscal anchors, strengthening oversight bodies, increasing contract transparency and incorporating climate risks into long-term debt management strategies are part of this.[79] Additionally, ensuring long term planning is rooted in preparing to benefit from future economic and energy trends - such as the evolving economic transition away from fossil fuels - rather than becoming victim to them. As a major carbon sink, as well as a country that could benefit from the MVI framework - Guyana has a number of non-fossil fuel based opportunities it can plan for its long term economic and climate resilience.

POLITICAL INCENTIVES FOR REFORM: BRIDGING THE FEASIBILITY GAP

Proposing stricter NRF rules, such as creating a Transition and Diversification Window, faces a distinct feasibility gap. The current administration has recently relaxed withdrawal constraints to accelerate infrastructure spending - a rational political strategy for a government seeking to demonstrate immediate services to the electorate. There is, therefore, a stark contradiction between the technocratic ideal of savings and the political reality of a government flush with cash and facing electoral cycles. Why would a political directorate agree to self-imposed fiscal straitjackets?
The answer lies in the political costs of unmanaged volatility. Unchecked spending risks triggering high inflation and an appreciating exchange rate (Dutch Disease), which erodes the purchasing power of the very voting base the government seeks to court. Maintaining fiscal discipline is also a prerequisite for international creditworthiness and attracting the private capital needed for the non-oil diversification touted in the LCDS 2030. Therefore, the incentive for reform is not purely technocratic but deeply political. Fiscal restraint is the only mechanism to ensure the oil boom does not result in a cost-of-living crisis that threatens the government's electoral longevity.

The goal of the Transition and Diversification Window is to ensure that political spending is directed at permanent, productivity-enhancing assets. For instance, this ringfenced fund would be used to finance specific, transformative projects such as retooling the sugar estates of the Guyana Sugar Company (GuySuCo) for bio-ethanol production, commissioning large-scale solar farms in the Hinterland to enhance energy security, or building climate-resilient sea defence infrastructure that safeguards the nation's economic heartland. The question is not whether oil will dominate Guyana's economy—it already does—but whether petroleum wealth will be transformed into an equitable,

79 Hardyal, N., Moonsammy, S. & Warner, D. A systematic review of the effects and symptoms of the Dutch Disease globally: Lessons for Guyana. Environ Dev Sustain 26, 5665–5688 (2024) **https://doi.org/10.1007/s10668-023-03029-y** ; Zucker-Marques, M., Gallagher, K. P., & Volz, U. (2024) Defaulting on Development and Climate: Debt Sustainability and the Race for the 2030 Agenda and Paris Agreement. Boston University Global Development Policy Center; SOAS Centre for Sustainable Finance; Heinrich-Böll-Stiftung. **www.bu.edu/gdp/files/2024/04/DRGR-Report-2024-FIN.pdf**

diversified, climate-compatible development model suited to the future macroeconomy.

Fossil Fuel Treaty (FFT) Initiative and Just Transition Framework

GLOBAL PRESSURES AND MORAL DILEMMAS

Understandably, the Government of Guyana argues that it has a legitimate right - under the framework of common but differentiated responsibilities and respective capacities (CBDR-RC)[80] - to develop petroleum resources to reduce poverty, strengthen climate resilience and finance growth.[81] The accelerating global shift toward low-carbon energy presents both an existential and strategic dilemma for Guyana. As international commitments to net-zero emissions deepen, the structural decline of fossil fuel demand is increasingly evident. Against this backdrop, the Fossil Fuel Treaty (FFT) Initiative advocates for a coordinated global framework to end new fossil fuel exploration, phase out existing production and support an equitable transition to renewable energy.[82]

With Guyana on an aggressive trajectory to double its oil production by 2029, the notion of a managed decline may at the outset seem politically and economically implausible. The FFT should not be viewed simply as a mechanism to turn off the taps, but rather as a strategic leverage point for global justice in climate and energy diplomacy. Currently proposed by 18 nations - all developing countries and a number of fossil fuel producers - the goal is to develop a framework for a managed and fair decline alongside supportive mechanisms for developing countries to address debt, remove barriers to financing renewables and economic diversification and support a just transition. Guyana could engage with its principles to negotiate conditional support. For example Guyana could offer to align its long-term extraction pathway with a managed global phase-out, but only if the international community provides binding guarantees of massive, concessional finance for the phase down of fossil fuels and phase in of renewables.

Without such a bargain, continued fossil fuel expansion heightens Guyana's exposure to stranded-asset risks, investor divestment, and potential future restrictions on carbon-intensive exports.[83] Guyana, therefore, faces a profound strategic challenge: how to safeguard its development aspirations while remaining credible within an international system that is rapidly moving away from fossil fuels.

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80 Legal Response International (2026) Common but differentiated responsibilities and respective capabilities (CBDRRC). Retrieved 22 Feb at **https://legalresponse.org/resource/the-principle-of-common-but-differentiated-responsibilities-and-respective-capabilities-a-brief-summary/**

81 BBC (2024) "Guyana's President: 'I am going to lecture you on climate change'", 18 Apr, Hard Talk. **https://www.bbc.co.uk/programmes/p0hrnsss**

82 Howard, C., Beagley, J., Eissa, et. al. (2022) Why we need a fossil fuel non-proliferation treaty. The Lancet Planetary Health, 6(10), e777-e778. **https://pmc.ncbi.nlm.nih.gov/articles/PMC9534771/**

83 Burke, M. J., & Stephens, J. C. (2018) Political power and renewable energy futures: A critical review. Energy Research & Social Science, 35, 78–93 **www.sciencedirect.com/science/article/pii/S2214629617303468** .; Caldecott, B., Clark, A., Koskelo, K., Mulholland, E., & Hickey, C. (2021) Stranded assets: environmental drivers, societal challenges, and supervisory responses. Annual review of environment and resources, 46(1), 417-447. **www.annualreviews.org/content/journals/10.1146/annurev-environ-012220-101430**

JUST ENERGY TRANSITION FRAMEWORK

The Fossil Fuel Treaty is rooted in a just transition framework which includes principles of equity, participation and social protection. A just transition seeks not only decarbonisation but also fair distribution of the benefits and burdens of structural economic change.[84] This is not just local but global - for example a global just transition is critical for small island developing states (SIDS), whose narrow economic bases, high debt burdens and extreme climate exposure compound transition risks.[85]

For Guyana, a just transition must rest on three interconnected dimensions—economic justice, environmental justice and intergenerational justice. Each underpins the country's ability to achieve a sustainable and equitable post-oil development pathway.

ECONOMIC JUSTICE: TRANSFORMING OIL WEALTH INTO PRODUCTIVE, INCLUSIVE INVESTMENT

Economic justice requires that petroleum revenues catalyse transformation rather than entrench dependence. Key reforms should include:

• The establishment of a **'Transition and Diversification Window'** within the NRF - dedicating a fixed share of annual withdrawals to renewable energy, climate-resilient agriculture, digital infrastructure and green industrialisation.

• Embedding distributional justice into fiscal governance also demands **transparent NRF withdrawal rules and regionally targeted investments** ,especially for low-lying coastal zones and Indigenous Amerindian communities.

• A **'National Green Industrial Strategy'** should complement this approach by developing value-added sectors - like sustainable forestry, bioeconomy products, agro-processing, and light manufacturing and positioning Guyana within emerging climate-aligned value chains. Expanding green finance instruments (green bonds, blended finance, public development banking) would mobilise private capital while deepening domestic financial markets.

• **Modernised local content rules and large-scale technical and vocational training** - essential to ensuring that workers benefit directly from renewable energy and services-sector expansion.

Together, these measures would reorient oil revenues toward productive diversification while advancing the goals of the LCDS 2030.

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84 Newell, P., & Mulvaney, D. (2013) The political economy of the 'just transition'" The Geographical Journal, 179(2), 132–140. **https://doi.org/10.1111/geoj.12008** ; International Labour Organization (2021) A just transition for all: Policy guide on green jobs and decent work. **www.ilo.org/topics-and-sectors/just-transition-towards-environmentally-sustainable-economies-and-societies**; Independent High-Level Expert Group Review of the Vertical Climate and Environmental Funds (2024) Accelerating Sustainable Finance for Emerging Markets and Developing Economies. Report prepared for the Brazilian G20 Presidency and the G20 Sustainable Finance Working Group. **www.climatepolicyinitiative.org/wp-content/uploads/2000/10/G20-IHLEG-VCEF-Review.pdf**

85 Okereke, C., & Dooley, K. (2010) Principles of justice in proposals and policy approaches to avoided deforestation: towards a post-Kyoto climate agreement. Global Environmental Change, 20(1), 82-95. **https://www.sciencedirect.com/science/article/abs/pii/S0959378009000697**

ENVIRONMENTAL JUSTICE: PROTECTING ECOSYSTEMS WHILE MANAGING EXTRACTIVE RISKS

Environmental justice requires that Guyana's role as a global carbon sink be matched by the stringent protection of local ecosystems. This calls for:

- Significantly **strengthened environmental regulation of offshore oil operations**, including mandatory climate-risk disclosures, more rigorous environmental impact assessments and enforceable penalties for non-compliance;

- **Deeper public participation in environmental governance** to ensure procedural justice. The principle of Free, Prior and Informed Consent (FPIC) must be systematically upheld for Indigenous communities affected by offshore infrastructure, the GTE project and conservation initiatives;

- The creation of **ecological offset and compensation mechanisms** that earmark a portion of oil royalties for forest conservation, biodiversity restoration,and community-led adaptation projects; and

- Integrating **cumulative impact assessments into licensing and national energy planning** to ensure that the expanding petroleum sector does not erode Guyana's HFLD status or weaken its global leadership in nature-based climate solutions.

INTERGENERATIONAL JUSTICE: ADVANCING LONG-TERM PROSPERITY AND RESILIENCE

Intergenerational justice demands that today's decisions safeguard the prosperity and resilience of future generations through binding fiscal rules rather than discretionary policy. Steps should include:

- Most urgently, **amending the NRF Act to require that at least 30 percent of annual royalty payments** (a standard benchmark for sovereign wealth funds) **be ringfenced for long-term intergenerational saving** so that petroleum wealth is conserved beyond the lifespan of the oil fields;

- Targeted capital formation, **mandating at least 50 percent of all NRF withdrawals be allocated exclusively to "permanent productive assets"** rather than recurrent consumption. This ensures that the depletion of natural capital is offset by the accumulation of human and physical capital to equip the next generation for a diversified economy. These assets are renewable energy infrastructure, climate-resilient educational facilities, and advanced healthcare systems; and

- **institutionalising climate-risk governance** to prevent future liabilities from overwhelming these savings. This involves mandatory annual fiscal stress testing against 1.5°C and 2°C global warming scenarios, with results publicly reported to Parliament.

- **Establishing a statutory Future Generations Council** with consultative powers over major public investment projects. The council woulstrengthen democratic legitimacy while aligning long-term development choices with the aspirations of those who will inherit the post-oil economy. This should

ensure meaningful participation in decision making of stakeholders, including youth, Indigenous communities and civil society.

Conclusion and Policy Recommendations

Global experience shows that oil booms can heighten structural vulnerabilities in climate-exposed economies, particularly where economic activity is concentrated in low-lying areas prone to flooding and sea-level rise. Without early integration of climate adaptation and environmental safeguards, resource wealth can entrench fiscal fragility and ecological degradation. Guyana's Low Carbon Development Strategy (LCDS) 2030 provides an ambitious framework for aligning oil revenues with protecting natural capital and promoting low-carbon growth. However, the simultaneous expansion of fossil fuels and the pursuit of net-zero ambitions demand strong institutions, rigorous environmental impact assessments, transparent oversight and inclusive participation. Implementation will determine whether Guyana becomes a global model for resource-rich SIDS or a cautionary tale of policy incoherence.

This analysis yields three overarching findings regarding Guyana's current trajectory:

- **Fragile Prosperity:** While oil wealth has delivered substantial fiscal benefits, these gains are overshadowed by macro-fiscal risks, including exposure to volatile commodity cycles and symptoms of Dutch Disease.

- **Institutional Risk:** Vulnerabilities surrounding the Natural Resource Fund (NRF) and major hydrocarbon-linked infrastructure, such as the Gas-to-Energy project, heighten the risk of carbon lock-in and resource curse dynamics.

- **Justice Deficit:** A truly Just Energy Transition requires deeper distributive and procedural justice, specifically regarding transparency, the equitable sharing of benefits, and targeted support to historically marginalised coastal and Indigenous communities.

Strategically, Guyana must prepare for a world centered around the transition away from fossil fuels. Fossil fuel dependent economies may face declining revenues, asset devaluation, reduced access to fossil finance, or rising capital costs. If managed with foresight, Guyana can position itself not just as an oil producer, but as a pragmatic leader and role model in the managed decline and exit strategy from fossil fuels towards diversified, equitable and sustainable post-oil futures based on international support rooted in CBDR-RC.

Guyana can utilise the Treaty's momentum to advocate for a "Global Deal" for transition finance. By strategically deploying oil revenues to pre-finance renewable energy, climate-resilient infrastructure, workforce retraining and social protection, Guyana can transform its petroleum endowment into a powerful transition-finance mechanism.

To convert these insights into impact and secure a resilient post-oil future, this paper proposes targeted policy recommendations.

FOR THE GOVERNMENT OF GUYANA:

• **Deepen NRF Institutions:** Reinstate the Public Accountability and Oversight Committee to its full supervisory capacity to prevent political capture of funds.

• **Legislate a Transition and Diversification Window:** Amend the NRF Act to legally ringfence a specific percentage of withdrawals solely for non-oil capital formation and green industrialisation.

• **Enforce Fiscal Anchors:** To safeguard intergenerational justice, legislate a statutory floor (such as 30 percent) for royalty retention within the NRF and mandate that at least 50 percent of withdrawals fund permanent productive assetssuch as education, health and infrastructurerather than recurrent consumption.

FOR THE INTERNATIONAL MONETARY FUND (IMF) AND MULTILATERAL PARTNERS:

• **Integrate Transition Risk:** The IMF must evolve its surveillance framework for Guyana by incorporating explicit "Transition Risk Stress Tests" into future Article IV consultations, the IMF's regular macroeconomic assessments of each member country. These tests should model the fiscal shock of a rapid global decline in oil demand to ensure the government is prepared for the eventual end of the oil age.

• **Reform Vulnerability Criteria:** Partners must accelerate the adoption of the Multidimensional Vulnerability Index (MVI) to safeguard Guyana's access to concessional climate financing, acknowledging that high GDP per capita does not eliminate climate fragility.

FOR CIVIL SOCIETY AND INDIGENOUS ORGANISATIONS:

• **Champion Procedural Justice:** Civil society must rigorously enforce strict environmental transparency and the principle of Free, Prior, and Informed Consent (FPIC). This is essential to safeguard the rights of the Indigenous Amerindian community who represent approximately 10 percent of the population and to ensure that the pursuit of national wealth does not compromise local ecological integrity.

Guyana's development trajectory offers important lessons for Caribbean SIDS seeking to reconcile debt sustainability, climate resilience, and economic transformation. Its move from HIPC relief to oil exporter underscores the double-edged nature of resource wealth. The policy challenge ahead is a race between rising oil revenues and the country's institutional capacity to manage them for long-term, climatecompatible development. By linking strong domestic governance with bold leadership on global climate finance reform,particularly through the MVI, Guyana can transform short-term petroleum wealth into the foundation for long term resilience, diversification and climate justice.

JORDAN AT THE CROSSROAD, JORDAN
Credit: Ali Nasrallah

JORDAN: THE LIMITS OF A JUST ENERGY TRANSITION UNDER DEBT, FUEL-TAX ADDICTION, AND TAKE-OR-PAY FOSSIL LOCK-IN

Ali Nasrallah, Fossil Fuel Treaty Initiative

Introduction

Jordan's contemporary political economy is the product of geopolitical pressures and successive waves of crisis management. As a resource-poor, aid-dependent country situated between some of the region's most volatile states, Jordan's economic planning has consistently prioritised stability over structural transformation. Yet no area of policymaking has had greater influence over the country's fiscal condition than the energy sector. For much of its modern history, Jordan's energy system relied almost entirely on imported fossil fuels, exposing the state to the full volatility of international energy markets and regional political risks. This dependence, when intersecting with tariff freezes, cost-recovery shortcomings and an electricity market design that transfers financial losses to the public budget, has produced a long-running pattern where external energy shocks become internal debt shocks.

At the same time, the state has developed a significant reliance on consumption and special taxes derived from fossil fuels and tobacco sales, which together generate up to US$4.8 billion annually. This creates a structural dependency where the government is incentivised to maintain high fossil fuel consumption, despite the fact that such consumption produces both high import bills and high public health costs. Jordan therefore finds itself locked in a paradoxical fiscal model where it borrows money to pay for fossil fuels, loses money when fossil fuel prices rise and simultaneously relies on fossil fuel taxes to finance debt service and essential public services. This contradictory architecture forms the core analytical focus of this case study.

To structure this analysis, the case study proceeds in seven sections. Section 2 traces the historical evolution of Jordan's debt and fossil fuel dependence, showing how successive external shocks embedded long-term structural vulnerabilities. Section 3 examines Jordan's current fiscal landscape, debt composition and the macroeconomic pressures that constrain policy choices today. Section 4 analyses the energy system, focusing on the rise and subsequent stagnation of renewable deployment and the political economy of the Israel gas deal. Section 5 explores the deeper fiscal incentives underlying fossil fuel consumption, presenting the dependency as a form of structural fiscal addiction. Section 6 outlines the medium and long-term risks that could entrench Jordan further in a fossil–debt trap, including contractual rigidity, grid constraints and revenue erosion from electrification. Section 7 offers a comprehensive set of policy recommendations that integrate fiscal reform, energy-system restructuring, electrification strategies and regional grid cooperation, while outlining the role of international financial institutions in supporting a just and debt-aware transition. Together, these sections provide a political-economy framework for understanding how Jordan can escape the structural vulnerabilities of its current indebtedness model and move toward a more resilient, sovereign, and sustainable energy future.

History of Debt and Fossil Fuel Dependence

Jordan's public debt challenges did not emerge suddenly. They unfolded progressively over decades shaped by external shocks, structural constraints and repeated cycles of structural adjustment. The first major rupture occurred in 1989, when a combination of declining remittances, weak exports and an overvalued currency triggered a balance-of-payments crisis.[1] According to the IMF, Jordan entered the crisis after virtually exhausting its international reserves and approaching default on its external debt payments. The deeper origins lay in the failure to adjust to the end of an earlier regional boom driven by high oil prices. During the first half of the 1980s, this boom had supported Jordan through strong demand for its exports, large official transfers, averaging nearly 15 percent of GDP, and substantial private remittances from Jordanians working in Gulf oil-exporting countries.[2] When oil prices collapsed in the mid-1980s, these inflows declined sharply, eroding both fiscal space and external balances. Instead of adjusting to reduced revenues, the authorities financed expanding fiscal deficits through foreign borrowing, and when external credits dried up in 1987–88, they shifted to heavy domestic financing. This rapid accumulation of fiscal obligations led to a precipitous loss of reserves and made the existing policy stance unsustainable.[3]

The crisis culminated in a steep devaluation of the dinar, the collapse of Jordan's third-largest bank (Petra Bank), an economic contraction of nearly 11 percent in 1989, inflation exceeding 25 percent and a massive external public debt equivalent to 174 percent of GDP.[4] In response, Jordan turned to the IMF and World Bank for stabilization support, initiating a period of economic liberalisation, privatisation and subsidy reform. While these measures provided short-term stabilisation, they left many of the deeper structural economic vulnerabilities unresolved, keeping the economy highly exposed to debt dependency, regional disruptions and external shocks.

Throughout the 1990s and early 2000s, Jordan experienced modest growth alongside increasing reliance on external grants, mostly from the United States and European Union and Gulf states, remittances and service-sector expansion. Yet the country's fiscal position remained precarious. Public debt was periodically reduced through donor support and privatisation revenues, but deficits persisted due to limited domestic production, high social spending commitments and a rigid public-sector wage structure. The country's vulnerability intensified with the 2003 U.S. invasion of Iraq, which disrupted trade routes, sent waves of refugees into Jordan, and increased security costs. Jordan absorbed these shocks without the fiscal buffers found in resource-rich states, relying on concessional loans to meet rising expenditures.

The most transformative shock came with the Syrian civil war in 2011, which brought more than 1.3

1 International Monetary Fund (IMF) (2006) IEO Report on the Evaluation of IMF Support to Jordan, 1989–2004. Washington D.C.: Independent Evaluation Office, IMF. **https://doi.org/10.5089/9781589064959.017**

2 Ibid. International Monetary Fund (IMF). (2006)

3 Ibid. International Monetary Fund (IMF). (2006)

4 Al Bawaba. (2023) "Jordan at 77: An economic appraisal", 24 May, Al Bawaba. **www.albawaba.com/insights/jordan-77-years-economic-appraisal-1520123**; International Monetary Fund (IMF). (2006) IEO Report on the Evaluation of IMF Support to Jordan, 1989–2004. Washington D.C.: Independent Evaluation Office, IMF. **https://doi.org/10.5089/9781589064959.017**

million refugees into Jordan, when its existing population was only 7.3 million.[5] This demographic shift placed immense pressure on public services and infrastructure, especially with challenges in managing the situation. Yet the refugee influx coincided with an even more consequential economic shock: the collapse of Egyptian gas supplies. This single event fundamentally reshaped Jordan's energy system, public finances and debt trajectory.

Before 2011, Egyptian gas supplied more than 80 percent of Jordan's electricity generation. It was cheap, reliable and politically subsidised.[6] Jordan built its entire electricity market around this low-cost import. The pipeline was repeatedly sabotaged in Sinai (more than 27 times) during the Arab Spring, highlighting the vulnerability of the fossil fuel import-dependent system. Gas flows fell sharply and eventually stopped, forcing the National Electric Power Company (NEPCO) to switch overnight to imported diesel and heavy fuel oil.[7] The cost difference was immense, especially in a period of record high oil prices, along with increased emissions and local pollution. Electricity production costs more than doubled, jumping from around US$7.7 cents per kilowatt-hour in 2009 to over USD 22 cents by 2014.[8] Tariffs were not adjusted, so NEPCO bore the full cost.

Over four years, NEPCO accumulated approximately US$7.7 billion in losses, effectively wiping out the company's financial viability.[9] These losses were transferred onto the government's balance sheet, contributing significantly to public debt. At the same time, private electricity distribution companies, insulated by regulated and guaranteed profit margins, continued to earn stable returns. NEPCO absorbing the high cost and selling electricity to distribution companies at the same price, meant that distribution companies' costs, and therefore profits, were unaffected. This created a dynamic where NEPCO became the absorber of all fuel-cost risks, producing public losses and private profits across the electricity sector.

It's worth mentioning here that Jordan unbundled its electricity sector in the early 2000s as part of the World Bank push for general austerity and privatisation reforms, including electricity sector reform programs aimed at restructuring and privatising state-owned utilities.[10] Unbundling refers to the separation of a vertically integrated public utility into distinct companies responsible for generation, transmission and distribution, with the stated aim of introducing competition and enabling private sector participation. This reform included the unbundling of the vertically integrated National Electric Power Company into separate generation, transmission and distribution companies, alongside the development of a privatisation strategy and regulatory

5 Government of Jordan. (2019) Jordan Response Plan for the Syria Crisis 2019–2020. Amman: Ministry of Planning and International Cooperation. https://jrp.gov.jo/Files/JRP2019PlanFinal.pdf ; World Bank Data. (n.d.) Population, total - Jordan **https://data.worldbank.org/indicator/SP.POP.TOTL?locations=JO**

6 Ministry of Energy and Mineral Resources (MEMR). (2009) 2009 التقرير السنوي لعام [Annual Report 2009]. Amman: MEMR **https://www.memr.gov.jo/ebv4.0/root_storage/ar/eb_list_page/2009_التقرير_السنوي_لعام.pdf**

7 National Electric Power Company (NEPCO). (2013) Annual Report 2013. Amman: NEPCO **https://www.nepco.com.jo/store/docs/web/2013_en.pdf**

8 National Electric Power Company (NEPCO). (2010) 2010 التقرير السنوي لعام [Annual Report 2010]. Amman: NEPCO https://nepco.com.jo/store/docs/web/2010_ar.pdf ; National Electric Power Company (NEPCO). (2014) 2014 التقرير السنوي لعام [Annual Report 2014]. Amman: NEPCO **https://nepco.com.jo/store/docs/web/2014_ar.pdf**

9 The Jordan Times. (2020) "NEPCO Says Noble Energy Was Last Option As Debts Hit JD5.5B", 6 Jan, The Jordan Times. **https://jordantimes.com/news/local/nepco-says-noble-energy-was-last-option-debts-hit-jd55b**

10 World Bank. (2004) Jordan—Samra power project: Project information document (PID). Washington D.C.: World Bank. **https://documents1.worldbank.org/curated/en/394321468773733318/pdf/multi0page.pdf**

framework to enable private sector participation. However, this restructuring separated risk-bearing functions from profit-generating ones, contributing to a market design in which financial exposure to fuel price shocks remained concentrated in the publicly owned transmission utility. The World Bank, itself, acknowledged in its review of the reform programme that significant risks were embedded in the new electricity market design. The report further stated that "the NEPCO crisis was partly foreseeable."[11] However, little was done to mitigate these risks in the design phase, nor were sufficient measures taken afterward to address the structural vulnerabilities created by privatization and fiscal consolidation policies. This suggests that the reform framework prioritised creating stable investment conditions for private operators, while leaving fuel price and demand risks concentrated within the public utility.

The collapse of Egyptian gas exposed deeper structural weaknesses in Jordan's electricity-market design. Under the single-buyer model, all generation contracts were channelled through NEPCO, which purchased power from producers and resold it to distribution companies. Because tariffs were not adjusted to reflect rising fuel costs, NEPCO absorbed the full financial impact of higher generation expenses, while private distribution companies remained insulated from losses and even made profits. This structure concentrated fuel-price risk on the public and limited flexibility in managing long-term power purchase agreements. As a result, external energy shocks translated directly into public losses and debt accumulation. The lack of diversified energy sources further amplified this vulnerability. It was within this structurally fragile system that Jordan's debt worsened sharply, confirming that fossil fuels were not only an energy and environmental liability but a fiscal one as well.

Jordan's Current Economic and Debt Status

Today, Jordan's debt-to-GDP ratio remains among the highest in the region. As of early 2025, public debt excluding Social Security Investment Fund holdings (SSIF) is approximately US$49.5 billion, equivalent to around 91.5 percent of GDP. When SSIF holdings are included, the debt ratio becomes 116 percent of GDP.[12] This level of indebtedness places Jordan in a structurally constrained fiscal position, limiting its ability to invest in infrastructure, social programs and energy transition initiatives.

Debt servicing is now one of the largest and most rigid components of Jordan's public finance, comprising up to 39 percent of government revenues in 2024. The government paid US$4.88 billion in debt service, with an additional US$303 million in guaranteed external payments for state-owned enterprises such as NEPCO and the Water Authority of Jordan (WAJ). This brings total public-sector debt service to roughly US$5.19 billion. Additionally, 60 percent of the US$4.88 billion paid went to interest payments and only 40 percent to actual principal payment.[13]

This scale of debt servicing becomes even more alarming when placed alongside Jordan's spending on essential public services. In 2024, the government allocated US$1.40 billion to health, US$1.68

11 World Bank. (2016) Jordan systematic country diagnostic. Washington D.C.: World Bank Group. **https://documents1.worldbank.org/curated/en/368161467992043090/pdf/103433-replacement.pdf**

12 Ministry of Finance (MoF). (2025) 2025 تقرير الدين العام الربعي – الربع الأول [Public Debt Quarterly Report – Q1 2025]. Amman: MoF. **https://mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/public_debt_quarterly_report_-q1_2025_.pdf**

13 Ibid. Ministry of Finance (MoF). (2025)

billion to education and a mere US$5.2 million to environmental protection. These amounts are significantly lower than what is being diverted to service past borrowing. In practical terms, Jordan spent almost four times more on debt service than on health, three times more than on education and more than 900 times more than on environmental protection. Such an imbalance underscores the severe opportunity cost of high indebtedness. Critical human development and climate-resilience sectors are being systematically underfunded not because of a lack of need but because an ever-increasing share of the budget is absorbed by rigid debt service obligations.[14]

Jordan's debt challenge is also composed of composition and maturity structural challenges. 51 percent of public debt, excluding SSIF, is external and denominated in foreign currency, which exposes the fiscal position to exchange-rate movements and global interest-rate cycles.[15] This exposure has real implications, during the post-2022 global monetary tightening, including U.S. Federal Reserve rate hikes, Jordan's borrowing costs were also increased in tandem, often within one or two business days.[16] The government has increasingly relied on Eurobonds to secure liquidity during periods of market stress, raising refinancing risks as several large maturities fall due between 2025 and 2029, up to US$5 billion.[17] On the domestic side, the maturity profile has shortened, with a growing share of government borrowing concentrated in short and medium-term instruments, amplifying interest-rate sensitivity and rollover risk.[18] Shorter maturities increase interest-rate sensitivity because the government must frequently refinance its debtRollover risk refers to the possibility of having to replace maturing debt at higher interest rates or less favorable terms, which can deepen a debt trap. These structural features add layers of vulnerability to an already heavy debt burden.

Jordan's external creditor structure is diverse and complex. Multilateral institutions such as the IMF, World Bank, European Bank for Reconstruction and Development (EBRD) and various Arab development funds provide normal and concessional loans tied to reform commitments. Bilateral lenders, including Japan, EU member states and Gulf Cooperation Council countries contribute grants and soft loans while domestic banks and SSIF also hold significant government securities.[19] Commercial borrowing, primarily through Eurobonds, has increased as Jordan has sought to maintain liquidity.[20]

Beyond the composition of debt, however, creditors also shape Jordan's policy space as active political actors rather than neutral financial providers. IMF programmes have often emphasised

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14 Ministry of Finance (MoF). (2025) نشرة مالية الحكومة العامة [General Government Financial Bulletin]. Amman: MoF **https://www.mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/arabic_aug__compressed.pdf**

15 Ministry of Finance (MoF). (2025) 2025 تقرير الدين العام الربعي – الربع الأول [Public Debt Quarterly Report – Q1 2025]. Amman: MoF. **https://mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/public_debt_quarterly_report_-q1_2025_.pdf**

16 Central Bank of Jordan. (2022) "The Central Bank of Jordan raises the interest rates", 16 Jun, **https://www.cbj.gov.jo/En/newsdetails/The_Central_Bank_of_Jordan_raises_the_interest_rates**

17 International Monetary Fund (IMF). (2025) Jordan: Third Review Under the Extended Fund Facility [IMF Country Report No. 25/155]. Washington D.C.: IMF **https://www.imf.org/-/media/files/publications/cr/2025/english/1jorea2025001-print-pdf.pdf**

18 Ministry of Finance (MoF). (2025) **2025** تقرير الدين العام الربعي – الربع الأول [Public Debt Quarterly Report – Q1 2025]. Amman: MoF. **https://mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/public_debt_quarterly_report_-q1_2025_.pdf**

19 Ibid. Ministry of Finance (MoF). (2025)

20 Petra News Agency. (2025) "Jordan Issues Eurobonds in International Financial Markets at Competitive Interest Rates of 5.75%, 1.75% Lower Than in 2023", 4 Nov, Petra News Agency. **https://www.petra.gov.jo/Include/InnerPage.jsp?ID=77791&lang=en&name=en_news** ; The Jordan Times. (2023) "Jordan Issues Eurobonds Worth $1.250 Billion at Coupon Rate of 7.5%", 5 Apr, The Jordan Times. **https://jordantimes.com/news/local/jordan-issues-eurbonds-worth-1250-billion-coupon-rate-75**

austerity measures, subsidy removal, privatisation of public assets and cost-recovery reforms, including pressure to reduce electricity subsidies and adjust tariffs to reflect fuel costs. While intended to stabilise public finances, such measures can narrow short-term policy options and encourage governments to prioritise immediate budget balance over longer-term structural transformation. At the same time, reliance on international bond markets exposes Jordan to the risk of credit rating downgrades and refinancing risks, creating incentives to protect predictable revenue sources and avoid policies perceived as fiscally risky. Bilateral lenders can further influence decisions through loan conditions and refinancing timelines. In practice, these combined pressures constrain Jordan's energy choices and reinforce cautious, austerity-oriented decisions.

This paper argues that Jordan's debt accumulation dynamics have been structurally shaped by fossil fuel related fiscal shocks, which helps explain why spikes in borrowing repeatedly coincide with periods of energy stress. What unites these various forms of borrowing is that major increases in debt issuance have tended to follow disruptions in energy supply or surges in global fuel prices. The debt trajectory of Jordan from 2009 to 2023 partially mirrors global oil-price movements. Importantly, the fiscal impact of high oil prices is not temporary. Elevated energy costs strain public finances over multiple years and debt incurred during these periods is rarely reversed but instead becomes embedded in the sovereign balance sheet. This dynamic was particularly evident following the 2011 energy shock when Jordan faced both supply disruptions and high oil prices.[21] Debt continued to rise until the mid-2010s, even as global oil prices declined, prior to the securing of LNG imports and commissioning renewable energy projects as alternatives to generating electricity with high cost from heavy fuel oil.[22]

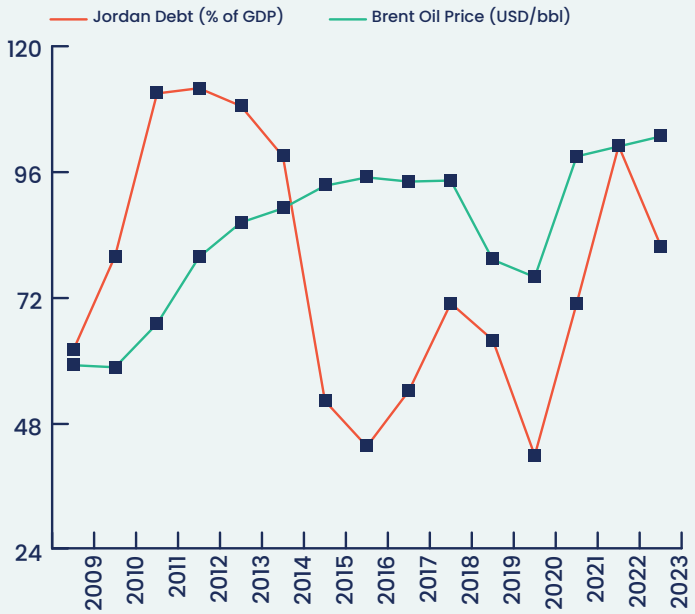


Figure 1. Jordan Debt vs Oil Prices, 2011–2023

Source: (World Bank, 2025 / EIA, 2025)[23]

21 World Bank. (n.d.) Central Government Debt, Total (% of GDP) – Jordan. https://data.worldbank.org/indicator/GC.DOD.TOTL.GD.ZS?locations=JO ; U.S. Energy Information Administration. (2025) Europe Brent Spot Price FOB (Dollars Per Barrel). **https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=RBRTE&f=A**

22 World Bank, (2016) Second Programmatic Energy and Water Sector Reforms Development Policy Loan. Washington D.C.: World Bank **https://www.globalcff.org/wp-content/uploads/2023/06/Jordan-Energy-Water-DPL-PD-11112016.pdf**

23 World Bank. (n.d.) Central Government Debt, Total (% of GDP) – Jordan. **https://data.worldbank.org/indicator/GC.**

NEPCO remains one of the largest contributors to contingent liabilities. These are potential obligations that the government may have to cover if NEPCO cannot meet its debts, effectively making the company's financial shortfalls a hidden fiscal risk. Its operational deficits, though reduced in recent years, continue to impose fiscal pressure. The company's debts are effectively sovereign debts. Similarly, the water sector's financial deficits, driven by pumping costs, system inefficiencies and climate stress, add further burdens. The combined effect is a fiscal ecosystem where public debt is not simply a macroeconomic phenomenon but a manifestation of energy-sector vulnerabilities. As long as Jordan remains dependent on expensive and variable imported fossil fuels and long-term fossil infrastructure contracts, its debt trajectory will remain structurally constrained.

Jordan's fiscal pressures are compounded by a structurally narrow revenue base and a steady decline in external grants. Government revenues hover around 25-26 percent of GDP, well below the levels of peer economies with comparable debt loads, limiting the state's ability to generate fiscal space without resorting to additional borrowing.[24] At the same time, foreign grants, which averaged above 10 percent of total revenues in the early 2010s, with its highest in 2011 of 22 percent of total revenues, have fallen to 9, 8 and 7 percent in 2022, 2023 and 2024 respectively.[25] This leads the government to finance essential public services through debt rather than foreign grants. This erosion of concessional financing has weakened Jordan's fiscal buffers just as debt-servicing needs have intensified, deepening structural dependency on domestic and external borrowing.

Finally, high public-sector borrowing has also generated significant crowding-out pressures on the domestic economy. Banks and the SSIF collectively hold the majority of government securities, making sovereign debt a lower-risk and higher-return investment than lending to businesses.[26] This contributed to sluggish private-sector credit growth, typically in the range of 2-3 percent annually, constraining investment, job creation and productivity.[27] The dominance of government borrowing in domestic capital markets diverts financial resources away from firms, particularly SMEs, reinforcing a cycle in which limited private-sector dynamism further suppresses sustainable growth and weakens the tax base needed to stabilise public finances.[28]

DOD.TOTL.GD.ZS?locations=JO ; U.S. Energy Information Administration. (2025) Europe Brent Spot Price FOB (Dollars Per Barrel). **https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=RBRTE&f=A**

24 International Monetary Fund (IMF). (2025) Jordan: Third Review Under the Extended Fund Facility [IMF Country Report No. 25/155]. Washington D.C.: IMF **https://www.imf.org/-/media/files/publications/cr/2025/english/1jorea2025001-print-pdf.pdf**

25 Ministry of Finance (MoF). (2016) نشرة مالية الحكومة لشهر كانون أول 2016 [Government Financial Bulletin for December 2016]. Amman: MoF. **https://www.mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/2016_نشرة_مالية_الحكومة_لشهر_كانون_اول.pdf** ; Ministry of Finance (MoF). (2025) نشرة مالية الحكومة العامة [General Government Financial Bulletin]. Amman: MoF **https://www.mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/arabic_aug__compressed.pdf**

26 Ministry of Finance (MoF). (2025) **تقرير الدين العام الربعي – الربع الأول 2025** [Public Debt Quarterly Report – Q1 2025]. Amman: MoF. **https://mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/public_debt_quarterly_report_-q1_2025_.pdf**

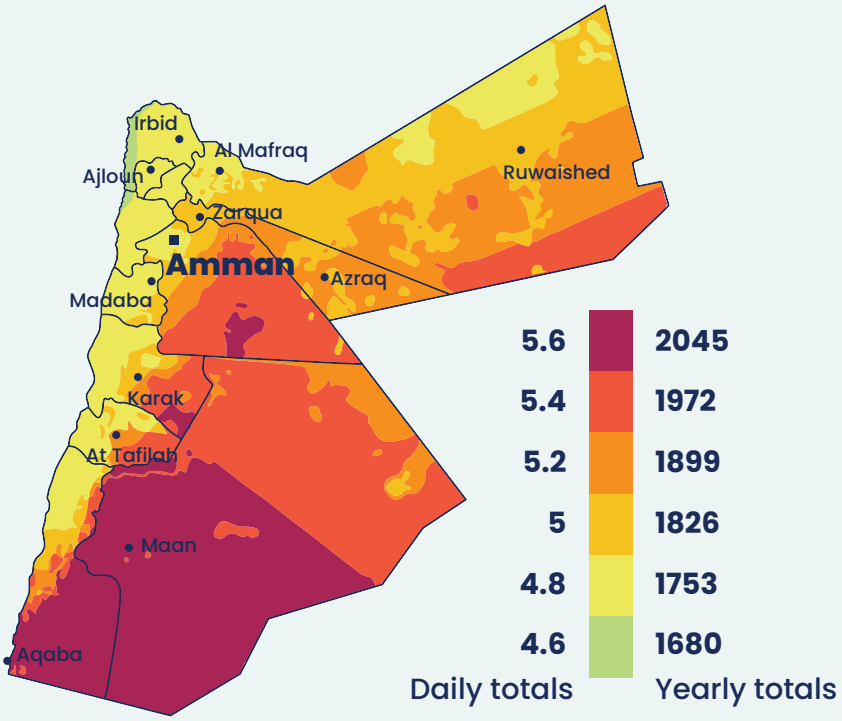
27 Central Bank of Jordan (CoB). (2024) Recent Monetary & Economic Developments in Jordan Research Dept / Monthly Report December, 2024. Amman: CoB. **https://www.cbj.gov.jo/ebv4.0/root_storage/en/eb_list_page/december-2024.pdf**

28 Jordan Strategy Forum (JSF). (2018) Crowding-Out Effect Policy Paper. Amman: JSF. **https://jsf.org/uploads/EN-Crowding-Out%20Effect%20Policy%20Paper.pdf**

The Energy Crisis and the Rise and Fall of Renewable Energy Deployment

THE RISE AND FALL OF RENEWABLE ENERGY IN JORDAN

In response to the collapse of Egyptian gas supplies, Jordan undertook one of the most ambitious renewable energy expansions in the region. The Renewable Energy and Energy Efficiency Law of 2012 created an enabling environment for investors through direct proposal mechanisms, competitive bidding, energy wheeling frameworks (selling electricity from one site to a user at another site via the grid) and net-metering provisions (allowing residential, commercial, or industrial locations to feed excess electricity back into the grid and offset their bills). Jordan leveraged its excellent solar irradiance and wind corridors to rapidly scale renewable capacity. Located within the global sun belt, Jordan records average global solar radiation of around 1,400–2,300 kWh/m² per year and more than 300 sunny days annually, placing it among the countries with the highest solar irradiance in the world.[29] Recent global assessments based on the World Bank's Global Solar Atlas estimate Jordan's average global horizontal irradiance (GHI) at about 6.0 kWh/m²/day and its global range of practical PV potential (PVOUT) (PVOUT) at 5.32 kWh/kWp/day, ranking third worldwide for photovoltaic output yield, underscoring the world-class quality of its solar resource base.[30]



Long Term Average of PVOUT / Period 1999-2018

29 United Nations Economic and Social Commission for Western Asia (ESCWA). (2017) Policy Reforms to Promote Renewable Energy in Jordan. Beirut: ESCWA. **https://www.unescwa.org/sites/default/files/pubs/pdf/policy-reforms-promote-renewable-energy-jordan-english.pdf**

30 Global Solar Atlas. (n.d.) Global PV Potential Study. Retrieved 2025, from **https://globalsolaratlas.info/global-pv-potential-study**

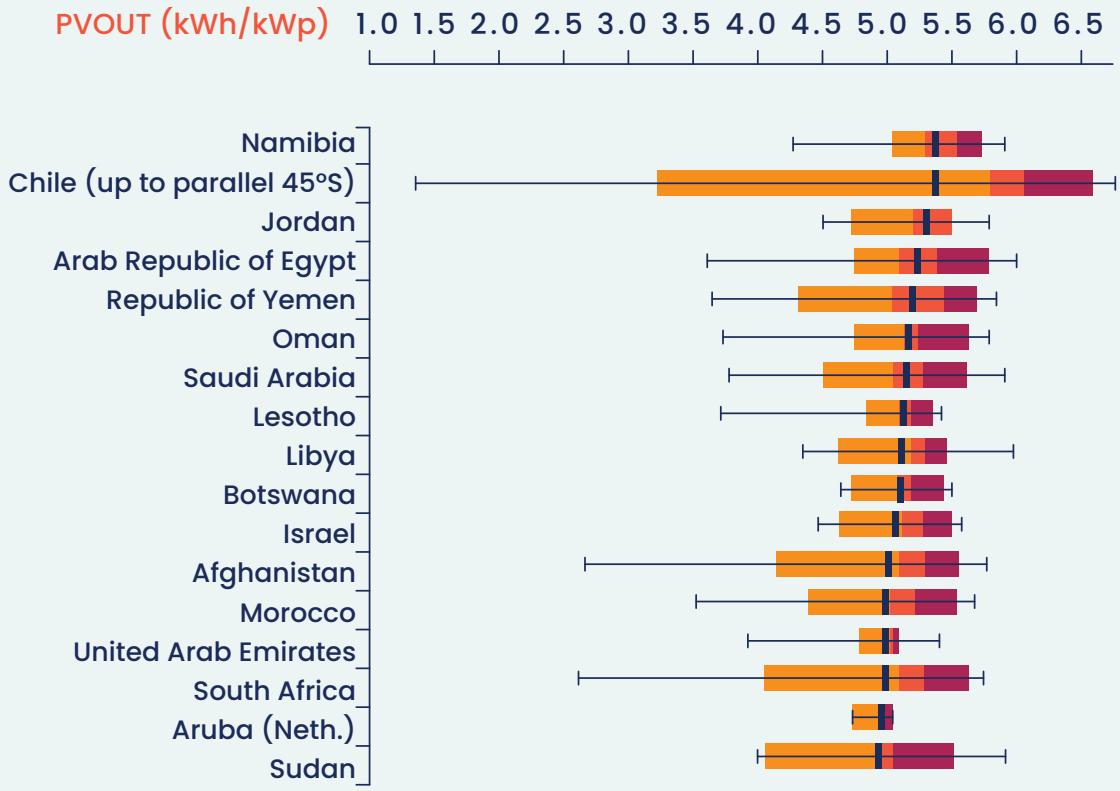


Figure 2 and 3. Photovoltaic Power Potential

Source: (SolarGIS, 2021 / ESMAP World Bank, 2020)[31]

Between 2014 and 2021, Jordan went from less than 0.7 percent electricity generation from renewable energy to 26 percent by installing 2,446 MW of renewable energy capacity.[32] This is one of the highest shares in the region excluding hydropower and one of the fastest paces of renewable energy deployment. International agencies frequently cited Jordan as a regional pioneer, demonstrating how regulatory reform, investment clarity and political commitment could attract global capital even in a resource-poor economy.

The economic rationale for renewables in Jordan was exceptionally strong. Solar and wind bids in Jordan reached much lower than the up to US$22 cents cost of electricity produced from imported fuel oil or LNG.[33] Every kilowatt-hour generated by renewables reduced fuel imports and its cost burden and contributed to fiscal stabilisation. The renewable energy sector generated more than 33,500 new jobs, a notable contribution in an economy where youth unemployment

31 Solargis. (n.d.) Free Maps and GIS Data. Retrieved 2025, from **https://solargis.com/resources/free-maps-and-gis-data?locality=jordan** ; Global Solar Atlas. (n.d.) Global PV Potential Study. Retrieved 2025, from **https://globalsolaratlas.info/global-pv-potential-study**

32 International Renewable Energy Agency (IRENA). (2021) Renewables Readiness Assessment: The Hashemite Kingdom of Jordan. Abu Dhabi: IRENA. **https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2021/Feb/IRENA_RRA_Jordan_2021.pdf** ; Ministry of Energy and Mineral Resources (MEMR). (2021) **2021** التقرير السنوي [Annual Report 2021]. Amman: MEMR **https://www.memr.gov.jo/ebv4.0/root_storage/ar/eb_list_page/annual_report_2021_ar.pdf**

33 National Electric Power Company (NEPCO). (2014) 2014 التقرير السنوي [Annual Report 2014]. Amman: NEPCO **https://nepco.com.jo/store/docs/web/2014_ar.pdf**

is one of the highest globally, reaching 46.6 percent.[34] Additionally, the sector strengthened local supply chains and mobilised private-sector investment across both grid-connected and distributed generation projects.[35]

The government was also able to upgrade the transmission capacity of the grid through the Green Corridor project started in 2015 and finished in 2021 to increase the transmission capacity from the south which is more favourable for renewable energy generation to the north where the biggest load is. The project was a good step, increasing the grid's transmission capacity to accommodate renewables, increasing the grid's transmission capacity by 1,200 MW.[36]

Despite Jordan's monumental success in renewable energy development, renewable expansion slowed dramatically, between 2021 and 2024 the percentage of renewable energy contribution to electricity generation only increased from 26to 26.92 percent.[37] The constant double-digit year-on-year growth seen in the previous years was reduced to approximately 5 percent.[38] The Ministry of Energy and Mineral Resources declared the grid saturated and suspended new approvals for renewable energy projects. Curtailment rates increased, particularly during peak solar production hours.[39] These technical explanations, while not unfounded, obscure a deeper political economic reality. Jordan had just entered into a gas deal with Israel worth US$15 billion and the contractual obligations associated with that deal fundamentally altered the available space for renewable growth.

The gas contract with Israel imposed take-or-pay provisions that required Jordan to purchase a minimum volume of gas irrespective of demand.[40] This created a rigid baseload supply that reduced the grid's flexibility to absorb additional renewable electricity. Curtailment and slowing down renewable energy growth became economically necessary to prioritise contractual gas obligations. The renewable expansion, which had positioned Jordan as a model for the region, was stalled not by technical limitations but by the political and fiscal consequences of fossil fuel lock-in. What had been a success story became constrained by contractual rigidity and institutional inertia.

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34 International Labour Organization (ILO). (2025) Hashemite Kingdom of Jordan: The Employment, Environment, Climate Nexus Factsheet. Beirut: ILO. **https://www.ilo.org/sites/default/files/2025-10/Jordan_Employment_Environment_Factsheet_v5.pdf**

35 International Renewable Energy Agency (IRENA). (2021) Renewables Readiness Assessment: The Hashemite Kingdom of Jordan. Abu Dhabi: IRENA. **https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2021/Feb/IRENA_RRA_Jordan_2021.pdf**

36 United Nations Industrial Development Organization (UNIDO). (2023) Western Asia- World Small Hydropower Development Report 2022. Vienna: UNIDO **https://www.unido.org/sites/default/files/files/2023-08/WESTERN_ASIA_2022.pdf**

37 Ministry of Energy and Mineral Resources (MEMR). (2024) 2024 التقرير السنوي [Annual Report 2024]. Amman: MEMR **https://www.memr.gov.jo/ebv4.0/root_storage/ar/eb_list_page/annualreport2024-f.pdf** ; Ministry of Energy and Mineral Resources (MEMR). (2021) 2021 التقرير السنوي [Annual Report 2021]. Amman: MEMR **https://www.memr.gov.jo/ebv4.0/root_storage/ar/eb_list_page/annual_report_2021_ar.pdf**

38 Ministry of Energy and Mineral Resources (MEMR). (n.d.) التقارير السنوية [Annual Reports]. **https://www.memr.gov.jo/AR/List/**التقارير_السنوية

39 Ministry of Energy and Mineral Resources (MEMR). (n.d.) وقف مشاريع توليد الكهرباء لفترة مؤقتة ولأسباب تنظيمية [Suspension of Electricity Generation Projects Temporarily for Regulatory Reasons]. Amman: MEMR. **https://memr.gov.jo/Ar/NewsDetails/**وقف_مشاريع_توليد_الكهرباء_لفترة_مؤقتة_ولأسباب_تنظيمي

40 Offshore Energy. (2016) "Leviathan Partners Strike Gas Supply Deal With Jordan's NEPCO", 26 Sep. Offshore Energy. **https://www.offshore-energy.biz/leviathan-partners-strike-gas-supply-deal-with-jordans-nepco/**

FOSSIL FUEL LOCK-IN, FISCAL CONSEQUENCES, AND PUBLIC OPPOSITION

The Israel gas deal stands as one of the most controversial energy agreements in Jordan's recent history. In 2014, Jordan signed a memorandum of understanding with American and Israeli partners developing the Leviathan offshore gas field. The deal, estimated at around USD 15 billion over its term, was justified by officials as a means to secure stable gas supplies after the Egyptian pipeline collapse.[41] Deliveries began in 2020 with NEPCO as the principal off-taker.[42]

Public reaction was overwhelmingly negative. Civil society organisations, including Jordan's powerful Professional Associations, labor unions, political parties and grassroots and youth groups, mobilised against the agreement. Demonstrations took place across Amman and other major cities. The parliament voted symbolically to reject the deal after strong pressure by constituencies. Critics framed the agreement as undermining Jordan's political autonomy, deepening economic dependency and locking the country into long-term fossil fuel reliance at a time when renewable alternatives were rapidly becoming more viable.[43]

The perception that the deal was "forced" emerged from several institutional and geopolitical dynamics. The government withheld key contractual terms from public disclosure, heightening distrust. The Constitutional Court ruled that the agreement did not require parliamentary approval, effectively sidelining elected representatives.[44] NEPCO's dire financial situation and international pressure to stabilise its finances limited Jordan's negotiating leverage. According to political analysts, international actors, particularly the United States, supported regional energy integration as part of broader diplomatic objectives, mainly securing an offtaker for developing Israel's nascent gas fields, with the hope it will play a role in supplying natural gas to Europe in the future, replacing Russia. These factors combined to create a widespread belief that the deal was imposed against the will of the Jordanian people and their representative bodies.

Financially, the Israeli gas deal was scrutinised for not disclosing the price publicly, with most analysts saying it was much more expensive than global benchmarks. It also redirected billions of dollars toward fossil fuel expenditures that could have been invested in grid modernisation, energy storage, and a more ambitious renewable agenda. The deal became both a symbol and a mechanism of lock-in, constraining the country's ability to pursue cleaner, cheaper, and more sovereign energy pathways.

Additionally, the Jordanian government locked its energy sourcing into another fossil fuel deal: the Attarat Oil Shale project. Oil shale (not to be confused with shale oil[45]) is a kerogen-rich sedimentary

41 Newman, M. (2014) "Israel Signs $15 Billion Gas Deal With Jordan", 3 Sep, Times of Israel **https://www.timesofisrael.com/israel-signs-15-billion-gas-deal-with-jordan/**

42 The Jordan Times. (2020) "NEPCO Says Noble Energy Was Last Option as Debts Hit JD5.5 Billion", 6 Jan, The Jordan Times. **https://jordantimes.com/news/local/nepco-says-noble-energy-was-last-option-debts-hit-jd55b**

43 Debaja, A. (2015) "Jordan's Gas Deal That Won't Go Away", 19 Mar, Middle East Eye. **https://www.middleeasteye.net/news/jordans-gas-deal-wont-go-away**

44 The Jordan Times. (2019) "Constitutional Court Says Parliament Has No Say Over Gas Deal With Israel", 19 Nov, The Jordan Times. **https://jordantimes.com/news/local/constitutional-court-says-parliament-has-no-say-over-gas-deal-israel**

45 Shale oil is often used to mean tight oil (oil produced from low-permeability formations using hydraulic fracturing), which is a different resource and extraction pathway. Source: EIA. (n.d) Retrieved from: **https://www.eia.gov/tools/glossary/index.php?id=Tight_oil&utm**

rock that can be burned directly for power or heated to produce oil-like hydrocarbons. Jordan's Ministry of Energy states that oil shale needs pyrolysis (a thermal process that breaks down material by heating it without oxygen) at ~500–600°C.[46] The Attarat project is a large baseload 470 MW net with the aim to produce 15 percent of Jordan's electricity and tied to an integrated open-pit mine (often cited at ~10 million tonnes/year of oil shale feed).[47]

Financially and contractually, Attarat is structured around long-lived lock-in. The project is widely reported as a large private investment of US$2.1 billion development and it sells power to NEPCO under a 30-year Power Purchase Agreement (PPA).[48] The PPA price has been politically contentious: NEPCO and the Government initiated arbitration citing "exorbitant pricing" with a tariff of USD 0.17/kWh, however, NEPCO lost the case.[49] This tariff is several times higher than prevailing renewable energy prices in Jordan and remains even more expensive than renewable energy combined with utility-scale battery storage. This showcases how a fossil fuel project of this magnitude brings a significant risk of stranded assets and unfair Investor–State Dispute Settlement (ISDS) procedures that usually favours investors over the public good, especially in countries in the Global South.

On carbon footprint, publicly available Jordanian government materials typically describe the project and approvals but do not consistently publish a single plant-level "gCO_2e/kWh" figure. However, a World Bank climate investment document warns that a 500–600 MW oil-shale plant could add around 3–4 million tonnes CO_2 (MtCO2)/year, underscoring an extremely high emissions profile relative to gas and renewables.[50] The IEA lists Jordan's "coal" emissions as 4 MtCO2 in 2023 which is attributed to the attarat project, while the total electricity and heating emissions are 11.2 MtCO2 in the same year. These numbers indicate that the Attarat project is emitting 36 percent of the emissions attributed to electricity and heating generation while only contributing to 12.6 percent of electricity generation.[51] Furthermore, the Attarat project reversed a peak emission trend for Jordan. The IEA tracking of Jordan's emissions show that Jordan's emissions peaked in 2017 and started a downward trend, but the trend was reversed with the start of the Attarat project, and after decreasing for 3 years, emissions started going back up to the point that in 2023 emissions are equivalent to 2017 again.[52]

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46 Ministry of Energy and Mineral Resources (MEMR). (2019) Jordanian Oil Shale 2019. Amman: MEMR. **https://www.memr.gov.jo/EBV4.0/Root_Storage/EN/Project/Oil_Shale.pdf**

47 Attarat Power Company. (n.d.) "The Plant Significance". https://attaratpower.com.jo/project-significance/ ; Attarat Power Company. (2024) APCO Company Profile. **https://attaratpower.com.jo/wp-content/uploads/2024/12/Apco-Company-Profile-1.pdf**

48 Al-Khalidi, S. (2017) "Jordan Moves Ahead With $2.1 Bln Oil Shale Power Plant", 16 Mar, Reuters. **www.reuters.com/article/markets/commodities/jordan-moves-ahead-with-21-bln-oil-shale-power-plant-idUSL5N1GT4IF/**

49 Jordan News Agency (Petra). (2024) "Arbitration Panel Dismisses Case on Exorbitant Pricing in NEPCO-APCO Agreement", 6 Aug, **https://www.petra.gov.jo/Include/InnerPage.jsp?ID=62308&lang=en&name=en_news** ; AidData. (n.d.) Project: Attarat Oil Shale Fired Power Plant — PPA price and financing details. China Global Development Dashboard. **https://china.aiddata.org/projects/72499**

50 World Bank. (2012) Carbon Capture and Storage (CCS) Capacity Building Technical Assistance. Washington D.C.: World Bank. **https://openknowledge.worldbank.org/bitstreams/49651ed0-f168-55b4-b030-03fb9ca0a8e1/download**

51 International Energy Agency (IEA). (n.d.) Jordan – Emissions. **www.iea.org/countries/jordan/emissions** ; Ministry of Energy and Mineral Resources (MEMR). (2023) Annual Report 2023. Amman: MEMR. **www.memr.gov.jo/ebv4.0/root_storage/en/eb_list_page/annual_report_2023-3.pdf**

52 International Energy Agency (IEA). (n.d.) Jordan – Emissions. **https://www.iea.org/countries/jordan/emissions**

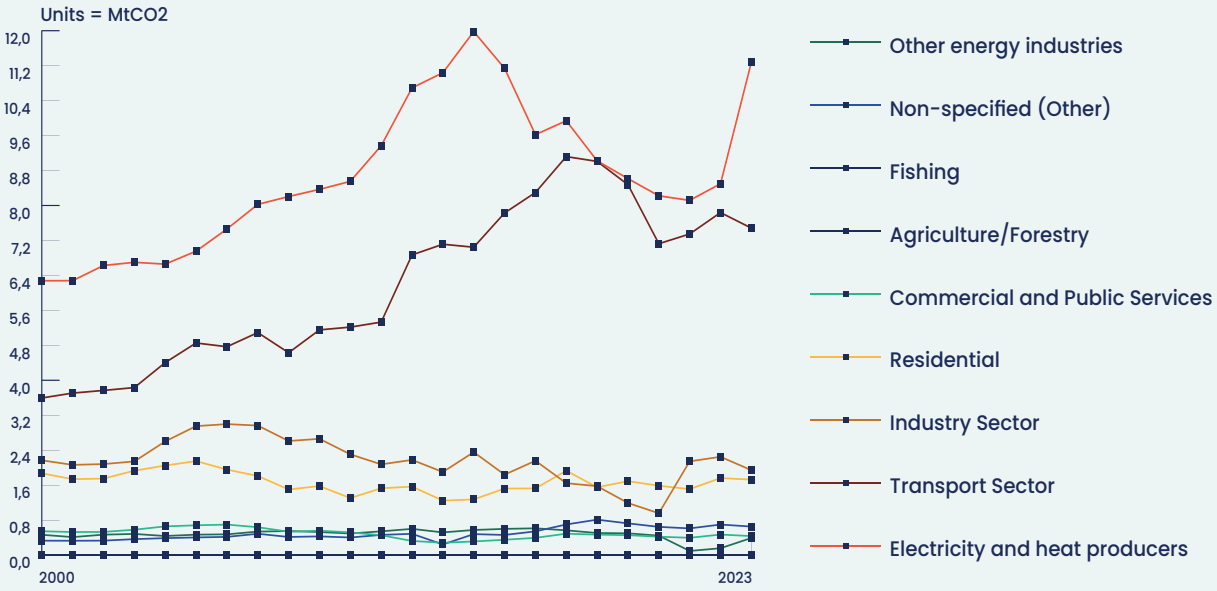

Figure 4. Evolution of CO2 Emissions by Sector in Jordan

Source: International Energy Agency. Licence CC BY 0.4

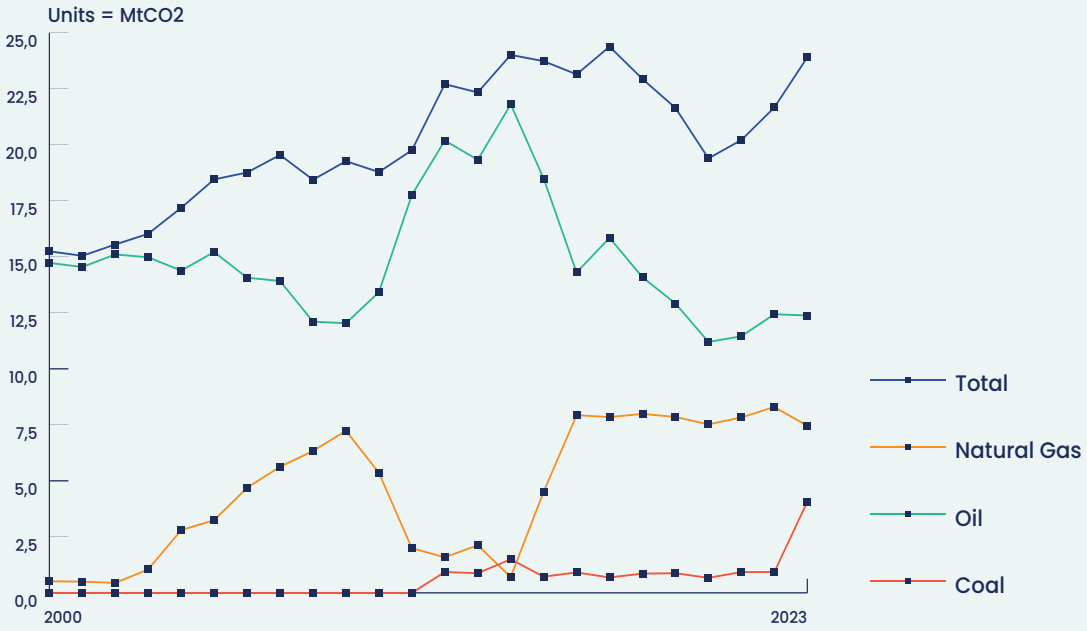

Figure 5. Evolution of CO2 Emissions by Fuel in Jordan

Source: International Energy Agency. Licence CC BY 0.4

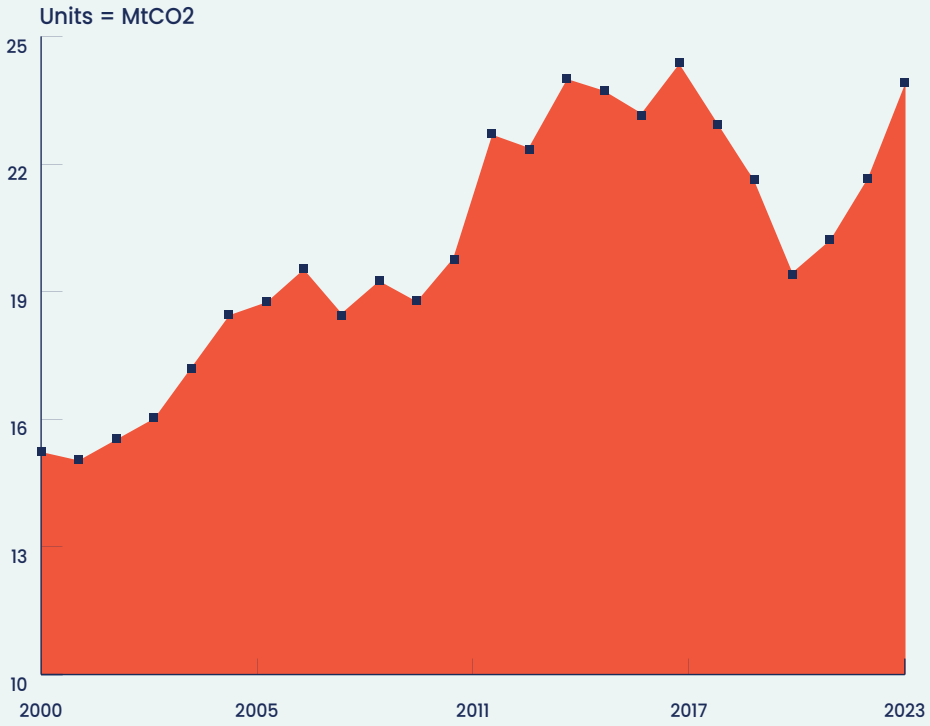

Figure 6. CO2 Emissions from Fuel Combustion, Jordan

Source: International Energy Agency. Licence CC BY 0.4

Beyond political and financial controversy, the Israeli gas deal and Attarat project profoundly shaped Jordan's energy transition. The take-or-pay clauses required NEPCO to purchase fixed quantities of gas and electricity produced from burning oil shale regardless of electricity demand or the availability of cheaper renewable energy. These obligations crowded further renewable deployment and reinforced fossil fuel dependency. Jordan's positive march to sustainability and decreasing carbon emissions was reversed, and locked in on a high emissions path for decades.

Fossil Fuel Addiction: "Drill, Baby, Drill" mirrored by Fossil Fuel Consumption Addiction

Jordan's relationship with fossil fuels is not limited to import dependence; it extends into the very structure of government revenue. Although public figures do not specify tax revenue breakdown, different sources, including the official governmental news agency Petra, estimate that the state derives up to US$2.8 billion in annual revenues from fuel taxes.[53] Additionally, the government collects around US$1.4 billion from cigarette taxes.[54] Together, these two revenue streams contribute around US$4 to 4.2 billion annually, representing roughly a quarter to a third of local government revenues depending on the year.[55] This fiscal reliance creates strong political incentives to maintain

53 Jordan News Agency (Petra). (2021) "Fuel Tax Injects JD2 Bln Into State Treasury Annually, Minister", 9 Feb, Petra. **www.petra.gov.jo/Include/InnerPage.jsp?ID=32221&lang=en&name=en_news**

54 Ersan, M. (2025) "Tobacco Sales in Jordan: Short-Term Revenue Gains and Long-Term Losses (Infographic)", 30 Sep, AmmanNet. **https://ammannet.net/english/tobacco-sales-jordan-short-term-revenue-gains-and-long-term-losses-infographic**

55 Ministry of Finance (MoF). (2025) نشرة مالية الحكومة العامة [General Government Financial Bulletin]. Amman: MoF **www.mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/arabic_aug__compressed.pdf**

high levels of consumption even when national policy goals emphasise sustainability, energy diversification and public health.

This dynamic is not unique to Jordan. Rather, it reflects a broader political-economy pattern in which governments become structurally dependent on revenue from the production, or consumption, of harmful commodities. In the United States, for example, longstanding reliance on fossil fuels, politically reinforced across different administrations, and seen through slogans such as President Donald Trump's "Drill, Baby, Drill", has helped entrench continued production and consumption despite climate-transition imperatives.[56] Jordan's fiscal dependence on fossil fuel and cigarette consumption operates through a similar logic, albeit through a different lens The state's budgetary structure creates incentives that implicitly favour, or at least cannot get off, ongoing demand for products that undermine environmental and public-health objectives. To mirror Trump's model, Jordan's version is a model built on the revenues coming from burning fossil fuels (and cigarettes)[57] highlighting the tension between short-term revenues to meet immediate fiscal needs and long-term sustainability goals.

The consequences of this dependency are systemic. Burning fossil fuel contributes to air pollution causing respiratory disease, cardiovascular illnesses and climate vulnerability. Cigarette consumption exacerbates chronic disease burdens, reduces labour productivity and increases healthcare expenditures. Jordan consistently ranks among the countries with the highest smoking rates and one article by The Guardian claimed that Jordan was the highest in the world in 2020.[58] The economic cost of these negative externalities is substantial. Globally, the WHO estimates that tobacco-related harms cost countries between 1.8 percent of GDP in healthcare and productivity losses, while in Jordan the health expenditure from tobacco is estimated at US$2.1 billion annually, higher than the revenues the government collects.[59] Fossil fuel pollution generates even larger economic burdens in the form of morbidity, premature mortality and reduced labor participation. Jordan therefore relies on revenues generated from activities that simultaneously erode its public health, fiscal stability and long-term development potential.

Although no studies have yet quantified the public-health cost of fossil fuel combustion for Jordan specifically, extensive global evidence demonstrates that burning oil and gas significantly increases exposure to fine particulate matter and nitrogen oxides, pollutants linked to higher rates of cardiovascular disease, respiratory illness and approximately 4.2 million premature deaths annually.[60] Jordan's heavy reliance on imported fossil fuels also imposes a macroeconomic burden Energy imports constitute a huge portion of imports in Jordan that fluctuates hugely based on

56 Martínez, A., Mai H.J. (2024) "Trump Promises More Drilling in the U.S. to Boost Fossil Fuel Production", 13 Nov, **www.npr.org/2024/11/13/nx-s1-5181963/trump-promises-more-drilling-in-the-u-s-to-boost-fossil-fuel-production**

57 As one analyst described it: Echoing Trump's "Drill, Baby, Drill", Jordan's structural reliance on tax revenue from burning fossil fuel and cigarettes can be coined as "Burn, Habibi, Burn".

58 World Population Review. (2025) Smoking Rates by Country. **https://worldpopulationreview.com/country-rankings/smoking-rates-by-country** ; Safi, M., Al-Tahat, J. (2020) "Jordan Smoking Rates Highest in World Amid Claims of Big Tobacco Interference", 23 Jun, The Guardian. **www.theguardian.com/world/2020/jun/23/jordan-smoking-rates-highest-in-world-amid-claims-of-big-tobacco-interference**

59 Ersan, M. (2025) "Tobacco Sales in Jordan: Short-Term Revenue Gains and Long-Term Losses (Infographic)", 30 Sep, AmmanNet. **https://ammannet.net/english/tobacco-sales-jordan-short-term-revenue-gains-and-long-term-losses-infographic**

60 World Health Organization (WHO). (2024) "Ambient (Outdoor) Air Quality and Health", 24 Oct, WHO. **https://www.who.int/news-room/fact-sheets/detail/ambient-(outdoor)-air-quality-and-health**

global energy prices. For example, in 2012 Jordan imported US$6.7 billion worth of fossil fuel or the equivalent of 20 percent of GDP. In 2022, it imported US$4.9 billion, the equivalent of 10 percent of GDP, contributing materially to the country's structural trade imbalance.[61]

Together, these dynamics underscore how Jordan's twin dependencies on taxes collected from the consumption of fossil fuels and tobacco create intertwined economic and public-health challenges that complicate long-term sustainability and wellbeing while prioritising short-term gains. This dual reliance on fossil fuel and cigarette consumption is best understood as a structural fiscal addiction rather than an accidental revenue pattern. The government faces immense short-term pressure to maintain revenues to service debt and pay public-sector salaries. Raising alternative forms of revenue, such as property tax, wealth tax or progressive direct taxation, is politically contentious. As a result, the easiest and most immediate form of revenue remains consumption taxes on harmful commodities.

This institutionalises a governance structure where harmful consumption becomes a fiscal necessity rather than a fiscal liability. The implications for the energy transition are significant. Reducing fossilfuel consumption threatens revenue stability, creating resistance to policies that would accelerate renewable energy adoption, electrify transport or reduce energy waste. In effect, Jordan's fiscal model has become so dependent on fuel and tobacco consumption that a rapid success in public-health or decarbonisation outcomes would constitute a fiscal shock rather than an unambiguous policy victory The shock would be so severe it would undermine the government's ability to finance core public functions and service debt.

Case study: Electric Vehicles and Hybrids, Fighting the Success

Jordan achieved unexpected global recognition for its rapid adoption of electric and hybrid vehicles. Benefiting from favourable tax policies, such as minimal customs duties on EV and hybrid cars, reduced registration fees and low special taxes, Jordan created one of the most attractive EV markets in the region and the world. Ride-hailing companies, households and taxi fleets quickly transitioned to electric models.[62] By 2024, estimates suggest that electric vehicles accounted for 71 percent of new car registrations, placing Jordan among the fastest-adopting EV markets worldwide, only second to Norway based on an IEA study of 54 major countries.[63]

61 Al-Balad News. (2013) "4.6 مليار دينار فاتورة الطاقة العام الماضي [Jordan's Energy Bill Reached 4.6 Billion Dinars Last Year]", 30 May, Al-Balad News. **https://albaladnews.net/article/78834** ; CNBC. (2023) " **2022 ارتفاع قيمة واردات الأردن من النفط ومشتقاته 47% في** [Increase in Jordan's Oil and Petroleum Product Imports by 47% in 2022]", 23 Feb, CNBC. **https://www.cnbcarabia.com/106945**

62 Malkawi, S. (2023) "السيارات الكهربائية في الأردن: تقرير مستقبلي [Electric Vehicles in Jordan: A Forward-Looking Report]", 11 Jun, SolArabic. **https://solarabic.com/e-mobility/2023/06/السيارات-الكهربائية-الأردن-تقرير-مست/أخبار-الطاقة-المتجددة**

63 Jordan Customs. (2024) التقرير السنوي لعام 2024 [Annual Report 2024]. Amman: Jordan Customs. **https://www.customs.gov.jo/ebv4.0/root_storage/ar/eb_list_page/2024-0_التقرير_السنوي_لعام.pdf** ; International Energy Agency (IEA). (2025) Global EV Data Explorer. **https://www.iea.org/data-and-statistics/data-tools/global-ev-data-explorer**

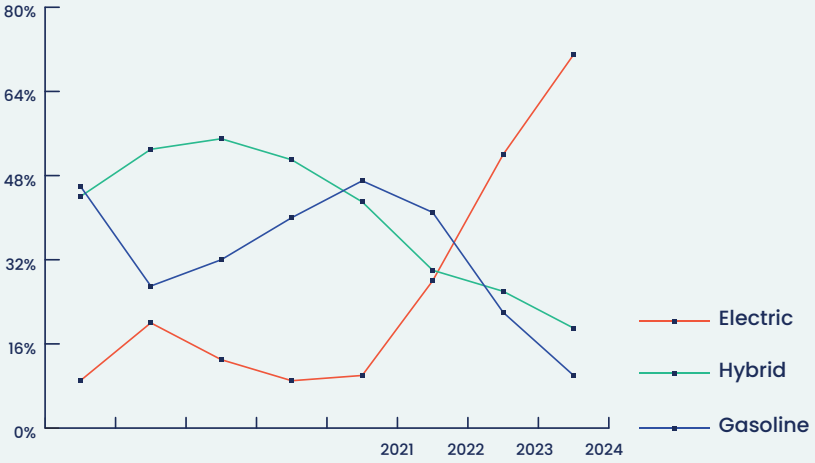

Figure 7. % of Car Sales by Type

Source: Source: Annual reports 2018-2024[64]

It is important to recognise here that the most sustainable and efficient transport solutions ultimately depend on the development of an integrated public transportation system, rather than continued reliance on private vehicles, even when electrified. Nonetheless, the impact of this transition was still beneficial. National fuel consumption peaked in 2016 due to the fuel saving effects of hybrid cars and started slowing down moderately. In 2021, the effects of EV cars fastened the pace of the decline even further. Households saved money on fuel, the national grid gained opportunities for nighttime load balancing and air pollution levels started decreasing in urban centers. Finally, the reduction in fuel imports contributed positively to the trade balance and the transition aligned well with Jordan's climate commitments.

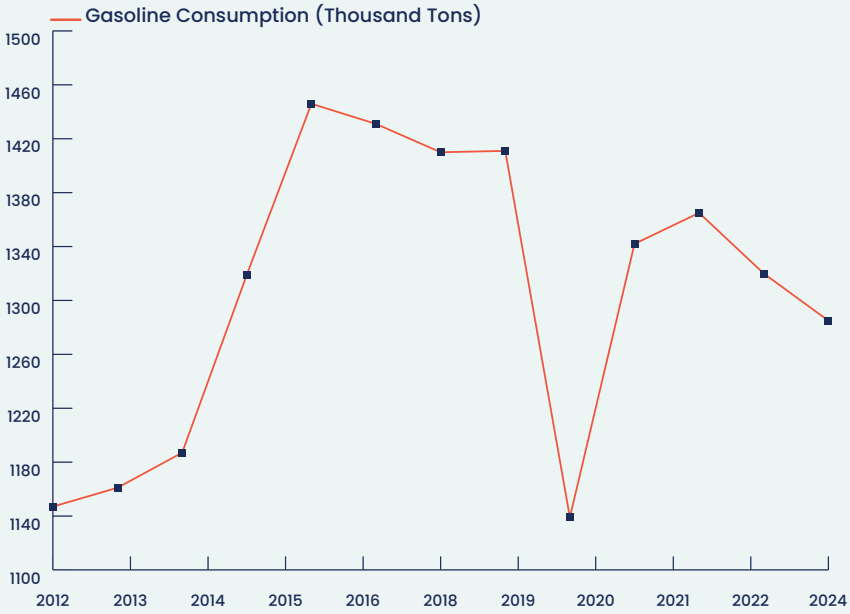

Figure 8. Gasoline Consumption (Thousand Tons)

Source: MoE annual reports (2016-2024)[65]

64 **https://www.customs.gov.jo/EN/List/Annual_Reports**

65 Ministry of Energy and Mineral Resources (MEMR). (2016–2024) 2016-2024 التقارير السنوية [Annual Reports]. Amman: MEMR **https://www.memr.gov.jo/AR/**

However, the very success of the EV transition triggered fiscal anxiety within the government. As fuel consumption declined, so did fuel-tax revenues. Given the state's reliance on approximately US$2.8 billion per year in fuel taxes, the prospect of significant revenue erosion prompted a major policy reversal. According to one economist's estimate, the revenues from taxes on fossil fuels decreased by US$352.5 million.[66] In 2025, the government introduced a new vehicle taxation system, reapplying the sales tax of 16 percent on hybrid and EV cars that used to be waived. They also increased the special tax burden on EVs to 27 percent, while lowering the tax on gasoline cars from 71 to 51 percent.[67] Additionally, the government decided to change the standards of importing electric cars to become the European or USA standards, effectively curtailing a big portion of the EV market imported from China.[68]

This reversal is expected to slow the EV transition and demonstrates that fiscal dependence on fossil fuel derived revenues continues to outweigh environmental and economic priorities. Crucially, this setback cannot be understood without considering Jordan's debt burden: the need to service high levels of public debt constrains fiscal space and limits the government's ability to forgo revenues tied to fossil fuel consumption. The policy shift has discouraged EV adoption, undermined investor confidence and contradicted the government's stated climate and sustainability commitments. More broadly, it exposes the depth of Jordan's structural reliance on fossil fuel taxation, raising fundamental questions about the feasibility of a just and equitable energy transition under the country's current fiscal model.

Debt and Fossil Fuels Outlook: Risks and Scenarios

Jordan's current energy and debt trajectory presents several medium-to-long-term risks that could undermine economic stability and impede the opportunities offered by a transition to sustainable energy. One of the most significant risks is the continued lock-in created by long-term fossil contracts such as the Israel gas deal. The take-or-pay obligations reduce system flexibility and crowd out renewable energy integration, increasing curtailment and limiting Jordan's ability to reduce fossil fuel imports. It also undermines Jordan's strategy in economic development through industrialisation which in Jordan's case relies heavily on the opportunities of competitive energy costs provided by solar energy. This constraint prevents Jordan from unlocking the full potential of its renewable resources.

A second risk relates to Jordan's fiscal reliance on fuel taxation. As EV adoption increases, the government faces the prospect of substantial revenue losses unless alternative tax bases are developed that create a win-win situation for the government and citizens. Without fiscal reform,

66 Al-Darawi, S. (2024) "هذه هي أسباب رفع الضريبة [These Are the Reasons for Raising the Tax]", 18 Sep, Al-Ghad. **https://alghad.com/Section-114/%D9%85%D9%82%D8%A7%D9%84%D8%A7%D8%AA-%D8%A7%D9%84%D9%8A%D9%88%D9%85/%D9%87%D8%B0%D9%87-%D9%87%D9%8A-%D8%A3%D8%B3%D8%A8%D8%A7%D8%A8-%D8%B1%D9%81%D8%B9-%D8%A7%D9%84%D8%B6%D8%B1%D9%8A%D8%A8%D8%A9-1813452**

67 Petra. (2025) "لا تغيير على الضرائب والرسوم على مركبات الهايبرد والكهرباء [No Change to Taxes and Fees on Hybrid and Electric Vehicles]", 14 Sept, Petra. **https://petra.gov.jo/Include/InnerPage.jsp?ID=104126&lang=ar&name=local_news**

68 Hussein, R., Hussein, T. (2024) "بمواصفات أوروبية أو أمريكية: كيف يتغير سوق السيارات الكهربائية الأردني [With European or American Specifications: How the Jordanian Electric Vehicle Market Is Changing]", 17 Jul, 7iber. **https://www.7iber.com/%D8%AA%D8%BA%D9%8A%D8%B1-%D8%B3%D9%88%D9%82-%D8%A7%D9%84%D8%B3%D9%8A%D8%A7%D8%B1%D8%A7%D8%AA-%D8%A7%D9%84%D9%83%D9%87%D8%B1%D8%A8%D8%A7%D8%A6%D9%8A%D8%A9-%D8%A7%D9%84%D8%A3%D8%B1%D8%AF%D9%86%D9%8A/**

Jordan may keep responding to slowed revenue growth by fighting the transition to EVs and creating a holistic public-transport system, undermining climate and energy policy objectives. This creates a contradictory policy environment in which environmental success threatens fiscal stability, creating opposition to the transition process.

A third risk concerns chronic underinvestment in grid infrastructure. Jordan's transmission system has not kept pace with renewable growth. Without investment in further transmission expansion, energy storage systems and advanced grid management, even if renewable capacity is increased, curtailment will be necessary. This not only undermines cost savings but reduces investor confidence in the renewable sector and threatens Jordan's position as a regional leader in clean energy.

A fourth and overarching risk is the danger of Jordan staying structurally trapped in a cycle of high debt service that restricts the fiscal space needed for essential investments in energy transition, climate adaptation and public services. As debt repayments consume a growing share of the national budget, the government has limited capacity to finance grid upgrades, renewable-energy integration or resilience measures needed to manage climate impacts. This crowding-out effect also constrains expenditure on public health, education and social protection which are sectors already under pressure from demographic and economic stresses. In such a scenario, Jordan risks entering a self-reinforcing trap. IInsufficient investment in clean energy and adaptation heightens vulnerability to external shocks, which in turn increases borrowing needs and tightens future fiscal constraints. Without addressing the structural drivers of debt and expanding sustainable fiscal space, the country may find itself unable to pursue a just and secure energy transition.

Together, these risks create a scenario where Jordan could face repeated cycles of fossil fuel dependency, NEPCO deficits and debt accumulation. Without strategic intervention, the energy transition would stagnate, fiscal pressures would intensify and the country's ability to meet its climate commitments may be compromised.

On a positive note, after several years of effectively pausing the approval of new renewable-energy projects citing grid-capacity constraints, Jordan has introduced the new 2025 Public Electricity Law aimed at revitalising the renewable energy sector and restoring investor confidence.[69] The legislation establishes clearer permitting procedures, updates tariff and wheeling frameworks and seeks to modernise grid-integration rules to accommodate additional solar and wind capacity. While the law marks an important policy shift after a prolonged period of regulatory stagnation, its impact will ultimately depend on the speed and consistency of implementation. Critical questions remain regarding the operationalisation of grid upgrades, the transparency of project selection, and the government's ability to align regulatory practice with the ambitious objectives outlined in the law.

69 Energy & Minerals Regulatory Commission (EMRC). (2025) قانون الكهرباء العام 2025- لسنة (10) قانون رقم [General Electricity Law]. Amman: EMRC **https://emrc.gov.jo/ebv4.0/root_storage/ar/eb_list_page/%D9%82%D8%A7%D9%86%D9%88%D9%86_%D8%A7%D9%84%D9%83%D9%87%D8%B1%D8%A8%D8%A7%D8%A1_%D8%A7%D9%84%D8%B9%D8%A7%D9%85_%D8%B1%D9%82%D9%85_10_%D9%84%D8%B3%D9%86%D8%A9_2025.pdf**

Policy Proposals and the Role of International Financial Institutions

Breaking the fossil fuel–debt trap requires a coordinated approach that combines fiscal reform, energy-system restructuring and meaningful international support, while remaining grounded in political and economic reality. In a highly indebted context like Jordan's, reform has to operate within tight budget constraints, creditor expectations and social sensitivities. Recognising these limits does not weaken the case for transformation, but rather underscores the need for carefully sequenced, financially credible and socially balanced reforms that can reduce vulnerability without triggering further instability or remaining merely aspirational commitments on paper.

Jordan must begin by reconfiguring the financial structure of its energy system. This includes accelerating investment in transmission infrastructure, deploying large-scale energy storage to support renewable integration and renegotiating contractual terms in long-term fossil fuel agreements wherever possible. Even if such negotiation is not possible, the government should start building from today an energy system that could retire expensive electricity production from fossil fuel once these contracts expire.

Fiscal restructuring is equally essential. Jordan must gradually shift its revenue base from harmful consumption taxes toward more sustainable sources. This may include progressive taxation, wealth taxation, a reform of the tax system, further gradual increase of excise tax on petroleum products, and road-usage fees. Such reforms take time and require creating sustainable alternatives such as an advanced public transport system, and require political consensus, but they are essential for building a fiscal system that does not depend on the consumption of fossil fuels and cigarettes.

In the medium and long term, international financial institutions have a significant role to play. They can support grid modernisation through debt cancellation, concessional lending and provide guarantees to reduce borrowing costs for clean energy investments. Lastly, when previous solutions are not achievable, creating debt-for-climate swap mechanisms can free fiscal space for investing in renewable energy and supporting infrastructure. Jordan's experience demonstrates that energy transition is not merely a technical or environmental issue. It is fundamentally shaped by fiscal capacity and debt structures. International Financial Institutions therefore must integrate sovereign debt considerations into climate finance frameworks, enabling countries like Jordan to transition without sacrificing fiscal stability.

Jordan should also aim to electrify the economy across all major sectors: transport, industry, buildings and agriculture. This could offer Jordan a strategic pathway to reduce fossil fuel imports, stabilise long-term energy costs and maximise the value of its world-class solar resources. However, electrification alone is insufficient without aligning consumption patterns with the daily production curve of photovoltaic generation, which peaks during daylight hours. To achieve this, Jordan can introduce time-of-use tariffs or dynamic pricing structures that make electricity cheaper when solar output is abundant and more expensive during evening peaks. Such tariffs would encourage households, commercial users, factories and service providers to shift flexible loads, such as EV charging, water pumping, cooling and some industrial processes into periods with high-solar production. By synchronising demand with renewable supply, Jordan can reduce curtailment, lower

grid stress, defer costly investments in peaking capacity and enhance the economic case for deeper electrification. This coordinated approach transforms variable solar production from a technical challenge into a fiscal and industrial advantage, enabling the energy system to operate more efficiently while accelerating the transition away from fossil fuels.

Finally, regional grid interconnection holds significant strategic potential for Jordan, transforming what was once an underutilised legacy initiative, the Arab Grid Connection, into a powerful instrument for energy security, economic integration and renewable-energy optimisation. While the earlier phases of interconnection struggled to achieve meaningful utilisation due to geopolitical instability and limited regional demand, the regional landscape is now shifting in ways that create unprecedented opportunity. The gradual reopening of the Syrian economy and lifting of sanctions broadens the geographic and commercial space for northbound electricity exchanges, while improved security conditions in Egypt strengthen the southern corridor and enhance the reliability of transnational transmission routes. Additionally, the rapid expansion of Saudi Arabia's northern regions, driven by NEOM, industrial hubs, desalination facilities, and large-scale green hydrogen projects, has created substantial new demand for firm and flexible power. Jordan, positioned geographically between these emerging energy centres, can leverage interconnection to export excess solar power during peak generation hours, import low-cost electricity during shortages and participate in a regional balancing market that reduces curtailment and strengthens grid resilience.

A just transition in Jordan must go beyond macro-level restructuring and explicitly address distributional impacts. The fiscal and energy reforms required to break the fossil–debt cycle will inevitably create adjustment pressures, particularly around tariff reform, subsidy rationalisation, and revenue restructuring. Without clear safeguards, these costs risk falling disproportionately on low- and middle-income households and small businesses, who already bear the burden of rising living costs and constrained public services. Protective measures should include maintaining affordable electricity tariffs, targeted income support for vulnerable households and a gradual and predictable reform sequencing. Similarly, efforts to replace fossil fuel tax revenues must be aligned with the expansion of affordable public transport, energy efficiency and clean alternatives so that behavioural shifts are enabled rather than penalised. Embedding such safeguards is not only a social imperative but also a political necessity. Without visible fairness and protection, the transition risks losing public legitimacy and reinforcing the very instability it seeks to resolve.

Conclusion

Jordan's experience over the past decades reveals a structural entanglement between fossil fuel dependence, debt accumulation and fiscal vulnerability. Energy shocks have repeatedly translated into macroeconomic crises, not because of temporary mismanagement, but due to an institutional architecture that transfers fuelprice volatility directly into public liabilities. The collapse of Egyptian gas, the rigidities of long-term fossil contracts, and the government's reliance on harmful consumption taxes have collectively reinforced a fiscal model in which stability is purchased at the cost of long-term transformation. Yet the same period also demonstrated Jordan's capacity for rapid, forward-looking reform: the expansion of renewable energy between 2014 and 2021, the early surge in electric mobility and the 2025 Public Electricity Law all underline the country's potential to lead a just, resilient energy transition.

The central insight of this study is that Jordan's energy challenges cannot be separated from its debt structure, revenue composition,and political economy incentives. Fossil fuel dependence is not merely an energy-supply problem, it is a fiscal trap that shapes policy behaviour, limits strategic choices and weakens national resilience. Breaking this cycle requires rethinking both the financial architecture of the energy system and the broader fiscal system that surrounds it. It demands renegotiating rigid fossil contracts, expanding renewable integration through grid investment and creating a tax structure that no longer punishes environmental success. Most importantly, it requires embedding the energy transition within a just and inclusive framework that prioritises public health, transparency and economic opportunity, ensuring that the benefits of clean energy reach households, workers, and industries alike.

Jordan's path forward lies in harnessing the transformative potential of electrification, renewable energy, and institutional reform to reduce exposure to external shocks and rebuild fiscal sovereignty. By adopting long-term grid planning, incentivising demand-shifting through time-of-use pricing, promoting clean industrialisation and diversifying revenue streams away from fossil consumption, Jordan can reposition its economy around low-cost, low-carbon power. International partners have a critical role in this transformation. Not through austerity-driven conditionality, but through climate-aligned financing, debt-relief instruments and support for structural reforms that enhance resilience rather than deepen vulnerability. When aligned effectively, domestic policy ambition and international climate finance can create the fiscal space Jordan needs to modernise its energy system without exacerbating its debt burden.

Ultimately, Jordan stands at a pivotal moment. The country can continue down a path where fossil fuel dependency constrains fiscal choices, reinforces inequality and limits economic dynamism. Or it can seize the opportunity to build an energy system rooted in sovereignty, sustainability and long-term stability. The transition will not be simple, but the foundations already exist. Abundant solar resources, a decade of renewable-energy leadership, strong technical capacity and broad societal recognition of the cost of inaction. By pursuing the structural reforms outlined in this study, Jordan can not only escape the fossil–debt trap but also chart a new development trajectory, one where clean energy, fiscal resilience, and social justice reinforce each other to create a more prosperous and secure future.

A BEETROOT FARMER LOOKS OVER HIS CROPS IN NORTH WEST SRI LANKA.
Credit: Tashiya de Mel / Climate Visuals Countdown

SRI LANKA: ENERGY TRANSITION GOALS AMIDST A DEBT-TRAP AND CLIMATE CRISIS

Niyanthini Kadirgamar

Introduction

Sri Lanka was the canary in the coal mine for a debt crisis emerging in the Global South after the Covid-19 pandemic interrupted foreign exchange flows.[1] The country of 22 million people is mired in a deep economic crisis after it defaulted on all its foreign debt payments in 2022 and sought assistance from the International Monetary Fund (IMF).[2]

Known for its unique economic model of maintaining low inequality albeit with low economic growth, Sri Lanka invested in universal social welfare policies in the early decades after gaining independence from colonial rule in 1948.[3] Along with extensive free healthcare and education, it offered subsidies for food, fuel and electricity. As a result, the nation is noted for achieving relatively high human development indicators among comparable countries. Although the surpluses from the colonial legacy of the plantation economy helped finance welfare policies, it created a dependent economy that was sensitive to global economic shocks such as commodity price fluctuations.

Sri Lanka became the first South Asian nation to liberalise its economy in the late 1970s following economic woes, taking forward a reform program of fiscal austerity, privatization of public entities, liberalization of external trade, and the establishment of Export Processing Zones (EPZ). Since the 1980s, the influence of International Financial Institutions (IFIs) on Sri Lanka's economic policymaking, particularly the International Monetary Fund (IMF) and World Bank (WB), have been significant. The economy faced a slow decline ever since and eventually culminated in an acute economic crisis in 2022. Inequality - as measured by the Gini ratio - also increased from 0.35 in 1973, 0.49 in 2009 and 0.46 in 2019.[4]

Sri Lanka set its trajectory in a low-carbon development model, based on agriculture. Admirably, the country achieved 100 percent electrification via subsidized public provision of the energy sector. However, its indigenous clean energy source, hydropower, could not meet the rapidly growing energy demands of the last three decades. Therefore, governments began looking

1 Toussaint, E & Skanthakumar, B. (2022) "The Canary in the Coal Mine – Sri Lanka's crisis is a chronicle foretold". 7 Aug CADTM. **www.cadtm.org/The-Canary-in-the-Coal-Mine-Sri-Lanka-s-Crisis-is-a-Chronicle-Foretold**

2 Hoskins, P. (2022) "Why is the country in an economic crisis?" 22 May, BBC News. **www.bbc.com/news/business-61505842**

3 Skanthakumar, B. (2014) Growth with inequality: the political economy of neoliberalism in Sri Lanka. Europe Solidaire Sans Frontières. **www.europe-solidaire.org/spip.php?article30941**

4 The Gini index (or Gini coefficient) is a statistical measure of economic inequality, representing how income or wealth is distributed within a population. Ranging from 0 (perfect equality) to 1 (perfect inequality), it indicates the extent to which a distribution deviates from a perfectly equal distribution.
Skanthakumar, B. (2014). Growth with inequality: the political economy of neoliberalism in Sri Lanka. Europe Solidaire Sans Frontières. **https://www.europe-solidaire.org/spip.php?article30941**; Central Bank of Sri lanka. (2025) Socio economic data. **www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/otherpub/publication_sri_lanka_socio_economic_data_folder_2025_e.pdf** ; Department of Census & Statistics Sri Lanka (2025) Statistical Data Sheet 2024. Government of Sri Lanka. **www.statistics.gov.lk/statistical_datasheet/datasheet-2024/english**

for external sources to fulfill the energy supply gap in addition to diversifying local energy production. Dependence on fossil fuel imports grew - a weakness fully exposed during the recent economic crisis - when it was unable to pay for imported fuel as dollar reserves ran out. Widespread fuel shortages and electricity cuts were imposed.

When foreign currency reserves depleted to alarming levels in 2022, the government was forced to ration all of its imports, including essentials such as fuel, medicines and food. Of the import bill, crude and refined oil imports account for the most expensive items. Thus, import dependency on fossil fuels is a critical driver of the country's balance of payment deficits. Given that Sri Lanka has gone through an unfavorable debt restructuring process and it is expected to resume repayment of its foreign debt, to the amount of 4 percent of GDP annually, as soon as the IMF program concludes in 2027, the pressures on its foreign exchange reserves are expected to increase. Thus, reducing the energy import costs has become a priority for the government under its energy policy.

Subsequently, Sri Lanka has made several commitments towards transitioning to renewable energy sources and has accelerated energy sector reforms to pave the way for diversification. The country was on good standing to achieve its Nationally Determined Contribution of 70 percent renewable energy based electricity by 2030, however, the debt crisis and a major climate disaster have stymied progress.

Sri Lanka is grappling with the devastating effects of Cyclone Ditwah which struck on 28th November 2025, the worst climate disaster since the 2004 Boxing Day Tsunami. Early damage mapping shows roughly 10 percent of the population were severely affected - mostly women and children. Twenty percent of the nation's land area was hit, while 34 people of the highland forests were destroyed.[5] Infrastructure took a heavy hit, with 20 percent of buildings and 42 percent of transport, water and energy systems destroyed.[6] The local food system was also devastated, sparking concerns over rising food prices and shortages throughout 2026. Most of Sri Lanka felt Cyclone Ditwah's impact, but pre-existing social inequities amplified the damage for vulnerable groups, illustrating the disaster's complex, long-term repercussions.[7]

The WB estimates the economic value of the damage and losses due to cyclone Ditwah as 4 percent of GDP, which is roughly the same amount of the annual debt repayment commitment mandated under the debt restructuring and IMF agreement and a higher estimate compared to other South and South East Asian countries impacted by cyclones.[8] Cyclone Ditwah was a wake-up

5 UNDP. (2025) Cyclone Ditwah impact story map. United Nations Development Programme, Geosmart. **https://geosmart.undp.org/arcgis/apps/storymaps/stories/25866fbc805c4d70b6bf35c23f896daf**

6 World Bank. (2025) Global Rapid Post-Disaster Damage Estimation (GRADE) report: Cyclone Ditwah 2025 – Sri Lanka. World Bank: Global Facility for Disaster Reduction and Recovery. **http://documents.worldbank.org/curated/en/099122225074016363**

7 Feminist Collective for Economic Justice (FCEJ). (2025) "FCEJ demands prioritizing marginalised communities in disaster preparedness, equitable relief and economic justice". 1 Dec, FCEJ Sri Lanka. **www.srilankafeministcollective.org/cyclone-ditwah-fcej-statement**

8 Ghosal, A & Delgado, A. (2026) "Southeast Asia grapples with climate-change-driven floods and storms". 15 Jan, AP News. **https://apnews.com/article/southeast-asia-climate-change-weather-floods-9baeb7e9656f6964d-6496237130f87a6** ; World Bank. (2025) Global Rapid Post-Disaster Damage Estimation (GRADE) report: Cyclone Ditwah 2025 – Sri Lanka. World Bank: Global Facility for Disaster Reduction and Recovery. **http://documents.worldbank.org/curated/en/099122225074016363**

call for Sri Lanka of its climate vulnerabilities and how they can affect its debt repayment obligations.

The government sought international aid to assist with the recovery and the UN appealed for US$35 million under its Humanitarian Priorities Plan.[9] However, only a small portion of the need has been secured thus far, amidst shifting geopolitics and reductions in overseas humanitarian funding. Although non-economic loss and damage is recognised in the UN Framework Convention on Climate Change to which Sri Lanka is a signatory, it remains invisible in climate finance and recovery strategies.[10] The country is now forced to raise funds for recovery from the climate disaster and for the debt repayment, by accumulating more debt.

Sri Lanka now confronts an imposing dual challenge of implementing energy transition amidst a deepening debt crisis and a worsening climate crisis. Its exposure to global economic and climate shocks can derail its commitments to transitioning away from fossil fuels. Thus, this paper explores the conditions leading to Sri Lanka's economic vulnerabilities, if a debt-fossil fuel trap is inevitable and if energy policy choices can lead to a just transition out of import-dependence on fossil fuels.

History of Sri Lanka's Debt Crisis

In 2022, Sri Lanka plunged into its worst economic crisis comparable to the Great Depression of the 1930s and defaulted on all its foreign debt obligations for the first time.[11] The economy grinded to a complete halt as shortages of essential items emerged. Price hikes and unemployment shrunk people's incomes. Food inflation peaked at 90 percent by August.[12] The country has endured the harsh realities of strict austerity since then eading to the decline of overall wellbeing of the population.[13] Poverty levels doubled within two years, one third of the households faced food insecurity and half of the population are facing multidimensional vulnerabilities.[14]

Sri Lanka faced several economic contractions over the last decade. In 2019, the economy recorded a negative growth of 0.2 percent of GDP after the easter day bombings that rocked the nation. It further shrunk by 4.6 percent of GDP in 2020 as the Covid-19 pandemic disrupted global trade, tourism arrivals and remittances from migrant workers. In 2022, the country had another major contraction of 7.3 percent of GDP.

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9 United Nations. (2026) "UN and humanitarian partners call for US $35 million to provide life-saving assistance". 30 Jan, United Nations in Sri Lanka. **https://srilanka.un.org/en/306891-united-nations-and-humanitarian-partners-call-us35-million-provide-life-saving-assistance**

10 Gunathilaka, M. (2026) "Beyond rupees and recovery: The human cost of Cyclone Ditwah". 25 Jan, Sunday Observer **www.sundayobserver.lk/2026/01/25/impact/70398/beyond-rupees-and-recovery-the-human-cost-of-cyclone-ditwah/**

11 Maki, S & Mazumdar, R. (2022) "Sri Lanka stumbles toward its first default on foreign debt". 16 May, Bloomberg. **www.bloomberg.com/news/articles/2022-05-16/sri-lanka-stumbles-toward-its-first-default-on-foreign-debt**

12 Word Food Program. (2022) "Sri Lanka rising prices reduce access to food for millions". 4 Aug, WFP. **www.wfp.org/stories/sri-lanka-rising-prices-reduce-access-food-millions**

13 Gunawardena, D. Kadirgamar, N. & Kadirgamar, A. (2023) "The IMF trap". 1 Mar, Phenomenal World. **www.phenomenalworld.org/analysis/the-imf-trap/**

14 World Bank. (2023) "World Bank Group adopts country partnership framework for Sri Lanka to help reset the economy, protect the poor". 28 Jun, Press Release. **www.worldbank.org/en/news/press-release/2023/06/27/world-bank-group-adopts-country-partnership-framework-for-sri-lanka-to-help-reset-the-economy-protect-the-poor**; WFP. (2023) Household food security overview 2023 – Sri Lanka. World Food Programme. **www.wfp.org/publications/household-food-security-overview-2023-sri-lanka**;
UNDP. (2023) Multidimensional vulnerability report - Sri Lanka. United Nations Development Programme. **https://www.undp.org/sites/g/files/zskgke326/files/2023-10/undp_multidimensional_vulnerability_report_sri_lanka.pdf**

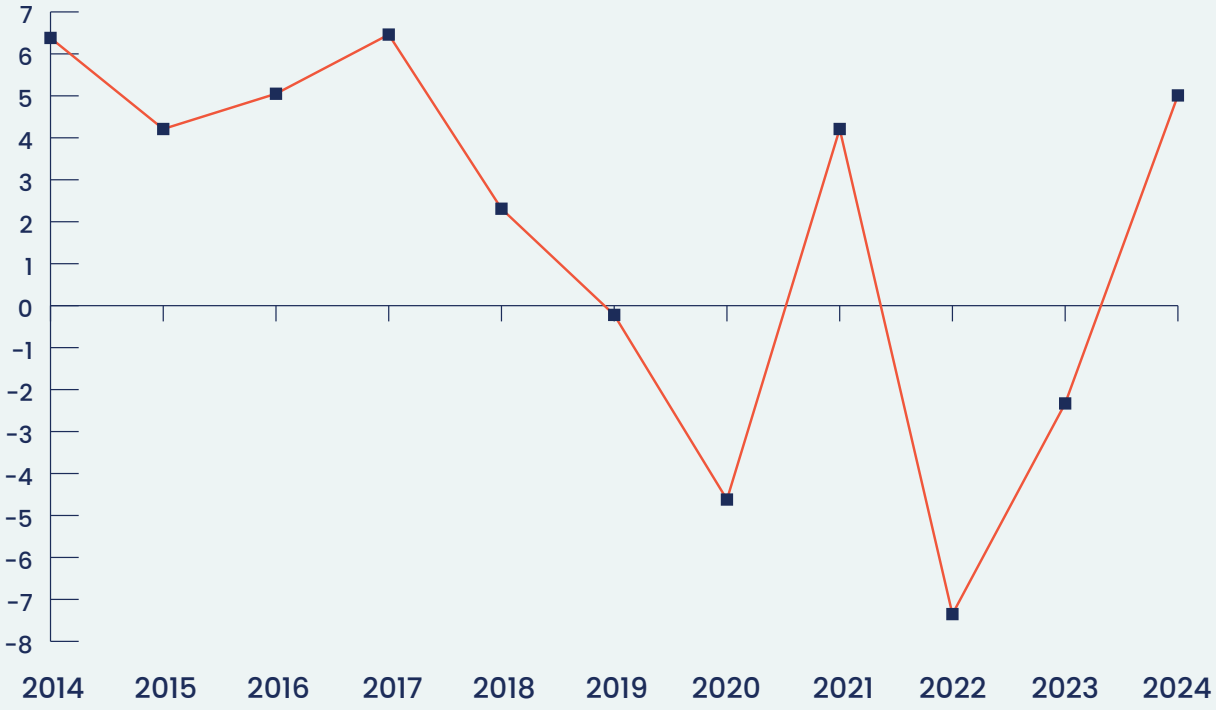

Figure 1. Sri Lanka's GDP Growth (annual %)

Source: World Bank.[15]

The debt crisis has been driven by global shocks, including the COVID-19 pandemic and fluctuating global fuel prices, impacting the inflow of dollar denominated earnings and the balance of payments account while the country's foreign debt payments became unsustainable. By early 2022, its foreign reserves had dwindled to less than a month of its import bill. Domestic policies also contributed to the crisis, such as the generous tax concessions given to businesses and high income earners, which eroded public revenues. Additionally an ill-conceived overnight ban on chemical fertilizers in 2021 decreased the country's agricultural produce. However, Sri Lanka's crisis was long in the making.

After liberalisation in the late 1970s, Sri Lanka pursued an export-oriented model, setting up exclusive free trade zones and offering incentives to attract Foreign Direct Investments (FDI)s. However, expected FDI levels failed to materialise in the context of an unequal global economy and due to the lack of a clear domestic industrial policy. Meanwhile, lower import tariffs led to foreign goods flooding the domestic market causing a strain on its external accounts. Price protections and subsidies for local indigenous and rural industries were removed after liberalization. Unable to compete with cheap imported products, the local economy suffered.

15 World Bank Data. **https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG**

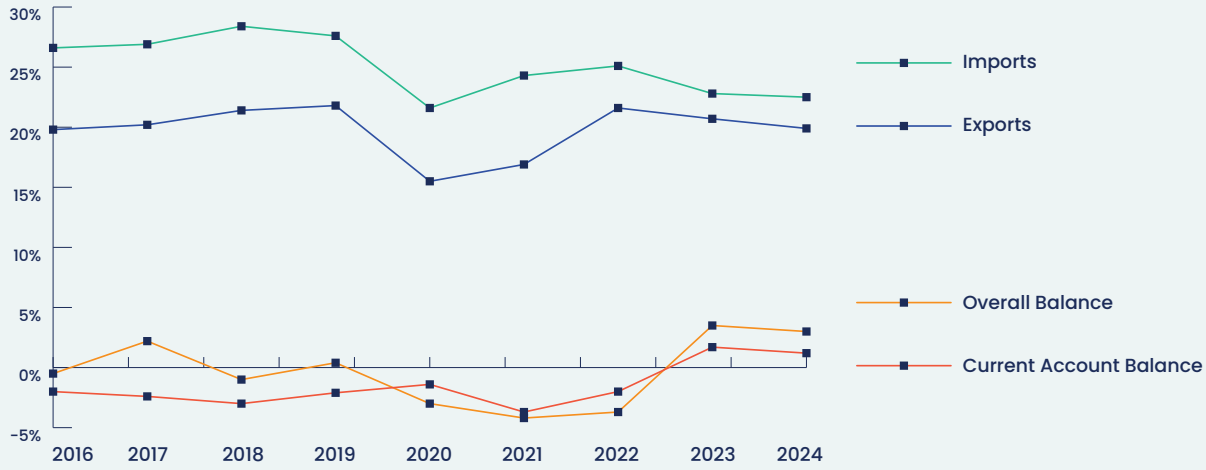

Figure 2. Sri Lanka Balance of Payments (2016 - 2024) as % of GDP

Source: Central Bank of Sri Lanka

Loss of land and commodification of labour increased as foreign capital entered the agricultural sector. It led to labour migration from rural to urban spaces in search of employment, providing the labour supply for the factories in the EPZs and as migrant domestic labourers mostly to middle-eastern countries.[16] Thus, Sri Lanka's economic structure underwent a transformation, where garment exports and remittances of migrant workers, along with exports from tea plantations, sectors relying on women's labour, became the three highest foreign exchange earning sectors.

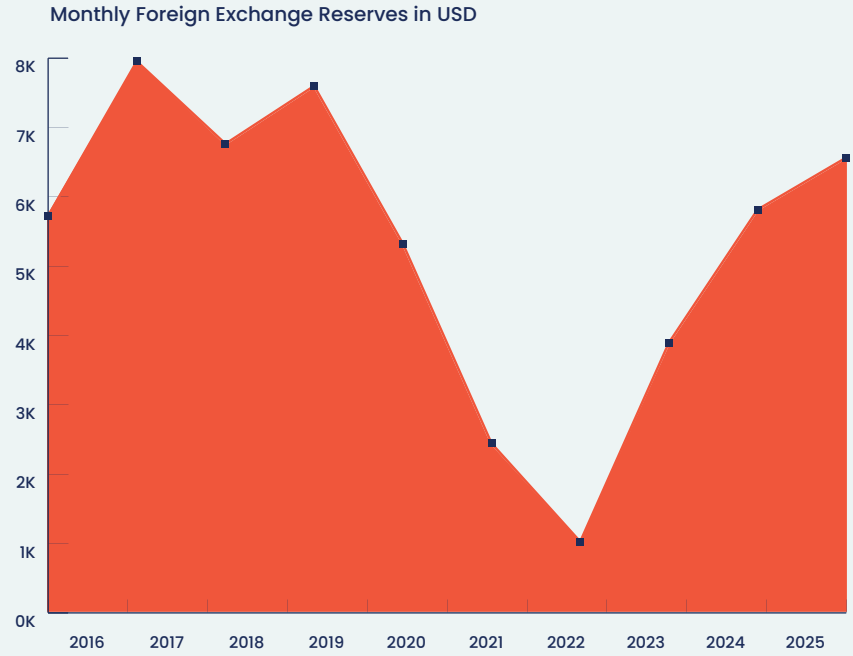

Figure 3. Foreign Exchange Reserves Sri Lanka

Source: CEIC Data[17]

16 Kadirgamar, N. (2022) "Economic Crisis, IMF and Women's Labour". 22 May, The Morning. **www.themorning.lk/articles/203845**

17 CEIC Data. **www.ceicdata.com/en/indicator/sri-lanka/foreign-exchange-reserves-months-of-import**

After the end of the war in 2009, an aggressive expansion into financialisation, urbanisation and large-scale infrastructure development occurred, while ignoring the climate-sensitive rural economy, on which a large population's livelihoods and food security relied.[18] The welfare schemes were gradually curtailed, leaving ordinary citizens with no social protection to withstand economic or climate shocks.

The deficits in the external accounts and mega development projects were funded by obtaining risky loans at commercial rates in the private bond markets including for the development of the energy sector, via multilateral and bilateral loans and currency swaps, until the paybacks eventually became unsustainable. Sri Lanka's foray into an economic model dependent on external trade, financialization and urbanization in an unequal global market eventually contributed to the economic crisis.

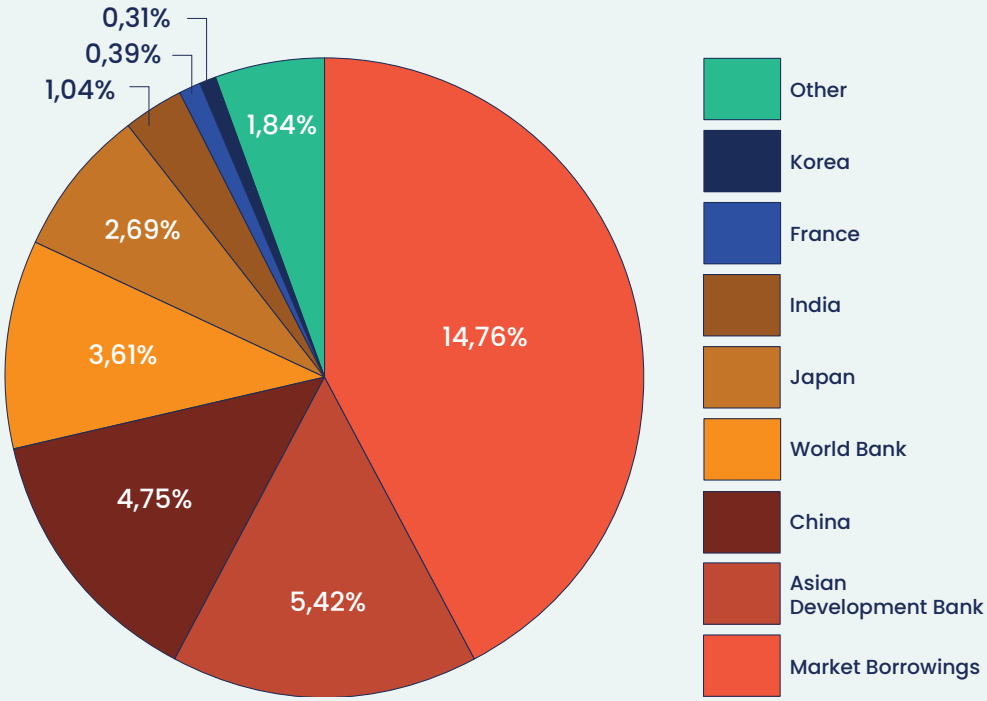

Figure 4. Sri Lanka's External Debt Stock by Major Lenders (USD million)

Source: Finance Ministry of Sri Lanka[19]

DEFAULT AND DEBT RESTRUCTURING

Sri Lanka's debt to GDP ratio peaked at 114.2% in 2022.[20] At the time of the default, the government declared a total of US$34.8 billion in debt owed to private creditors, multi-lateral and bi-lateral lenders. The largest portion of Sri Lanka's foreign debt was made up of market borrowings from

18 Kadirgamar, A. (2013) Second wave of neoliberalism: Financialisation and crisis in post-war Sri Lanka. Economic and Political Weekly, 48 (35). **www.epw.in/journal/2013/35/web-exclusives/second-wave-neoliberalism-financialisation-and-crisis-post-war-sri**

19 External Resources Department Data, Government of Sri Lanka (2025) Foreign Debt Summary. **www.erd.gov.lk/index.php?option=com_content&view=article&id=102&Itemid=308&lang=en**

20 External Resources Department. (2025) Foreign Debt Summary. Government of Sri Lanka. **www.erd.gov.lk/index.php?option=com_content&view=article&id=102&Itemid=308&lang=en**

private creditors (42%) followed by bi-lateral loans (31%) and multilateral loans (27%).

INTERNATIONAL SOVEREIGN DEBT

Sri Lanka began floating International Sovereign Bonds (ISB) in 2004, venturing into the risky markets and attracting investors from largely Western financial conglomerates and investment banks.[21] The brutal end of the war through militaristic means and subsequent war crimes allegations against the Sri Lankan government, led to the restriction of access to concessionary loans and grants. Instead, the government turned to international financial markets to raise funds for its development agenda.

Chief among the private bondholders are large finance companies and investment banks such as Blackrock, UBS and Allianz.[22] However, a verified list of all the sovereign bondholders has not been revealed. A Steering Committee of Ad hoc Sri Lanka Bondholders was formed to coordinate the restructuring process. The full list of members has also not been disclosed.

The restructuring process with the ISB holders was complex. The IMF admits that the commercial creditors, *"were particularly interested in new and complex instruments that would share up- and downsides to the macroeconomic framework and would offer additional debt relief for implementing governance reforms"*.[23]

Firstly, the macro-linked bonds instrument was proposed as an "innovative new instrument" to determine debt repayments as a way to align debt servicing with overall economic performance.[24] However, in practice it is designed as a tool to extract more from the debtor country's GDP and growth gains if they exceed the IMF's recovery framework within the agreement period, as debt repayments.[25]

Accordingly, the ISB borrowings were restructured, with a possible reduction of US$3 billion which will be adjusted based on Sri Lanka's economic performance to an increase of US$4.3 billion in case of an economic downturn or a reduction of US$1.8 billion in case of economic downturn. The payback interest rate of the ISBs after restructuring was set at 4.3 percent.

Secondly, ISB holders introduced the governance-linked bond as a "novel" approach to restructuring. Additional interest rate reductions on the bonds were offered conditional on delivering certain benchmarks of transparency and better economic management.[26] The

21 PR Newswire. (2024,) "Ad-hoc group of Sri Lanka bondholders submits restructuring proposal". 30 Jul, PR Newswire. **www.prnewswire.com/news-releases/ad-hoc-group-of-sri-lanka-bondholders-submits-restructuring-proposal-301956251.html**

22 BBC News (2022) "Sri Lanka's debt crisis deepens as foreign-exchange reserves dwindle". 19 Apr, BBC News. **www.bbc.com/news/business-61145854**

23 Breuer, P., Dhungana, S., & Li, M. (2025) Sri Lanka's Sovereign Debt Restructuring: Lessons from Complex Processes. International Monetary Fund. **www.imf.org/-/media/files/publications/wp/2025/english/wpiea2025175-source-pdf.pdf**

24 PR Newswire. (2024) "Steering committee of ad hoc group of Sri Lanka bondholders announces support for Sri Lanka's debt-restructuring terms". 26 Nov, PR Newswire. **www.prnewswire.com/news-releases/steering-committee-of-ad-hoc-group-of-sri-lanka-bondholders-announces-support-for-sri-lankas-debt-restructuring-terms-302315937.html**

25 Chandrasekhar, C. P., et al. (2024) "Sri Lanka debt deal prioritises creditors over citizens". 12 Sep, Project Syndicate. **www.project-syndicate.org/commentary/sri-lanka-debt-deal-prioritizes-creditors-over-citizens-by-c-p-chandrasekhar-1-et-al-2024-09**

26 Strohecker, K. (2024) "What we know about Sri Lanka's governance and macro-linked bonds". 17 Dec, Reuters. https://**www.reuters.com/markets/bonds/sri-lankas-ambitious-governance-macro-linked-bonds-2024-12-17/**

parameters to be fulfilled included achieving a revenue target in terms of GDP of 15.3 percent in 2026 and 15.4 percent in 2027, the publication of tax holidays and procurement contracts as assessed by the IMF.[27]

Worryingly, the debt restructuring agreement had hidden within it the provision to change the applicable laws to skew in favour of the bondholders.[28] A litigation filed by the private lenders - Hamilton Reserve Bank (HRB) – further complicated the debt restructuring process.[29] Not only is Sri Lanka being used as a guinea pig for formerly untested tools for debt restructuring, it resulted in a most complex process delivering very little relief for the country.[30]

BILATERAL BORROWINGS

Among Sri Lanka's major bilateral lenders, the larger portion of the debt was owed to non-Paris Club members, namely China (14 percent) and India (3 percent). Amongst the members a long - time development partner, Japan (8%), held a significant portion of the debt. Conventionally, the Paris Club secretariat played a significant role in negotiating the terms of the debt - restructuring process. Given Sri Lanka's debt scenario, of a significant amount of the debt being held by "non-traditional creditors outside of the Paris Club", the restructuring process required complex coordination.[31] Ensuring comparability of treatment in the debt reductions and terms offered between the two groups of creditors - the non-Paris and Paris Club members - became a major concern.[32]

Eventually, Sri Lanka ended up with a debt restructuring agreement that was unfavorable overall to its citizens. For instance, under the IMF's new debt sustainability analysis (DSA) - the Sovereign Risk and Debt Sustainability Framework for Market Access Countries was used in the process for the first time, making Sri Lanka the testing ground for the framework.[33]

The following targets were imposed under the DSA to kick in when the current IMF agreement comes to an end in 2027: 1) Reduce Public Debt to GDP ratio to less than 95 percent by 2032; 2) Reduce Gross Financing Needs to less than 13 percent of GDP on average during the period 2027-2032; and 3) Maintain foreign currency debt servicing to 4.5 percent of GDP per annum during the period 2027-2032.[34]

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27 Ministry of Finance, Government of Sri Lanka. (2025) Sri Lanka's Public Debt Restructuring. Supplementary Note for the presentation made by Secretary to the Treasury Mr. K. M. Mahinda Siriwardana at the Staff Meeting held with the Senior Officials of the General Treasury/ Ministry of Finance, Planning and Economic Development on 1st January. **www.treasury.gov.lk/api/file/bd447900-840d-4c28-bfcb-7c78fe79bbf2**

28 Chandrasekhar, C. P., et al. (2024) "Sri Lanka debt deal prioritises creditors over citizens. 12 Sep, Project Syndicate. **www.project-syndicate.org/commentary/sri-lanka-debt-deal-prioritizes-creditors-over-citizens-by-c-p-chandrasekhar-1-et-al-2024-09**

29 Ministry of Finance. (2023) "Hamilton Reserve Bank Ltd vs Democratic Socialist Republic of Sri Lanka". 11 Apr, Press Release, Government of Sri Lanka. **https://www.treasury.gov.lk/news/article/191**

30 Ghosh, J. (2024) "Sri Lanka's debt restructuring: A win for private bondholders." 23 Jul, IDEAS. **www.networkideas.org/2024/07/23/sri-lankas-debt-restructuring-a-win-for-private-bondholders/**

31 Breuer, P., Dhungana, S., & Li, M. (2025) Sri Lanka's Sovereign Debt Restructuring: Lessons from Complex Processes. Working Paper WP/25/175, International Monetary Fund. **www.imf.org/-/media/files/publications/wp/2025/english/wpiea2025175-source-pdf.pdf**

32 Ministry of Finance. (2025) "Sri Lanka's Public Debt Restructuring". 1 Jan, Press Release, Government of Sri Lanka. **https://www.treasury.gov.lk/api/file/bd447900-840d-4c28-bfcb-7c78fe79bbf2**

33 IMF. (2023) Sovereign Risk and Debt Sustainability Analysis for Market Access Countries. Retrieved 27 Oct, at: **www.imf.org/en/publications/dsa/sovereign-risk-and-debt-sustainability-analysis-for-market-access-countries**

34 Ministry of Finance. (2025) "Sri Lanka's Public Debt Restructuring". 1 Jan, Press Release, Government of Sri Lanka.

The country must spend nearly the same amount of GDP that was wiped out by cyclone Ditwah, every year, to service debts under the restructuring agreement. The targets greatly curtail Sri Lanka's future fiscal space as one third of projected public revenue is to be spent on foreign debt repayments alone.

MULTILATERAL BORROWINGS

The multilateral loans were primarily project-specific financing from Asian Development Bank (16 percent) and World Bank (10 percent). Recent energy sector projects funded by multilateral institutions have focused on funding policy formulations, upgrading existing transmission grids and expanding sustainable energy. Multilateral loans cannot be restructured - even during a severe economic crisis like Sri Lanka's. Multilateral lenders require full repayment with interest, regardless of the success or failure of projects.

DOMESTIC DEBT RESTRUCTURING

Sri Lanka's economic crisis was one of external debt and it did not default on its domestic debt repayments. However, under pressure from external creditors citing comparability of treatment, a domestic debt restructuring was unconventionally imposed.[35] Domestic debt borrowings were from the Central Bank, domestic private banks and public superannuation funds. However, private bank borrowings were excluded from restructuring, ensuring their full debt will be paid with interest. The Central Bank borrowings and borrowings from the country's superannuation funds – specifically the Employee Provident Fund (EPF) –were restructured. It resulted in a reduction of EPF benefits, which are often the only savings of low-income private sector employees. The poorest segments of society, who contribute the largest amount of taxes under Sri Lanka's regressive tax system, will also bear the biggest losses of the domestic debt restructuring.

IMF AGREEMENT

Sri Lanka entered its 17th IMF agreement in September 2022, for a US$2.9 billion Extended Fund Facility over 48 months. Although the country has been through several IMF agreements, it was significantly different this time due to the accompanying default and debt restructuring, leaving little room for negotiating conditionalities.

Among the list of conditionalities are: increasing public revenues, curtailing public spending, conditions relating to fuel and electricity provision and pricing, privatising state-owned enterprises and labour reforms. Between 2022 and 2024, several legislations were passed under the IMF directives. The Economic Transformation Act locks the IMF economic constraints into law - even beyond the loan agreement's term.[36]

The ongoing economic crisis, debt restructuring and IMF-driven recovery plan have sharply limited Sri Lanka's ability to secure affordable financing for its economic recovery, development needs

www.treasury.gov.lk/api/file/bd447900-840d-4c28-bfcb-7c78fe79bbf2

35 Ghosh, J. & Ruwanpura, K. (2023) "Sri Lanka's Dangerous Domestic Debt Restructuring". 13 Sep, Commentary, Project Syndicate. **www.project-syndicate.org/commentary/sri-lanka-government-imf-austerity-deal-will-exacerbate-debt-crisis-by-jayati-ghosh-and-kanchana-n-ruwanpura-2023-09**

36 Parliament of Sri Lanka. (2023) Economic Transformation Bill. **www.parliament.lk/uploads/bills/gbills/english/6351.pdf**

or climate initiatives. Furthermore, the tightening of the fiscal space with conditionalities has constrained public spending on such urgent needs. Decades of austerity measures imposed by IFIs — and the resulting dependence on expensive foreign capital to fill financing gaps — have left the country's prospects for recovery very grim.

The Fossil Fuel - Debt Nexus

SRI LANKA'S ENERGY PORTFOLIO

Sri Lanka, as a non-petro state and low carbon intensity economy has a commendable energy profile in comparison with other countries. According to the IEA, its energy mix is composed of 40 percent biofuels and waste, 40 percent oil and oil products, 14 percent coal, 5 percent hydropower and the rest from other renewables.

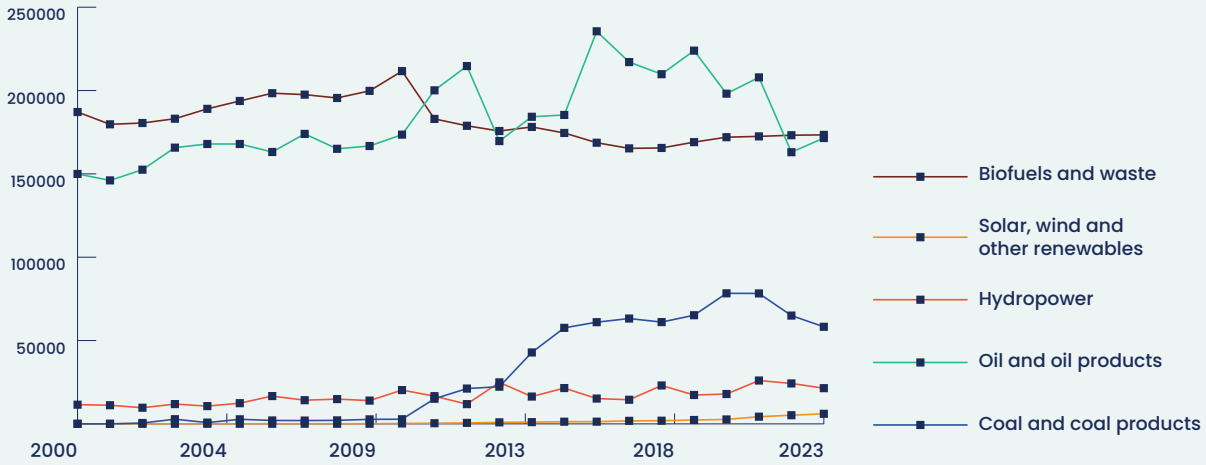

Figure 5. Evolution of total energy supply in Sri Lanka since 2000

Source: International Energy Agency [37]

While the country's carbon intensity of energy production remains well below the global average, the largest contributing sectors to current CO2 emissions are transport (45 percent) - which is dependent 100 percent on oil as the energy source and electricity providers (also 45 percent).[38]

The domestic overall energy production mix in 2023 consisted of 86 percent biofuels and waste, 11 percent is from hydropower and the remainder from solar, wind, and other renewables.[39] Aside from a modest rise in renewable output in recent years, the composition of its energy production has remained constant over the past two decades.

37 International Energy Agency. (2023) Energy system of Sri Lanka. **www.iea.org/countries/sri-lanka**

38 International Energy Agency. (2023).

39 International Energy Agency. (2023).

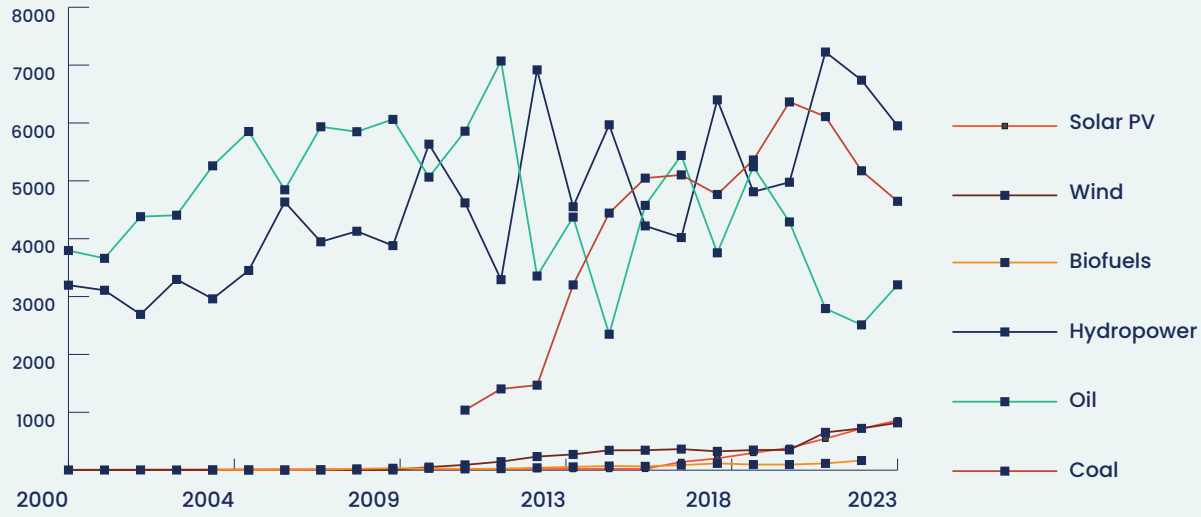

Figure 6. Evolution of electricity generation in Sri Lanka since 2000

Source: International Energy Agency[40]

Sri Lanka's electricity generation relies on 48 percent of fossil fuels, 37 percent of hydropower, 10 percent of solar power and 5 percent of wind and other renewable sources (2023).[41] The nation achieved 100 percent electrification through subsidized public provisioning via the national grid. About 40 percent of Sri Lanka's electricity was generated using hydropower until 2017. The per capita electricity consumption increased 124 percent in the last two decades.

INCREASING IMPORT DEPENDENCY ON FOSSIL FUELS

Sri Lanka lacks indigenous fossil-fuel reserves, but the nation has become reliant on fossil fuels for consumption and for electricity generation. Currently, the country does not engage in any form of energy exports. Yet, in 2023, 63 percent of total energy supply was fulfilled through import. Oil was the single largest fossil fuel input within the import bill, contributing to the outflow of dollar exchange.[42] Fossil fuel imports increased rapidly by about 64 percent within two decades. A reliance on imported fossil fuels is an unfavourable scenario for a country mired in a debt trap.

Sri Lanka's fossil fuels are almost entirely imported from Middle Eastern countries. Oil is used to power an older thermal plant (Sapugaskanda) as backup generation when hydropower output falls short due to changing rainfall volumes. Coal imports began in 2010 to reduce the reliance on oil and supply the only coal power plant (Norochcholai) in the country. However, coal imports have tended to fluctuate due to global price hikes and expensive energy sources, the diversification into coal to fulfill electricity demand is another unfavourable move for the country.

In recent years, Liquified Natural Gas (LNG) has been promoted into Sri Lanka's energy mix, intended to replace oil-based sources and as a "transitional" fuel before enough renewable energy can be

40 International Energy Agency Data. (2023) Energy system of Sri Lanka. **www.iea.org/countries/sri-lanka**

41 Ibid. International Energy Agency Data. (2023).

42 Ibid. International Energy Agency Data. (2023).

produced to meet the demand. The government relies on LNG imports, most of which is currently obtained from Qatar, Malaysia and Australia as liquified cargo.

IMPACT OF THE DEBT CRISIS AND IMPORT-DEPENDENCE ON THE ENERGY SECTOR

The energy sector saw significant changes in energy supply and consumption in recent years. The reasons are two-fold. The debt crisis and falling foreign reserves as well as fluctuating fossil fuel prices and distribution in the global market. Underlying both of these is Sri Lanka's growing import-dependency on fossil fuels.

The economic crisis impacted the energy sector when all imports, including essentials such as fuel, medicines and milk powder were immediately restricted in 2022, as the country ran out of dollar reserves to pay for them. Massive oil and gas shortages resulted in long queues that crawled for days in front of fuel stations to fill up vehicle tanks and gas cylinders for cooking, resulting in several deaths.[43] The LPG gas cylinder became the symbol of the acute economic crisis. Disruptions to transportation due to fuel shortages contributed to disruptions in food distribution. The government introduced a fuel quota system to manage the demand until normalcy returned.

Daily electricity outages lasting several hours were announced to manage the reduced oil stocks to run the power stations. Sri Lanka also abandoned its subsidized distribution of fuel and electricity through its publicly owned entities and moved to a cost-recovery pricing model. Thus, households experienced an immediate increase on their monthly electricity bill as tariff charges increased more than 200 percent for households using the least number of units.[44] Most households were forced to ration their electricity usage, causing a bigger burden on women who do most of the unpaid care work at home. Abandoning the subsidies left more than a million households in the dark.[45]

Sri Lanka's energy supply and consumption showed a declining trend since the global Covid–19 pandemic in 2020. Thus, apart from the shifts due to dollar reserve pressures with the debt crisis, import dependence on fossil fuels resulted in vulnerabilities to other global shocks as well, such as disruptions in fuel supply chains and global fuel price changes.

The war in Ukraine and volatility in the Middle East contributed to price hikes. In addition to supply chain disruptions and increased prices, reduced domestic productive activities, first due to Covid-19 and then the economic crisis, also impacted the consumption volumes. Compared to the country's pre-global pandemic data in 2019, a declining trend in the imports and volumes of locally refined products can be observed. Such trends led to the country turning to biomass, increasing its percentage share in its energy mix, with the aim of reducing the dependence on fossil fuel imports. However, it also marks a regressive turn that adds to lower energy efficiency, higher local pollution, increased pressure on forests, and a greater unpaid labor burden, particularly for women.

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43 De Silva, D & Perera, N. (2024) "Sri Lanka fuel-queue death toll rises to 12; latest victim 19 years old". 14 May, Economy Next. **https://economynext.com/sri-lanka-fuel-queue-death-toll-rises-to-12-latest-victim-19-years-old-96421/**

44 Samarawickrama, C. (2022) "Electricity tariff revision 2022". 15 Dec, Daily Mirror. **www.dailymirror.lk/front_page/Electricity-Tariff-Revision-2022-Electricity-charges-to-go-up-by-75-from-today-PUCSL/238-242774**

45 Newswire. (2024) "30 million "red bills": Minister reveals electricity disconnection numbers". 8 May, Newswire. **https://www.newswire.lk/2024/05/08/30-million-red-bills-minister-reveals-electricity-disconnection-numbers/**

ITEM		2019	2020	2021	2022[a]	2023[b]	2024[b]
PETROLEUM							
IMPORTS							
CRUDE OIL	Quantity MT'00	1.842	1.667	1.182	649	1.663	1.331
	Value (C.I.F.) Rs.mn	173.547	107.665	123.865	157.408	369.940	262.088
REFINED PRODUCTS[c]	Quantity MT'00	1.842	1.667	1.182	649	1.663	1.331
	Value (C.I.F.) Rs.mn	173.547	107.665	123.865	157.408	369.940	262.088
LOCALLY REDIFINED PRODUCTS, MT'00							
PETROL (92 OCTANE AND 95 OCTANE)		186	164	124	39	171	151
AUTO DIESEL		624	538	371	128	506	444
KEROSENE		38	109	98	25	49	73
FURNACE OIL		483	465	359	194	482	427
AVIATION FUEL		259	157	131	57	234	207
LOCAL CONSUMPTION, MT'00							
PETROL[d]		1.426	1.259	1.354	1.188	1.278	1.358
DIESEL[e]		2.224	1.819	1.950	1.772	1.574	1.613
KEROSENE		206	176	185	104	81	139
FURNACE OIL		1.011	971	720	496	682	735
L.P. GAS		466	473	457	294	394	436
ELECTRICITY							
AVAILABLE CAPACITY, MW		4.217	4.265	4.186	4.084	4.381	4.633
UNITS GENERATED, GWh		15.922	15.714	16.716	15.942	15.576	16.802
Hydro[f]		3.783	3.911	5.640	5.364	4.573	5.426
Thermal and Other[f]		12.139	11.802	11.076	10.578	11.002	11.375
SALES, GWh		14.611	11.802	11.076	10.578	11.002	11.375
Domestic and Religious[g]		4.863	5.172	5.320	5.124	4.567	4.777T
Industrial, General Purpose, Government and Hotel		7.955	7.402	8.164	7.748	7.951	8.694

(a) Revised
(b) Provisional
(c) Excluding coal
(d) Includes 92 Octane, 95 Octane, and XtraPremieum Euro 3
(e) Includes Auto Diesel, Super Diesel and XtraMile Diesel
(f) Excludiong Mini Hydro
(g) Includes Private Power Generation, Coal and NCRE

Sources :
- Ceylon Petroleum Corporation
- Lanka Marine Services (Pvt.) Ltd
- Lanka IOC PLC
- Sinopec Energy Lanka (Pvt.) Ltd
- RM Parks (Pvt.) Ltd
- United Petroleum Lanka (Pvt.) Ltd
- Ceylon Electricity Board
- Laugfs Gas PLC
- Sri Lanka Customs
- Central bank of Sri Lanka
- Litro Gas Lanka Ltd.

Table 1. Energy Imports and Consumption

Source:Central Bank of Sri Lanka[46]

46 Central Bank of Sri Lanka. (2025) Economic and social infrastructure digest 2025. **www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/economic_and_social_infrastructure_digest_2025_e.pdf**

Crude oil imports saw a 41 percent decline between 2020 and 2023. Similarly, a decline in the local consumption values of fossil fuels was observable in the same period. Both Sri Lanka's electricity production and consumption slumped. While electricity demand grew by around 4 percent annually in the decade before the COVID -19, the pandemic disrupted this, resulting in a 1.8 percent decrease in electricity use. In 2021, usage slightly increased as the economy experienced a modest recovery. However, business closures, job losses and lower household incomes after the economic crisis in 2022 ensured a declining trend again in subsequent years.

A significant price increase for petroleum products can be observed in the post-economic crisis period.[47] The cost of electricity was adjusted from Rs. 16.91 per kWh in 2010 to Rs. 22.05 per kWh in 2021 and the price of electricity increased from Rs. 13.15 per kWh to Rs. 16.81 per kWh over the same period.[48]

The impact of Sri Lanka's debt crisis on its energy sector and vice versa is undoubtedly clear. However, the decline in fossil fuel supply and consumption has created an opportunity in the energy market to expand sustainable energy sources. Volatility in the global market, increased fuel and electricity costs in the domestic markets and climate concerns are the drivers for Sri Lanka's recent motivation to shift towards renewable energy sources. Indeed, Sri Lanka's post-debt crisis energy policy frameworks have been shaped by the experiences of the debt-fossil fuel trap.

Sri Lanka's Energy Policies

Sri Lanka's energy policy is focused on four areas: 1) strengthening and modernising the national electricity supply grid; 2) introducing new regulatory frameworks; 3) diversifying domestic energy production including expanding clean energy sources; and 4) developing a financing framework for climate-friendly energy projects.

The country continues to face scheduled and unscheduled power outages and the need to upgrade the national electricity grid to reduce transmission and distribution losses has been identified as a key priority. Furthermore, anticipating the diversification of energy sources and varied fluctuations, enhancing storage capacities and technological knowhow are also identified as priorities.

The Electricity Act of 2009, which was amended in 2020, established a framework for generation, transmission, and distribution, allowing private producers to sell to the national grid under standard power-purchase agreements. In the same year, a Renewable Energy Policy introduced feed-in tariffs and tax incentives for solar, wind, and other renewable projects. The 2021 National Energy Policy set out core reform principles which included supply diversification, enhanced energy security, and reduced carbon intensity. The Sri Lanka Sustainable Energy Authority was also created to coordinate the renewable-energy transition.

Reforms gathered momentum in 2023 with new legislation and amendments being proposed. The Sri Lanka Electricity Act, No 36 of 2024 paved the way for the unbundling of Ceylon Electricity Board

47 Central Bank of Sri Lanka. (2025) Economic and social infrastructure digest 2025. **www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/economic_and_social_infrastructure_digest_2025_e.pdf**

48 Rizkiya, N. (2024) "Sri Lanka raises renewable-energy target to 100 % in bold policy shift". 12 Jun, Daily Mirror. **www.dailymirror.lk/business-main/Sri-Lanka-raises-renewable-energy-target-to-100-in-bold-policy-shift/245-301369**

(CEB) into four state owned entities to manage electricity generation, transmission and distribution and systems operations independently.[49] The state-owned entity - Ceylon Petroleum Corporation (CPC) – which undertook the refinery and distribution of petroleum under a controlled pricing mechanism also adopted a cost-reflective market pricing formula to determine fuel prices.

The subsequent increases in electricity tariffs forced many households to be disconnected from the grid. Families reduced consumption by disconnecting their refrigerators and other electrical gadgets, exponentially increasing unpaid carework and affecting women's home-based livelihoods. Overall fuel consumption dropped drastically, by 50 percent as prices increased three-fold, affecting economic productivity too.[50] The economic crisis and subsequent reforms disrupted Sri Lanka's energy sector in irreparable ways. CPCs profits showed a decline from Rs. 120 Bn in 2023 to Rs. 33 billion in 2024. New foreign entrants allowed to operate in the country through the liberalization of the energy sector also contributed to the reduction of its market share in addition to reduced consumption.

The Central Bank argues that cost-reflective market pricing encourages households and industry to adopt renewables.[51] Others have questioned this rationale as Sri Lanka's tariffs remain high relative to regional peers, dampening investment appeal and fueling public dissatisfaction over rising energy costs for consumers.[52] Furthermore, increased tariffs have increased the cost borne by households. Increasing the share of cheaper sustainable energy sources into the energy mix have not yet translated into cost savings for households.

INFLUENCE OF IFIS ON DOMESTIC POLICIES

The IMF loan agreement shaped the rapid implementation of energy reforms. Transitioning to cost-recovery market pricing for fuel and electricity was mandated. Subsidies were rolled back and higher tariffs imposed. The IMF recommended the liberalisation of the energy sector and a standard power purchasing price model. Furthermore, it recommended the restructuring of the main public entity for electricity generation, transmission and distribution - Ceylon Electricity Board – into a cluster of four companies (which is in progress), as a precursor to the sector's privatisation.

Yet, IMF's policy prescriptions for the energy sector fails to address the elephant in the room - the high import bill including the import-dependence on fossil fuels.[53] More than US$4 billion was spent on the import of coal, crude and refined oils making up the biggest portion of Sri Lanka's import spending. Although Sri Lanka's debt crisis is directly linked to the external accounts and foreign reserves challenges, the IMF's focus has mainly been on curtailing fiscal spending and reforming the domestic energy sector.

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49 Parliament of Sri Lanka. (2024) Sri Lanka Electricity Act No 36. **www.parliament.lk/uploads/acts/gbills/english/6347.pdf**

50 Sirimanne, B. (2024) "SL fuel consumption comes down by 50 % due to drop in demand". 21 Apr, Sunday Times. **www.sundaytimes.lk/240421/business-times/sl-fuel-consumption-comes-down-by-50-due-to-drop-in-demand-554355.html**

51 Central Bank of Sri Lanka. (2025) Economic and social infrastructure digest 2025. **www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/economic_and_social_infrastructure_digest_2025_e.pdf**

52 Daily Mirror. (2024, February 8). Sri Lanka's electricity charges remain highest in South Asia. Daily Mirror. **www.dailymirror.lk/breaking-news/Sri-Lankas-electricity-charges-remain-highest-in-South-Asia/108-276603**

53 Kaboub, F. (2026) "Sri Lanka's 17th IMF Debt Trap". 21 Feb, Global South Perspectives Substack, **https://globalsouthperspectives.substack.com/p/sri-lankas-17th-imf-debt-trap**

The WB, Asian Development Bank (ADB) and the United States' Agency for Aid (USAID), provided loans to implement the energy reforms and technical assistance for the energy sector.[54] The recent energy sector reforms show a clear trajectory of dismantling non-profit public entities and instead opting for privatisation and public private partnerships. ADB, as the largest lender in recent years, has supported 57 projects to date in the energy sector amounting to US$1.8 billion, including on formulating energy policy.[55] Currently, there are more than 10 active projects, focused on strengthening national transmission, transitioning to sustainable energy sources and enhancing regional cooperation. The largest (100 MW) wind power project in Mannar was supported by ADB, amounting to US$200 million. About 60 percent of ADB funding is directed to the private sector. The WB's current energy sector support, mostly for expanding sustainable energy sources, amounts to about US$350 million.[56]

Attracting private capital, including FDIs, into the renewables sector is promoted as the solution to the funding constraints of the state. While renewables are indeed a better option for long term sustainability, affordability and distributed energy access,[57] they should not be predicated on further trapping a government in crisis into signing more loan agreements with IFIs, which as pointed out earlier, cannot be restructured even if the country is in a deep debt crisis. Given the pipeline of proposed projects by the IFIs for the next several years, it is unlikely that the country's debt burden towards multilateral lenders will ease anytime soon. Sri Lanka's energy transition model is forced to rely on significant amounts of foreign debt, instead of reducing the pressure on its dollar reserves.

Sri Lanka's energy sector expansion - as heavily influenced by IFIs - is marked to be in service of an export-oriented industry. This is another clear departure from Sri Lanka's existing policies of subsidized energy distribution as a source for other productive economic activities. Future policies are focused on turning energy sources into commodities for profit-making, which risks further deepening the debt and fossil fuel trap, and increases the likelihood of stranded assets as the world transitions away from fossil fuels. For example, efforts are underway to establish an export-oriented petroleum refinery in the Hambantota area funded by China, with a minimum capacity of 100,000 barrels per day.[58] Offshore renewable energy expansion is also promoted by the WB with the idea of Sri Lanka becoming a key exporter in Asia.[59] However, questions are arising about the extent to which these plans resonate with public opinion and visions for economic and environmental development.

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54 Alphonso, M. (2025) "USAID, government among largest recipients of projects in four ministries". 23 Feb, Sunday Times. **www.sundaytimes.lk/250223/news/usaid-govt-largest-recipient-projects-in-four-ministries-hit-588816.html**; Asian Development Bank. Sri Lanka – Overview. Asian Development Bank. **www.adb.org/where-we-work/sri-lanka/overview** ; United States of America Department of State (2024, July 15) "Joint Statement from the Fifth Session of the United States-Sri Lanka Partnership Dialogue". 15 Jul, Media Note, Office of the Spokesperson, **https://2021-2025.state.gov/joint-statement-from-the-fifth-session-of-the-united-states-sri-lanka-partnership-dialogue/**; World Bank. (2023). Offshore wind roadmap for Sri Lanka. World Bank. **https://documents1.worldbank.org/curated/en/099082123192513217/pdf/P17530502c20a50b30bfcd0db467e71bf0d.pdf**

55 Asian Development Bank. (2025) Wind Power Generation Project. Asian Development Bank. **www.adb.org/projects/49345-002/main**

56 World Bank. Sri Lanka - Projects. **https://projects.worldbank.org/en/projects-operations/projects-list?os=0&countryshortname_exact=Sri%20Lanka&countrycode_exact=LK&status_exact=Active**

57 International Renewable Energy Agency (IRENA) (2025) Renewable Power Generation Costs in 2024. **www.irena.org/Publications/2025/Jun/Renewable-Power-Generation-Costs-in-2024**

58 Reuters. (2023) "Sri Lanka approves Sinopec's $4.5 billion refinery proposal". 27 Nov, Reuters. **www.reuters.com/business/energy/sri-lanka-approves-sinopecs-45-billion-refinery-proposal-2023-11-27/**

59 World Bank. (2023) Offshore wind roadmap for Sri Lanka. World Bank. International Bank for Reconstruction and Development/World Bank **https://documents1.worldbank.org/curated/en/099082123192513217/pdf/P17530502c20a50b30bfcd0db467e71bf0d.pdf**

For example, local environmentalists have voiced their opposition to the commodification of nature for profit gains.[60]

The energy sector is not currently structured for revenue generation. The idea of creating a green economy for profit purposes is integrated into the IFI's and government frameworks for energy expansion. The public should be engaged with this vision and participate in discussions about how the transition away from fossil fuels towards an economically and climatically resilient economy should be pursued.

IFI policy prescriptions for Sri Lanka's energy sector follow the trends of their prescriptions across developing countries over history. A reflection on that history cautions that these prescriptions have generally failed to help countries like Sri Lanka to emerge from economic distress.[61] For example the removal of subsidies, the privatisation of public services, encouraging public-private partnerships, a focus on FDIs and debt-based financing, and commodification and export-orientation of local resources. Past experience suggests that the frameworks promoted by the IFIs for transitioning to domestic renewable energy sources - although intended to reduce the debt-fossil fuel trap and support climate mitigation and adaptation - do not provide a hopeful scenario. Repeating the past approaches - underpinned by coloniality and swallowing sovereign decision making space - will not set the ground for a just transition, out of the debt crisis nor away from fossil fuels.

DOMESTIC SUSTAINABLE ENERGY DEVELOPMENTS

Joining 43 other nations in an ambitious pledge to achieve 70 percent of electricity from renewable sources by 2030 and carbon-neutral electricity generation by 2050, Sri Lanka submitted its third Nationally Determined Contribution (NDC) for 2026 to 2035, outlining commitments to mitigation, adaptation and loss and damage.[62] It includes a pledge to stop constructing new coal-fired power plants and generate additional capacity exclusively from clean-energy technologies.

The Ceylon Electricity Board (CEB)'s Long-Term Generation Expansion Plan (LTGEP) for 2025 to 2044 includes the development of a cumulative capacity increase of 5 335 MW by 2034 and further to 5 380 MW by 2044.[63] In 2024, 630 MW of domestic energy production capacity was added to the grid. The additional capacity was supported partly by the implementation of the 120 MW Uma Oya hydropower project, initially to be funded by Iran, however, due to economic sanctions it was completed with 80 percent of Sri Lankan government funds.[64] The other part was fulfilled by a 350 MW Kerawalapitiya open-cycle LNG power plant funded through a consortium of local banks[65] as

60 Kelegama, T & Gunathilake, M. (2025) Why debt for nature swaps won't save us. Institute of Political Economy. **https://ipe-sl.org/why-debt-for-nature-swaps-wont-save-sri-lanka/**

61 Mohan, P. (2026) From Debt Burden to Climate Burden: A Historical Look at Debt and Climate Change. Wiley Interdisciplinary Reviews: Climate Change, 17(1), e70042. **https://wires.onlinelibrary.wiley.com/doi/10.1002/wcc.70042**

62 Ministry of Environment. (2025) Nationally Determined Contribution 3.0: 2026 - 2035. Government of Sri Lanka. **https://unfccc.int/sites/default/files/2025-09/Sri%20Lankas%20Nationally%20Determined%20Contributions%203.0%20%282026-2035%29%20submitted%2022.09.2025%20%281%29.pdf**

63 CEB. (2025) Long - Term Generation Expansion Plan 2025-2044. Ceylon Electricity Board. **www.ceb.lk/front_img/img_reports/1748839124LTGEP-2025-2044-FINAL_c.pdf**

64 Madugamuwa. (2024) "Uma Oya Hydropower Plant: Test runs ongoing, generation from Feb". 28 Jan, The Morning. **www.themorning.lk/articles/8gjhKRkj0a6tGVv6hU9n**

65 Daily Mirror. (2025) "350 megawatt added to national grid". 17 Sep, Daily Mirror. **www.dailymirror.lk/print/breaking-news/350-megawatt-added-to-national-grid/108-319713**

well as floating solar panels.

The annual total electricity demand is estimated to increase by 4.9 percent annually over the next 20 years.[66] Recognising that its hydropower potential is already fully tapped, the country is turning to fully untapped renewables - primarily solar and wind - to meet future demand. Significant growth in renewable power generation has been planned particularly solar power, from 1000 MW to 9000MW by the end of the planning window through a mix of rooftop, ground-mounted and floating solar installations.[67] Onshore wind power generation is expected to increase from 250MW to 2600MW. Enhancing renewables storage capacities and technologies has been identified as a priority. The conversion of gas turbines to operate on a blended technology of hydrogen and natural gas is also part of the transition plan.

Developments in renewable sources are mainly envisioned as being driven by private investments posing new challenges for managing the stability of the national grid, pricing mechanism and energy sovereignty.[68]

Recent national power outages exposed the lack of preparedness and grid readiness to accommodate excess solar power feed-in by households. Currently about 775 MW (2023) capacity from clean energy sources through 331 projects is generated by individual power producers and another 815 MW from 55 000 roof-top solar installations.[69] Roof-top solar panels are currently affordable only to a small number of upper-middle class households whose electricity usage volumes are higher. Feed-in tariff rates were reduced from Rs. 42/kWh in 2023 to Rs. 27/kWh in 2024, causing dissatisfaction among individual power producers.[70]

Meanwhile, Sri Lanka's extensive off-shore Exclusive Economic Zone (EEZ) has also attracted interest in offshore natural-gas exploration following the discovery of hydrocarbons near the Mannar Basin.[71] For instance, oil-exploration licenses have been granted to foreign firms in the Mannar Basin off the north-west coast, and test wells have already been drilled.[72] How far these efforts will progress remains uncertain with some environmental activists dismissing the prospect as a "red herring." The Mannar case illustrates how external investment interests and strategic considerations can coexist with and sometimes counterbalance domestic renewable energy ambitions. Consequently, the current push to develop renewables does not automatically rule out explorations for discovering fossil fuel reserves.

66 ITA. (2024) Sri Lanka – Energy. US International Trade Administration. **www.trade.gov/country-commercial-guides/sri-lanka-energy**

67 CEB. (2025) Long - Term Generation Expansion Plan 2025-2044. Ceylon Electricity Board. **www.ceb.lk/front_img/img_reports/1748839124LTGEP-2025-2044-FINAL_c.pdf**

68 ADB. (2024) "Harnessing wind: Mannar Island wind farm". 12 Mar, Video, Asian Development Bank. **www.adb.org/news/videos/harnessing-wind-mannar-island-wind-farm**

69 Ibid. CEB. (2025)

70 Wickramasinghe, K. (2024, July 30) "Mounting uncertainties put renewable-energy sector in a spin. Daily Mirror. **www.dailymirror.lk/plus/Mounting-uncertainties-put-renewable-energy-sector-in-a-spin/352-307337**

71 Petroleum Development Authority of Sri Lanka (PDASL). (2023) National Policy on Natural Gas of Sri Lanka. Government of Sri Lanka **https://pdasl.gov.lk/wp-content/uploads/2023/01/NPNG-Gazett-2197-27_E.pdf**

72 Ibid. CEB. (2025)

A GEOPOLITICAL BALANCING ACT

Although the Sri Lankan government has committed to diversifying its energy supply through the expansion of renewable sources, the direction of the country's energy sector is shaped by economic and geopolitical interests and local community responses. The debt crisis heightened Sri Lanka's vulnerability to bilateral and commercial agreements with foreign partners. For example, to alleviate fiscal pressure, Sri Lanka secured lines of credit and currency-swaps arrangements of a total of US$3.2 billion with India and China. Subsequently, three new foreign petroleum companies assumed operations to set up refineries and distribute fuel. The Chinese company Sinopec Lanka (pvt) Ltd. entered the market in 2023 as the new entrant in the domestic market along with Lanka Indian Oil Company and Shell Company. Furthermore, RM Parks (pvt) Ltd. also entered Sri Lanka in 2024 as well as United Petroleum Lanka (pvt) Ltd, although it ceased operations in early 2025, citing challenges of operating in a newly liberalized market.

Geopolitical competition has intensified after the economic crisis.[73] Sri Lanka has had to maintain a balance ensuring competing countries all get a share in the energy sector. As one of its biggest bilateral donors, Japan has offered technical assistance to strengthen the national grid. The only operational coal power plant in Norachcholai was developed with Chinese loans. Another coal plant, awarded to India, could not continue due to resistance by local environmental activists. In 2021, a Chinese company won the contract to build two renewable energy plants in Northern Sri Lanka, however, it was cancelled due to India objecting to such a project in close geographical proximity. European, Australian and American companies have shown interest in off-shore exploration for oil and gas reserves.

Sri Lanka's attempts at expanding wind power generation have also been curtailed by concerns over cost, improper procedures and external interests. The first wind farm with Chinese financing in Hambantota, Southern Sri Lanka was dismantled as the rent payments for the land could not be sustained.[74] Another attempt, for a 250 MW windpower project in Mannar, Northern Sri Lanka, was awarded to Adani Green Energy under a US$442 million contract in 2023. The project quickly came under scrutiny for several procedural irregularities, including deviations in tariff rates, an inadequate environmental impact assessment and its characterisation as a "government-to-government" deal.[75] Local communities and environmental experts opposed the wind farm, because the turbines would be placed along the Central Asian flyway - one of the world's eight major bird-migration routes - threatening both avian populations and local livelihoods.[76] Plans to link the project to India's power grid further fueled the backlash.

In early 2025, Adani formally withdrew from the venture.[77] Following its exit, two local companies

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73 Theiventhran, M & Stokke, K. (2023) "Titanic encounters: Geopolitics at the centre of energy transitions in Sri Lanka". 15 Nov, Article, Transnational Institute. **www.tni.org/en/article/titanic-encounters**

74 Samarawickrama, C. (2024) "Hambantota wind farm to be removed". 5 Aug, Daily Mirror. **www.dailymirror.lk/breaking-news/H-tota-Wind-Farm-to-be-removed/108-157312**

75 Kuruwita, R. (2024) "Adani's wind-power project in Sri Lanka hits rough weather". 12 Jun, The Diplomat. **https://thediplomat.com/2024/06/adanis-wind-power-project-in-sri-lanka-hits-rough-weather/**

76 Kuruwita, R. (2024) "Professor spells doom for Mannar migratory birds from Adani wind-farm". 22 Jul, The Island. **https://island.lk/professor-spells-doom-for-mannar-migratory-birds-from-adani-windfarm/**

77 Wildlife and Nature Protection Society (WNPS) (2025) "WNPS withdraws petition following Adani's exit from Mannar". 23 Mar, Sunday Times. **www.sundaytimes.lk/250323/business-times/wnps-withdraws-petition-following-adanis-exit-from-mannar-592651.html**

received new contracts: Hayleys Fentons Ltd. for a 50MW project and Ceylex Renewables for a 20MW project.[78] Protests against the social, economic and ecological impacts erupted leading to violent police responses.[79] Despite continued opposition from environmental groups, President Anura Kumara Dissanayake launched both wind power projects in January 2026.[80] The Mannar island has become a disputed location for exploring both fossil fuels and renewable energy projects, amidst geopolitical interests as a strategic security location and business interests to profit from energy projects. Residents of Mannar, who were affected by decades of civil war, increased poaching by Indian bottom-trawlers post-war and vulnerable to rising sea levels, have opposed all energy projects on the island.

Regional integration of the national grid via the only available node through South India is part of the renewable energy policies promoted with the rationale of improving energy supply and profiting from excess energy production. CEB's expansion plan includes the development of a 500 MW interconnection between India and Sri Lanka. However, such measures have received negative reception given the massive political and economic power-imbalance between the two countries causing fears of losing energy sovereignty.

The cases above, highlight the choppy path ahead for expanding renewable energy sources in the country, of the tensions arising from balancing corporate and geopolitical interests and safeguarding environmental and social interests. Local communities are not opposed to expanding clean energy sources, but appeal for a just transition that safeguards and strengthens already fragile and marginalized communities to give up their livelihoods, land or ecosystems.

The challenges with the implementation of these projects is also echoed in the nation's post-crisis push for liquefied natural gas. LNG has been framed as a transition bridge away from costlier oil-fired generation, but it has already generated significant governance controversy. Investigations and parliamentary scrutiny raised questions about projected savings presented in Cabinet papers, citing miscalculations and outdated assumptions that may have overstated the economic benefits of fuel switching.[81] Allegations have also emerged regarding possible conflicts of interest in the approval process. Together, these issues have shifted the debate on LNG from technical considerations about grid stability to broader concerns about transparency, accountability, and the integrity of energy decision-making in a debt-distressed context.[82]

The debate has further intensified around the proposed LNG terminal and pipeline infrastructure at Kerawalapitiya, structured under long-term Build-Own-Operate-Transfer (BOOT) arrangements. Of

78 Sirimanne, B. (2025) "Hayley's Fentons secures 50 MW Mannar wind-power project at reduced rate". 9 Feb, Sunday Times. **www.sundaytimes.lk/250209/business-times/hayleys-fentons-secures-50mw-mannar-wind-power-project-at-reduced-rate-586724.html**

79 The Examiner. (2024) "Storm brews over Ceylex's Mannar wind project as residents block lorries". 3 Oct, Examiner Media. **www.examiner.media/storm-brews-over-ceylexs-mannar-wind-project-as-residents-block-lorries**

80 Daily FT. (2026) "Hayley's Fentons initiates largest private-sector wind-power project with lowest-ever bid in Sri Lanka". 19 Jan, Daily FT. **www.ft.lk/business/Hayleys-Fentons-initiates-largest-private-sector-wind-power-project-with-lowest-ever-bid-in-Sri-Lanka/34-787099**

81 Wijedasa, N. (2024) "LNG switch: Cabinet Paper Contains Flawed Projected Savings", 15 Dec, Sunday Times **www.sundaytimes.lk/241215/news/lng-switch-cabinet-paper-contains-flawed-projected-savings-580918.html**

82 Newswire (2025) "Sajith Alleges Cabinet Approved LNG Power Project Using False Data", 4 Aug, Newswire **www.newswire.lk/2025/08/04/sajith-alleges-cabinet-approved-lng-power-project-using-false-data**

particular concern is the inclusion of take-or-pay clauses, which could require Sri Lanka to pay for minimum LNG volumes regardless of actual system demand.[83] In a small electricity market aiming to reach 70 percent renewable energy by 2030,[84] such contractual obligations risk creating quasi-debt liabilities denominated in foreign currency. Stranded-asset risk is therefore central to Sri Lanka's LNG strategy, given the scale of new infrastructure required, the reliance on take-or-pay contracts, limited domestic demand, and delays that have already emerged even before full implementation. Reporting in early 2026 highlighted internal deliberations over cancelling the long-delayed LNG terminal and pipeline project, citing fears that contractual commitments could lock the country into payments for volumes it may not ultimately require.[85]

At the same time, system plans assume LNG availability within a fixed timeline, while renewable expansion and storage deployment continue to evolve. This creates a structural dilemma: LNG infrastructure is capital-intensive, long-term, and denominated in foreign currency, while demand projections remain uncertain and subject to policy and technological change. In such a context, LNG risks becoming a quasi-debt obligation: a fixed payment stream vulnerable to global price volatility and shifting domestic demand, at a moment when fiscal space is already severely constrained.

Finally, long-term LNG contracts risk crowding out renewable energy integration at a critical stage of Sri Lanka's transition. Capital-intensive gas infrastructure and take-or-pay obligations can absorb scarce fiscal space, limiting the public investment needed to modernise the grid and expand transmission capacity. In a system seeking to accommodate higher shares of solar and wind, resources are urgently required for grid upgrades, digital system management, and utility-scale battery storage to enhance flexibility and reliability. Committing to inflexible, foreign-currency–denominated LNG obligations may therefore not only lock in fossil dependency but also constrain the financial and institutional capacity necessary to scale renewables effectively.

Ultimately, the ability to bring the public on board with the nation's energy transition plans will be critical. Should renewables be associated with an 'unjust' transition - as has been the case for some projects since the crisis - this could come at political, economic and environmental costs, with public resistance to the build out of an energy system that is necessary to de-link Sri Lanka's fossil fuel-debt trap and support climate and energy resilience.

Financing Sustainable Energy Initiatives

Sri Lanka's main challenge to transitioning to renewable energy sources is financing. Inadequate and inconsistent financing has hindered implementation in the past. The need for national financing is undoubtedly clear, however, allocating public funds has been greatly curtailed by the debt crisis.

In the government's budget for 2026, only Rs. 53 billion (1% of public revenue) is allocated

83 Mudugamuwa M. (2026) "Energy: Minister U-turns on LNG Deal?" 4 Jan, The Morning, **https://www.themorning.lk/articles/CTV4NIC9fo7p1ET4NE7x**

84 Public Utilities Commission of Sri Lanka. (n.d.). "Environment and Renewable Energy" **www.pucsl.gov.lk/electricity/quality/environment-and-renewable-energy/**

85 Ibid. Mudugamuwa M., The Sunday Morning (2026).

for environmental needs, including Rs.14.75 billion for disaster management.[86] The disaster management budget had to be entirely directed to offer immediate relief to those affected by cyclone Ditwah. The climate risks facing Sri Lanka calls for urgent action for implementing mechanisms for better preparedness and mitigation of climate risks. However, the country's budget priorities do not reflect the urgency, where allocation for its defense sector remains multiple times more than what is allocated for climate risks.[87]

Allocations from the public funds for sustainable and secure energy supply is a mere Rs. 23 billion (0.5 percent of public revenue), most of which is for strengthening transmission lines and enhancing the national grid. A small amount of Rs. 2.4 billion is allocated for renewable energy expansion, specifically for roof-top solar power generation. Although the transport sector is completely reliant on oil usage, there is no budget for significantly expanding public transport or promoting clean energy usage. The budget allocations expose the dismally low amounts for financing compared to the ambitious policy frameworks and CO2 reduction commitments the country has endorsed. It is apparent that Sri Lanka's energy transition hinges on obtaining funds from international sources. The excessive reliance on external financing does not appear to be a prudent strategy to ease the pressures on the country's dollar reserves.

The National Climate Finance Strategy of Sri Lanka (2025 - 2030), which was unveiled in November 2025, proposes 12 solutions to finance mitigation, adaptation and loss and damage including the plan for renewable energy expansion. The strategy proposes a green revolving fund as a self sustaining fund to finance energy efficiency and sustainable energy. However, several of the solutions proposed seek external funding such as private public partnerships for renewable energy projects, official development assistance and debt for environment swaps. The plan also relies heavily on debt based financial tools including carbon trading, green loans and green sovereign bonds. However, there is skepticism over the success of such tools.[88]

Sri Lanka floated its first blue bonds last year by DFCC bank, developed with the assistance of Global Green Growth Institute's Global Trust Fund to raise US$10 million and was oversubscribed. The financing strategy document is cautious about private investors given the long timeframes for investments to yield profits and stresses the need to mobilize parallely climate finance through multilateral sources such as the Green Climate Fund, Adaptation Fund, and Global Environment Facility. Sri Lanka's experience thus far has revealed that large investors who have the capacity to invest long-term coupled with geopolitical interests are the most likely private actors to invest in renewable projects.

ADDRESSING THE CLIMATE EMERGENCY

Sri Lanka is one of the richest Asian nations for its biological diversity and high levels of endemism.

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86 Ministry of Finance. (2025) Citizen's Budget 2026. Government of Sri Lanka. **www.treasury.gov.lk/api/file/806f5cd4-f5fe-47da-8284-912658d73bd0**

87 Shanmugadas, P. (2025) "One of the world's most climate-vulnerable nations, one of the least prepared: Sri Lanka's deadly choice". 21 Dec, Jurist. **www.jurist.org/features/2025/12/21/one-of-the-worlds-most-climate-vulnerable-nations-one-of-the-least-prepared-sri-lankas-deadly-choice/**

88 Kelegama, T & Gunathilake, M. (2025) Why debt for nature swaps won't save us. Institute of Political Economy. **https://ipe-sl.org/why-debt-for-nature-swaps-wont-save-sri-lanka/**

It remains highly vulnerable to climate-induced extreme weather events, consistently ranking among the top ten countries on the Global Climate Risk Index since 2018. Frequent cycles of disasters have left no time for the regeneration of the ecology, food system, infrastructure and the battered economy.

Even though the detrimental effects of climate change on the economy are evident, standard macro-economic indicators and forecasts ignore the socio-economic consequences. Moreover, the IMF's debt-sustainability framework fails to incorporate climate-induced disruptions that could impair the nation's capacity to honor its debt obligations. This oversight places Sri Lanka, like many Global South nations, at a distinct disadvantage within an already uneven global economic system. Consequently, the country is compelled to meet debt repayments under harsh restructuring and austerity terms, without any acknowledgment of the climate-driven burdens it disproportionately bears.

In the aftermath of cyclone Ditwah a statement was issued by the world's top economists, including Thomas Piketty, Joseph Stiglitz, Martín Guzmán, Kate Raworth, Jayati Ghosh, Yanis Varoufakis, Jason Hickel, which (among other things) explicitly called for the suspension of debt repayments, "with no punitive conditions - to free up fiscal space for disaster recovery, social protection, reconstruction and development".[89] The signatories warned about the high chance of Sri Lanka not being able to fulfill its debt obligations.

Local activists, civil society organizations and political leaders in Sri Lanka too called on the government to renegotiate the debt restructuring and IMF conditionalities in the wake of a significant disaster.[90] Yet the government has not shown any intention of renegotiating the terms, afraid of international isolation. Instead, the government appealed to the IMF from its Rapid Financial Instrument for US$206 million of emergency financial support which the fund has now approved.[91]

A team of IMF officials visited the country to conduct an assessment of the impact of the disaster on future economic performance and announced that no adjustments to the IMF program were necessary.[92] It was followed by Kristalina Georgieva's visit which coincided with the 75th anniversary of Sri Lanka's membership to the IMF, where she expressed that Sri Lanka was an IMF success story.[93] The hope of escaping the IMF's debt trap has been shattered yet again.

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89 Institute for Political Economy. (2025) "Experts' statement on Sri Lanka's debt sustainability and climate-related risks". 12 Dec, I4PE & Debt Justice **https://ipe-sl.org/wp-content/uploads/2025/12/121-Experts-Statement.pdf**

90 Srinivasan, M. (2025) "Cyclone impact sparks fresh calls in Sri Lanka to recast IMF deal". 9 Dec, The Hindu. **www.thehindu.com/news/international/cyclone-impact-sparks-fresh-calls-in-sri-lanka-to-recast-imf-deal/article70376168.ece**

91 IMF. (2025) "IMF approves US $206 million in emergency financial support for Sri Lanka". 19 Dec, Press release 25/436 **www.imf.org/en/news/articles/2025/12/19/pr-25436-sri-lanka-imf-approves-us-206-million-in-emergency-financial-support**

92 IMF. (2026) "IMF staff visit to assess impact of Cyclone Ditwah in Sri Lanka". 15 Jan, Press Release, 26/006 **www.imf.org/en/news/articles/2026/01/15/pr-26006-sri-lanka-imf-staff-visit-to-assess-impact-of-cyclone-ditwah**; Economy Next (2026) "Sri Lanka reaches deal with IMF to continue EFF without any changes." 28 Jan, Economy Next, **https://economynext.com/sri-lanka-reaches-deal-with-imf-to-continue-eff-without-any-changes-259218/**

93 Central Bank of Sri Lanka. (2026) The Managing Director of the International Monetary Fund Visits the Central Bank of Sri Lanka. 17 Feb, Press Release, Communications Department, **www.cbsl.gov.lk/sites/default/files/cbslweb_documents/press/pr/press_20260217_the_md_of_the_imf_visits_the_cbsl_e.pdf**

Conclusions and Recommendations

Sri Lanka stands at a pivotal moment, confronting both a crippling debt crisis and escalating climate threats. The 2022 economic collapse and dwindling foreign-exchange reserves forced the government to curtail fossil fuel imports and impose fuel rationing. It laid bare the island's heavy reliance on imported fossil fuels and the peril of a debt-fossil fuel trap. The energy sector reforms based on the IFIs' frameworks mirror the larger austerity, privatization and liberalization prescriptions for economies like Sri Lanka which have failed to bring countries in the Global South out of debt distress.

Although the Sri Lankan government has initiated an ambitious plan to expand domestic renewable energy sources, the lack of fiscal space due to harsh austerity and inadequate debt restructuring as well as the lack of access to concessionary global funding can lead to the country accumulating more foreign debt to finance the energy transition. Furthermore, geopolitical and corporate interests have a bigger influence on its future energy transition pathways.

Removal of energy subsidies, attempts to privatize the energy sector and integrate regionally through the promotion of renewable energy projects have produced negative reception from local communities. The resistance to the imposition of a debt-financed for-profit green economy model is growing. The hope is that Sri Lanka's experience of transitioning to renewable energy sources can be a cautionary tale to urgently adopt a plan for a just transition with both domestic and international cooperation, which includes:

- International advocacy for compulsory readjustment of the debt restructuring and IMF conditionalities for countries facing climate emergencies based on climate measures incorporated into the DSA and IMF macroeconomic analysis;

- Reevaluate multilateral and bilateral frameworks for renewable energy transition and bring them in line with the just transition principles;

- Protect the publicly owned non-profit energy sector. Immediately reverse the removal of subsidies and privatization of the sector and provide tariff incentives for increasing renewable energy usage;

- Remove fiscal spending constraints on loss and damage, mitigation and transition to renewable energy projects; and

- Protect climate sensitive local agriculture and food systems by redistributing government budget allocations to those sectors.

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