V20 DEBT REVIEW

An Account of Debt in the Vulnerable Group of Twenty

3RD EDITION

July 2025

Rishikesh Ram Bhandary
Nathalie Maris
Marina Zucker-Marques

"As we fight these battles of rising debt, cost-of-living increases and the other challenges from which we fight to shield our people, it's essential that Caribbean nations work more closely together. We cannot build schools and hospitals with short-term capital of 10 or 15 years. We need longer term financing. When you buy a house, you borrow for 20 or 25 years. Governments, with their large development agendas, should be no different.

If we're limited to 10-year financing terms from foreign financing institutions and other lenders, it chokes off the opportunity for future development. It means that by the time we go out to the market for capital to fix our next set of problems, we are tied up in the tentacles of debt. This is why it is critical to stretch out financing terms.

These elements are at the core of the Bridgetown Initiative. It is easing of the pressure on our people and the tying of governments' hands for which we have been fighting. We in the Caribbean need better financing terms, cheaper capital, longer terms, because we need to build countries for our people.

And if we build countries where our people want to stay, where nobody is looking to go abroad; if we can get a little more elbow room to do the things that we need to do, then we can continue to deliver for you here in Dominica, at home in Barbados and across the region. We seek it to make the average person, the workers of our countries, better and stronger, so that they can build the best possible lives for their families."

PRIME MINISTER MIA MOTTLEY

Prime Minister of Barbados
Chair of the CVF-V20

"The CVF Leaders Declaration calls for the redirection of international financial flows towards fairer implementation and fairer agreement. The idea is as well, that it must make debt work for the climate, and you have seen this demonstrated in debt for nature swaps and in similar instruments.

It goes on to call for the shock proofing of economies with liquidity support and risk management and identifies measures under each subheading that I have called, such as international financial architecture reform and lower cost of capital, that are needed to affect the transformation at the scale that is required."

H.E. ELIZABETH THOMPSON

Ambassador Extraordinary & Plenipotentiary
Climate Change, Small Island States SIDS & Law of the Sea,
Barbados CVF-V20 Presidency Sherpa

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H.E. RYAN STRAUGHN
Minister in the Ministry of Finance, Ministry of Finance, Economic Affairs and Investment, Barbados

H.E. DR. SALEHUDDIN AHMED
Finance Advisor, Ministry of Finance, People's Republic of Bangladesh

The debt and climate crises are coming together in a vicious circle. This is the clear conclusion of the third edition of the V20 Debt Review, the assessment tool of the CVF V20 - a group which now represents the combined interests of 74 countries and 22.4% of the world's population.

The impacts of escalating climate extreme events are forcing many of our already heavily indebted countries to borrow more to finance unexpected disaster response and recovery. In turn, these climate shocks are weakening economic growth and public revenues, reducing the fiscal space which allows V20 countries to service already existing high debt, diverting capital from development financing, and constraining investment in essential priorities such as education, health, infrastructure, and climate resilience.

Other multiple, often interlinked shocks that have hit the global economy since 2020 such as the COVID-19 pandemic, wars and interest rate hikes in the advanced economies have worsened fiscal and debt sustainability prospects. More recently, the announcements by the United States and major European donor-countries that they intend to sharply reduce their official development assistance budgets constitute a significant loss of the largest concessional financing source for climate vulnerable member-countries.

This unjust debt and climate situation across the V20 Group and the broader Global South reflects the inequalities embedded in an 80-year-old global financial system which is in urgent need of significant reform. In this regard, we urge the international development and climate community to adopt a holistic approach that breaks the vicious circle and moves to a virtuous circle encompassing greater cooperation on fair, just and equitable global debt sustainability solutions.

We highlight the following main areas for consideration and action.

REFORM DEBT SUSTAINABILITY ANALYSES

First, the IMF and World Bank should refine the methodology for their debt sustainability analyses (DSAs), which are currently under review, to incorporate the critical transformative benefits of macro-critical resilience investments and valuation of natural capital. Such enhanced DSAs can reveal the true financing mix – ranging from debt restructuring to credit enhancements to lower the cost of capital – necessary to bring a country closer to debt sustainability.

Additionally, the IMF and World Bank should clearly highlight the volume of concessional capital and strategic debt relief that would be commensurate with the substantial investments countries require for achieving the Paris Agreement and the United Nations 2030 Agenda for Sustainable Development, since these details are often hidden in the technical minutiae of current DSAs.

AMBITIOUS DEBT RESTRUCTURING

Second, by accounting for climate and natural assets as well as identifying the potential pathways to increase public investment for sustainable development needs, these enhanced DSAs can form the basis for more ambitious debt restructuring in highly indebted and climate-vulnerable countries. This report shows that external debt servicing costs for V20 members in 2024 were three times that of 2014, crowding out investment in climate and development. Sixteen of our members spent more than 20% of government revenue on debt service payments in 2024, up from just two members in 2013. Twenty-two V20 members are rated by the IMF and World Bank as either high risk or already in debt distress, suggesting that these countries could face looming solvency issues.

In addition, private creditors have extracted more in debt service payments than they have provided in new financing, thereby deepening inancial strain on affected countries. Despite these mounting debt pressures, the G20's Common Framework - meant to help insolvent countries to restructure their debt - has been plagued by design inadequacies and has failed to deliver swift, timely and significant debt relief. To expedite the restructuring processes, there is an urgent need for an automatic, two-year standstill on debt service payments, with no accumulation of arrears. In addition, by lengthening the average maturity of public debt to a longer duration of around 40 years, V20 governments can reduce the frequency of debt rollovers, enhancing their debt sustainability and lowering the risk of refinancing.

DEBT RELIEF

Third, decisive action needs to be taken in strengthening debt relief mechanisms for vulnerable countries by enhancing concessional financing, promoting debt pause clauses, scaling debt-for-nature and debt-for-climate swaps, and supporting state-contingent debt instruments that provide fiscal relief during crises. A guarantee facility providing credit enhancements to new bonds in exchange for deep haircuts can encourage greater private creditor participation in granting more debt relief.

Given the importance of multilateral creditors for the V20 Group, a replenishment of the Debt Relief Trust Fund can enable greater participation of multilateral development banks without posing any risk to their investment grade credit ratings. Similarly, a replenishment of the IMF's Catastrophe Containment and Relief Trust (CCRT) while expanding the eligibility criteria to include climate vulnerable countries, would go a long way in supporting additional debt relief for these affected countries.

GLOBAL ADVOCACY

V20 members are trapped in a crippling debt and climate crisis, they therefore need to build powerful advocacy movements in the Global South to obtain more and better development financing. Reprofiling the external debt service of V20 countries presents an immediate and strategic opportunity to unlock fiscal space for climate, social, and development investments. If extended over 40 years on a net present value neutral basis, such reprofiling could reduce debt service obligations by $267 billion between 2025 and 2031. More ambitiously, aligning interest rates with those of the International Development Association—at 1.3 percent—would cut debt service by $454 billion over the same period, representing a 37 percent reduction in net present value. These scenarios underscore the magnitude of what is possible when the global financial architecture is reshaped to serve people and the planet.

The Fourth International Conference on Financing for Development (FFD4) and Jubilee 2025 are two key political moments in which the V20 Group can strengthen its global debt advocacy efforts. Despite very challenging geopolitical circumstances, FFD4 - which takes place in Seville, Spain at the end of June 2025 - will attempt to forge the main global policy framework for development finance over the next decade. At the same time, FFD4 provides an opportunity to initiate reforms to the global financial architecture while seeking to enhance the voice and representation of V20 nations in the IMF and World Bank.

The Jubilee 2025 debt campaign, which former Pope Francis launched late December 2024, not only calls for the debts of countries in the Global South to be forgiven but also for the creation of a multinational mechanism for the resolution of sovereign debt crises, a critical pillar missing in the global financial architecture.

Jubilee 2000 - the last Jubilee debt event - took place 25 years ago and led to the cancellation of more than US$100 billion of debt owed by 35 of the world's poorest countries through the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Now is the time for a new Jubilee initiative that can provide the same service to highly indebted climate vulnerable countries struggling to cope with a climate crisis caused by the rich creditor countries. As the late pope made clear, climate justice demands nothing less.

Photo credit: 26 June 2025, Fourth International Conference on Financing for Development (FFD4) - Curtain-raiser Press Briefing | United Nations

II.
EXECUTIVE SUMMARY


Photo credit: November 2021, Solar farm construction site in Malawi | Shutterstock

Climate vulnerable economies have launched ambitious national plans and strategies to achieve climate prosperity while mitigating climate shocks, building resilience and powering their economies with clean energy. Resource mobilization will be critical for these efforts. However, Vulnerable 20 (V20) Group members are witnessing high costs of capital, dwindling official development assistance budgets and tight domestic fiscal constraints that are inhibiting the full mobilization of resources towards national and global goals. Further, climate vulnerable economies are already feeling the brunt of climate impacts, adaptation costs continue to rise, and political unpredictability and geopolitical fragmentation heighten the risk of a disorderly transition.

The third edition of the V20 debt review takes stock of the sovereign debt landscape over the last 25 years for V20 members and highlights key trends and figures.

KEY HIGHLIGHTS

- Total external sovereign debt stock amounted to $1.01 trillion in 2023 with multilateral development banks (MDBs) forming the largest creditor class at 40 percent.
- V20 members are expected to pay $746 billion in debt service payments over 2025-2031 based on existing projections, with MDBs receiving 38 percent of the total, followed by bondholders at 25 percent and Paris Club at 15 percent.
    - Total external debt service payments have risen three-fold between 2014 and 2024, rising from around $47 billion to $131 billion.
    - V20 members are spending roughly four times more on debt service payments than on the required climate investment needs.
- The use of International Monetary Fund (IMF) credit more than doubled against 2019 levels. Additionally, private borrowing has substantially increased over the last 10 years with private creditors becoming the second largest creditor class. This increases the exposure to more expensive capital with shorter maturity periods.
- Sixteen countries spent more than 20 percent of government revenue on external sovereign debt service payments in 2024.
- Between 2020 and 2022, twelve V20 countries spent more on interest payments than on education, and sixteen countries spent more on interest payments than on health, with eight countries spending more on interest payments than on health and education combined.

- Twenty-two V20 countries, out of 45 rated countries, are in debt distress or at high risk of debt distress according to the IMF and World Bank Debt Sustainability Analysis for Low-Income Countries (LIC-DSA), with the remaining 19 rated as moderate and four as low.

- Reprofiling V20 external debt service could open up space for investment in climate, social and development priorities.

  - A 40-year extension without an interest rate reduction (net present value neutral) would decrease the V20's debt service obligation by $267 billion between 2025 and 2031.

  - A 40-year extension with a reduction in the interest rate to 1.3 percent (consistent with International Development Association's rates) would lower V20's debt service obligation by $454 billion during the same period and would represent a net present value reduction of 37 percent.

Foreign direct investment (FDI) flows and remittances are important sources of external finance for V20 members; however, these flows are heavily concentrated with nine countries accounting for 70 percent of the remittance flows. Colombia and Viet Nam account for 36 percent of the total FDI inflows.

Photo credit: September 2023, Ngong Hills Wind Mill Power Station Dramatic Clouds in Ngong, Kenya | Shutterstock

III. INTRODUCTION

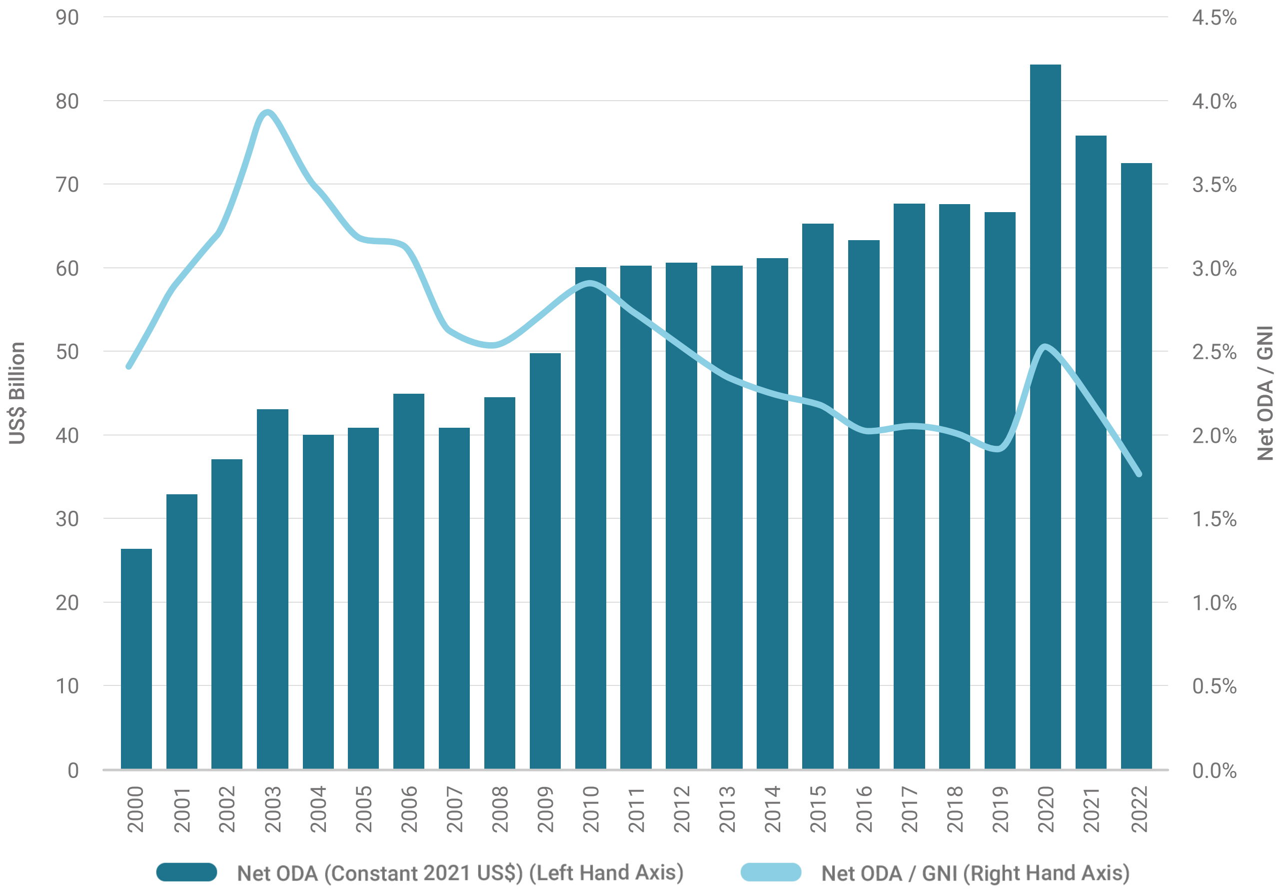
Photo credit: January 2014, Fishing harbour in Tanji, Gambia | Shutterstock

Climate vulnerable economies are already experiencing severe impacts from climate change. Estimates suggest that the Vulnerable 20 (V20) Group, now a bloc of 74 climate vulnerable economies, would have been wealthier by 20 percent in terms of gross domestic product (GDP) had climate change been avoided (Baarsch, Awal and Schaeffer 2022). The ongoing delay in investing in climate action will foreclose future opportunities climate vulnerable countries might have to grow and to transform their economies towards a climate prosperous future and fuel the climate sovereign debt doom loop.

Expert estimates suggest that emerging market and developing economies (EMDEs) (excluding China) need an additional $3 trillion in finance, with $1 trillion required from external sources by 2030 to meet the United Nations 2030 Sustainable Development Goals (SDGs). This finance needs to be mobilized in the context of high interest rates and aid cuts by Western governments. At the 29th UN Climate Change Conference (COP29) in Baku, governments agreed upon a climate finance goal of $300 billion by 2035 and instituted a process to achieve a higher goal of $1.3 trillion through the "Baku to Belém Roadmap to $1.3 T". To support the implementation of the Paris Agreement, multilateral development banks (MDBs) have committed to scale up their climate finance, expecting to mobilize at least $120 billion jointly by 2030 (World Bank 2024). Recent estimates suggest that V20 members alone will require $490 billion in climate finance by 2030 (CVF-V20 and Bridgetown Initiative 2025).

V20 members need to mobilize this high volume of finance under tight fiscal constraints. The challenges are three-fold: First, the International Monetary Fund (IMF) and World Bank have rated 22 out of 45 V20 members as being in debt distress or at risk of debt distress (IMF 2025). Second, V20 members that are middle income face a particularly high cost of borrowing. And third, V20 members need to mobilize this finance in the context of flagging official development assistance (ODA) levels. While ODA increased in absolute terms between 2000 and 2020, as shown in Figure 1, its share relative to the V20's gross national income (GNI) has declined since 2003, particularly after the onset of the COVID-19 pandemic. ODA peaked at 3.9 percent of GNI in 2003 but fell to 1.8 percent by 2022. On top of these challenges, weak economic growth rates and an increasingly unpredictable external environment further add to the challenging macroeconomic context that V20 countries face.

FIGURE 1:
NET OFFICIAL DEVELOPMENT ASSISTANCE RECEIVED BY V20 COUNTRIES, IN CONSTANT 2021 USD AND AS SHARE OF GROSS NATIONAL INCOME, 2000-2022



Source: Authors' calculation based on World Development Indicators database
Note: Due to data limitations, only 60 V20 countries are included in the analysis

The V20 has advanced the need to tackle debt distress, as indicated most recently in the Climate Vulnerable Forum Leaders' Statement and the 13th V20 Ministerial Dialogue Communiqué (CVF 2024; V20 2024). These documents capture the membership's political understanding of the need for effective and rapid debt solutions to ensure that sovereign debt distress is remedied expeditiously in a manner that supports accelerated climate investments and rapid economic recovery. The V20 and the Bridgetown Initiative launched the "10 Super-Levers" report which identifies 10 priority actions that can aid in catalyzing $210 billion in finance and in the avoidance of economic losses up to $100 billion (CVF-V20 and Bridgetown Initiative 2025).

This review provides an overview of the state of sovereign debt across the V20 membership. The analysis relies on data from the World Bank International Debt Statistics Database, which has data available for 60 countries listed in the annex. The next section discusses the V20's external debt profile, which is followed by a discussion of debt distress and cost of capital constraints.

V20 EXTERNAL DEBT PROFILE

This section examines public and publicly guaranteed debt, discusses the evolution of the V20's external debt profile and identifies the creditor landscape. Given the importance of external finance for the V20, the focus of this section is on external sovereign debt, illustrating its composition and evolution.

According to the Debt Sustainability Analysis (DSA) conducted by the IMF and the World Bank for countries eligible to borrow from the Poverty Reduction and Growth Trust (PRGT), out of the 45 V20 members assessed Ethiopia, Grenada, Malawi and Sudan are in debt distress; and an additional 18 countries are rated as at high risk of external debt distress. (Figure 2)

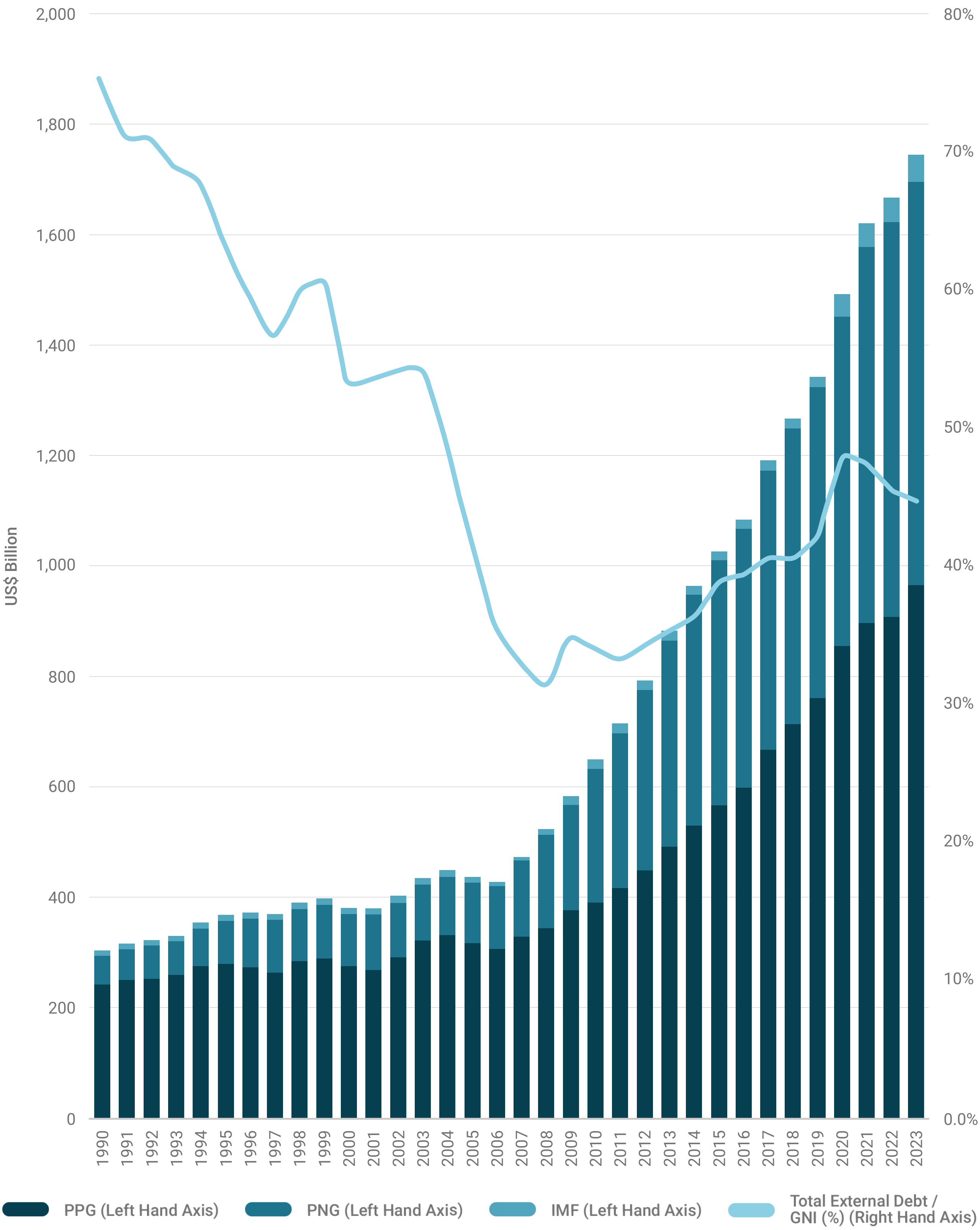
In 2023, the public and publicly guaranteed (PPG) debt of V20 countries amounted to $964 billion. Additionally, the group owed $49 billion to the IMF, bringing the total sovereign debt to $1,013 billion. When private and non-guaranteed (PNG) debt is included - which refers to debt owed by private entities such as businesses and individuals living in V20 countries - the external debt of V20 economies totalled $1,743 billion.

In nominal terms total external debt has increased by over five times since the 1990s, rising from $293 billion. The total external debt stock of V20 economies now represents 45 percent relative to their Gross National Income (GNI). This debt-to-GNI ratio is still significantly lower than it was during the 1990s, when it peaked at 75 percent and many countries began receiving debt relief under the Highly Indebted Poor Countries Initiative (HIPC). However, the debt-to-GNI ratio has been on an upward trajectory since 2008, which was the lowest point in the period examined at 31 percent (Figure 3).

FIGURE 2:
RISK OF EXTERNAL DEBT DISTRESS IN V20 COUNTRIES (PRGT ELIGIBLE ONLY), AS OF MARCH 31, 2025

Source: IMF (2025)

FIGURE 3:
V20 TOTAL EXTERNAL DEBT STOCK (INCLUDING THE IMF) AS A SHARE OF GNI, 1990-2013

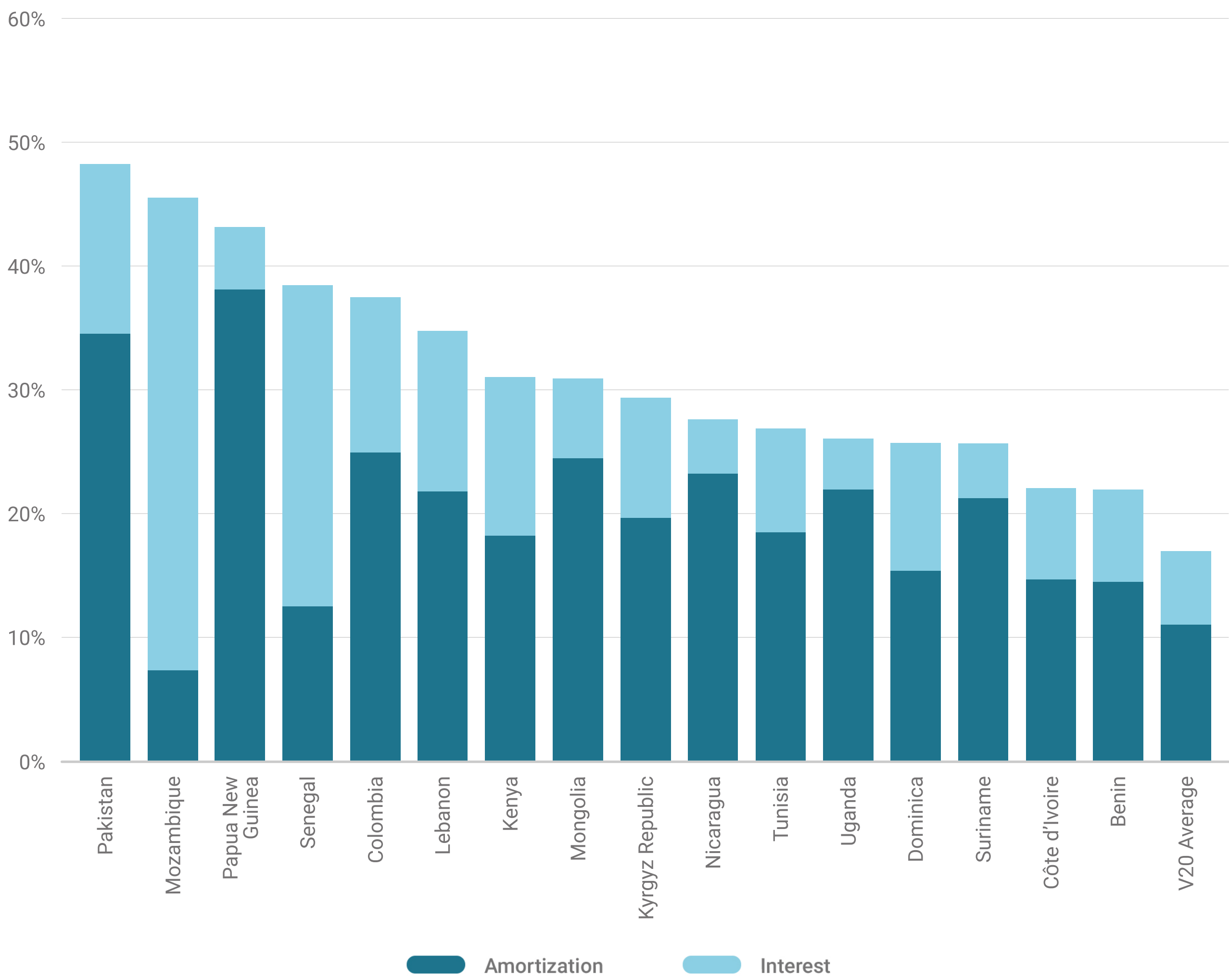


Source: Authors' calculations based on International Debt Statistics (2024)

To fully understand how external debt constrains development it is important to analyze debt service payments in addition to debt stock. Relying solely on debt stock information can be misleading, especially if the debt is expensive since this obscures the true impact on fiscal space and the balance of payments.

V20 countries face significant balance of payment constraints. In 2023, V20 countries on average used 17 percent of their export earnings to service external debt obligations (public and private), with 6 percent on average allocated towards interest payments. In total 16 V20 countries spent at least a fifth of their export earnings to service external debt in 2023. Such a high burden constrains the countries from importing essential goods needed for development and the clean energy transition (Figure 4).

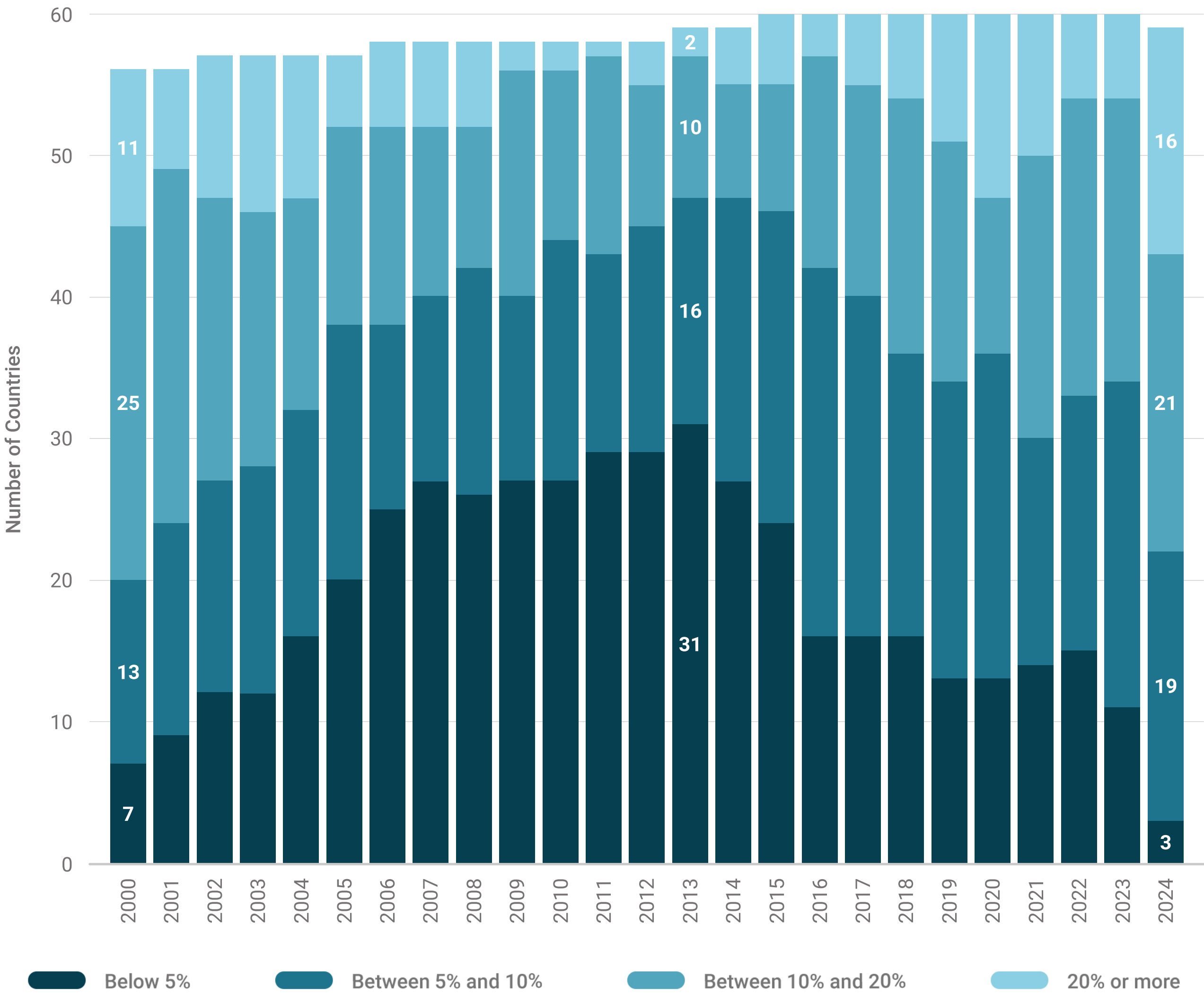
FIGURE 4:
TOTAL EXTERNAL DEBT SERVICE (INCLUDING IMF REPURCHASES AND CHARGES) AS A SHARE OF EXPORTS OF GOODS, SERVICES AND PRIMARY INCOME, V20 AVERAGE AND SELECTED COUNTRIES, 2023



Source: Authors' calculations based on International Debt Statistics (2024)

Beyond balance of payment constraints, high debt service payments can also create fiscal challenges. By 2013 there were 31 countries with a light external debt service burden measured against government revenues (below 5 percent), a number that declined to just three countries in 2024. Meanwhile, the number of countries with an external debt service ratio between 5-10 percent increased from 16 to 19 countries over the last 10 years, while the number of countries with a ratio of 10-20 percent more than doubled from 10 to 21 countries. Finally, in 2024, 16 countries were spending at least a fifth of their government revenue to service external debt, compared to just two in 2013. The current situation closely resembles the early 2000s, during the last wave of debt distress in the Global South (Figure 5).

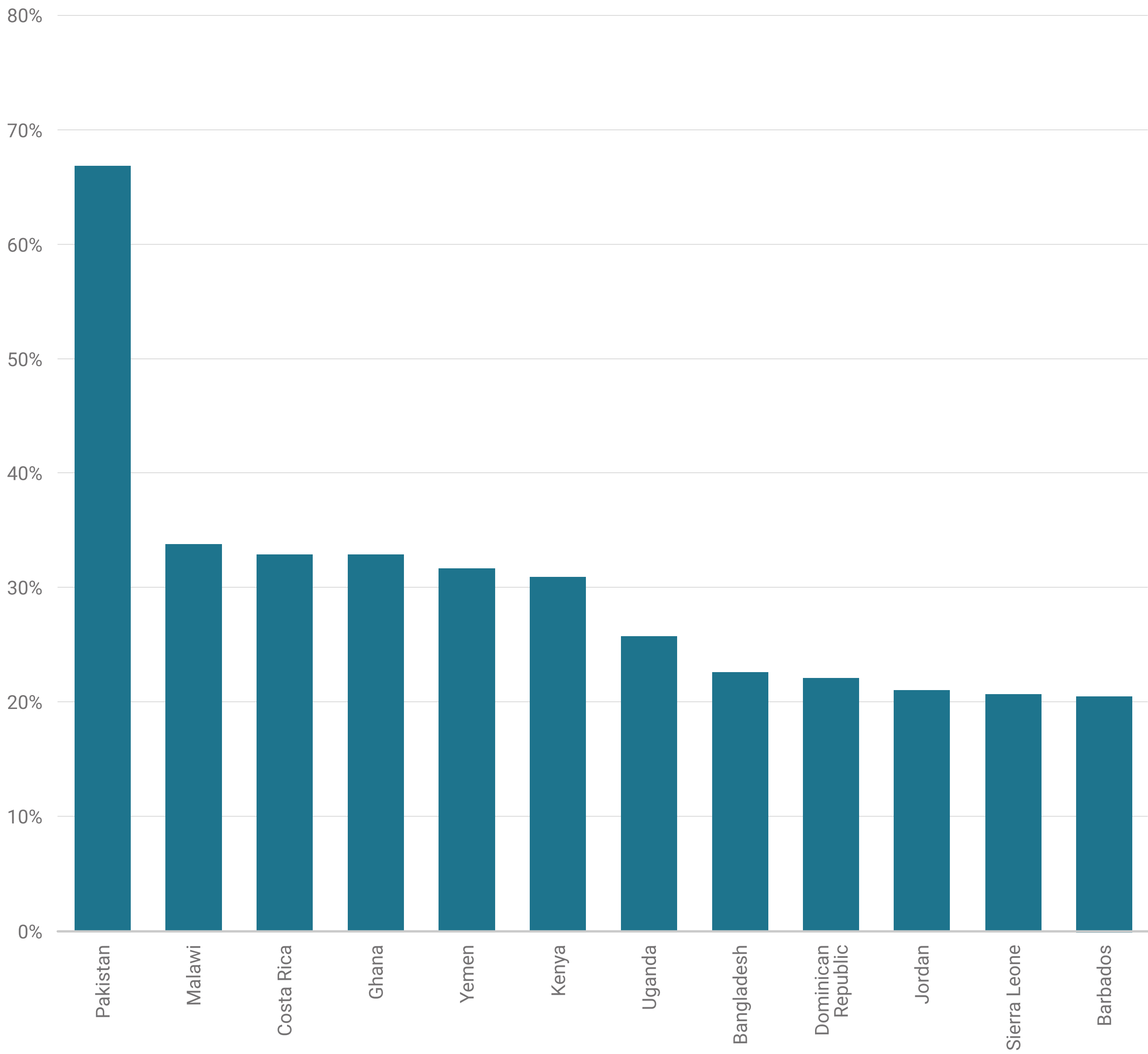
FIGURE 5:
EXTERNAL SOVEREIGN DEBT AS A SHARE OF GOVERNMENT REVENUE, V20 COUNTRIES OVER TIME, 2000-2024



Source: Authors' calculation based on International Debt Statistics (2024) and IMF World Economic Indicators (WEO)
Note: The debt service data for 2024 consists of projections made by IDS

Including the debt service burden of domestic sovereign debt further exacerbates this fiscal constraint. Currently 12 V20 countries are paying more than 20 percent of their government revenue as interest payments (not including amortization). These high levels of interest payments force countries to make difficult decisions between scaling up investments in productive areas and protecting social welfare and debt service payments. It comes as no surprise that the high probability of sovereign default is associated with an interest payment burden exceeding 20 percent of government revenue - along with other contributing factors (Filocca et al. 2024), (Figure 6).

FIGURE 6:
V20 MEMBERS EXCEEDING 20 PERCENT INTEREST PAYMENTS AS A FRACTION OF GOVERNMENT REVENUE, 2023



Source: Compiled by authors using World Bank IDS (2024) and IMF WEO database

A key reason driving the increasing sovereign debt service burden is the changing composition of V20 creditors over time. In 2014, private creditors overtook official bilateral creditors as the second largest creditor class and by 2023 the V20 borrowed $324 billion from private creditors, representing 32 percent of combined debt stock. This reflects increased access to bond markets by V20 countries. Although this trend signals improved investor confidence in V20 economies, the growing dependence on private sector borrowing exposes V20 members to short-term, high cost debt, which can increase vulnerabilities, particularly in periods of global uncertainty or rising interest rates (Figure 7).

FIGURE 7:
V20 PUBLIC AND PUBLICLY GUARANTEED (PPG) DEBT BY CREDITOR CLASS, US$ BILLION, 2010-2023

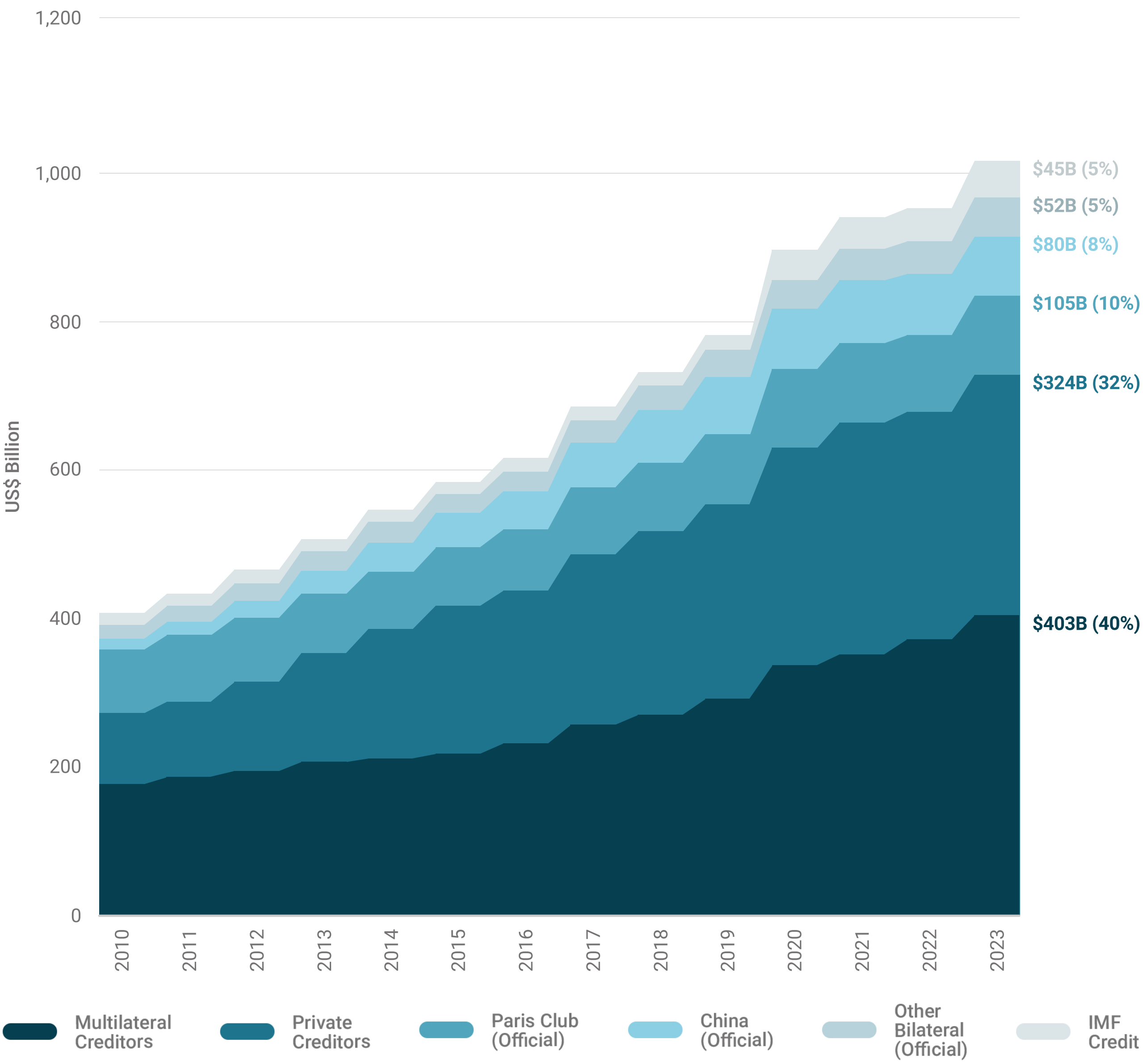
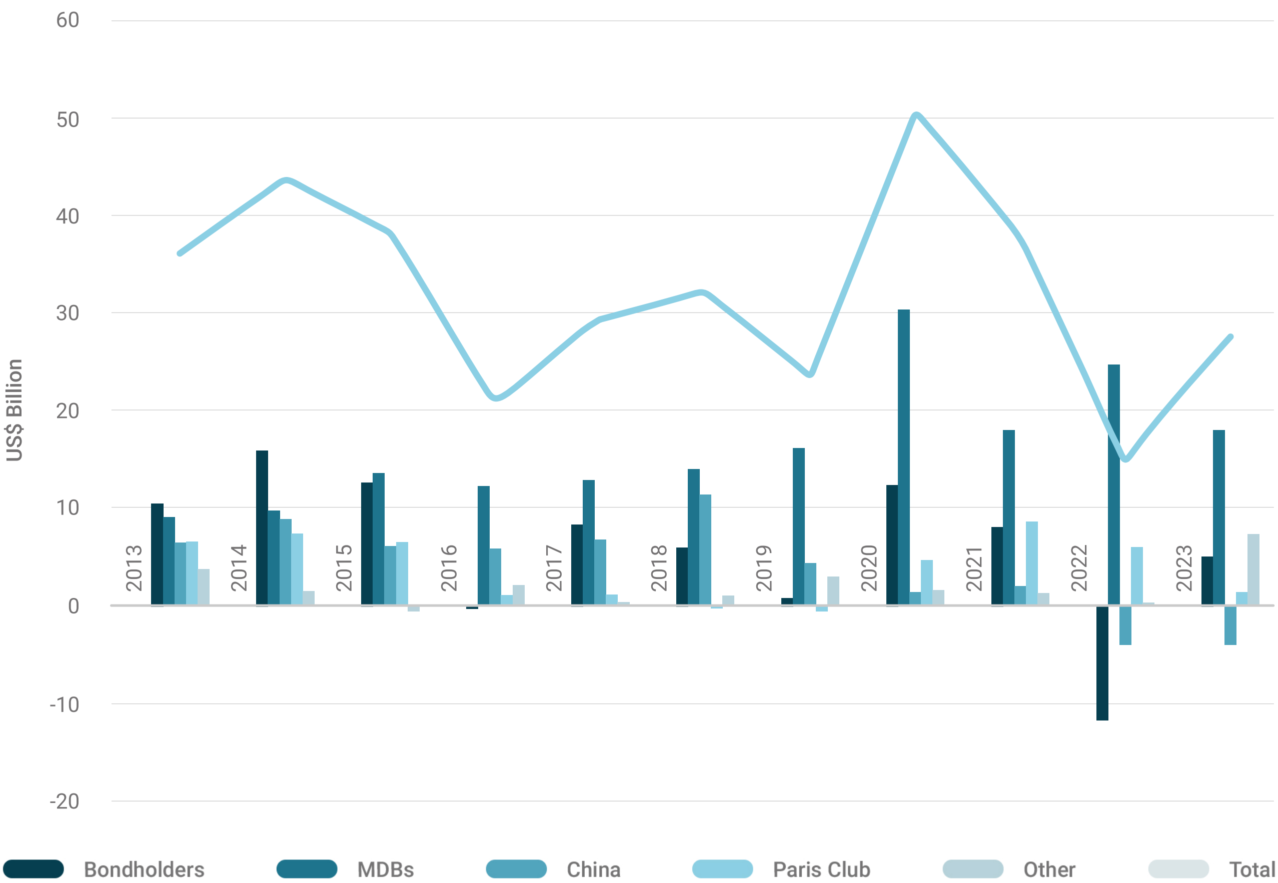


Figure 7 also shows that multilateral creditors remain the dominant source of external credit. In 2023, the PPG debt stock owed to multilateral creditors amounted to $403 billion and represented 40 percent of the V20 total sovereign external debt. The use of IMF credit, amounting to $49 billion in 2023 or five percent of the total, is relatively low compared to other sources but increased after COVID-19 because in a deteriorating global financial environment V20 members turned to the IMF for balance of payments support and to tackle increased external financing pressures and liquidity constraints. Official bilateral creditors represent 23 percent of V20 external sovereign debt.

Paris Club official bilateral creditors represent ten percent ($105 billion), China eight percent ($80 billion), other bilateral creditors represent five percent ($52 billion). MDBs were an important source of counter-cyclical finance for V20 during the COVID-19 pandemic, supplying upwards of $30 billion in net positive transfers to V20 members in 2020 alone. Other creditor classes except China have also been sources of net positive transfers for the group, except for the year 2022 when bondholders provided net negative transfers, mostly led by Colombia's repayments to bondholders. Transfers to China were negative for the years 2022 and 2023 (Figure 8).

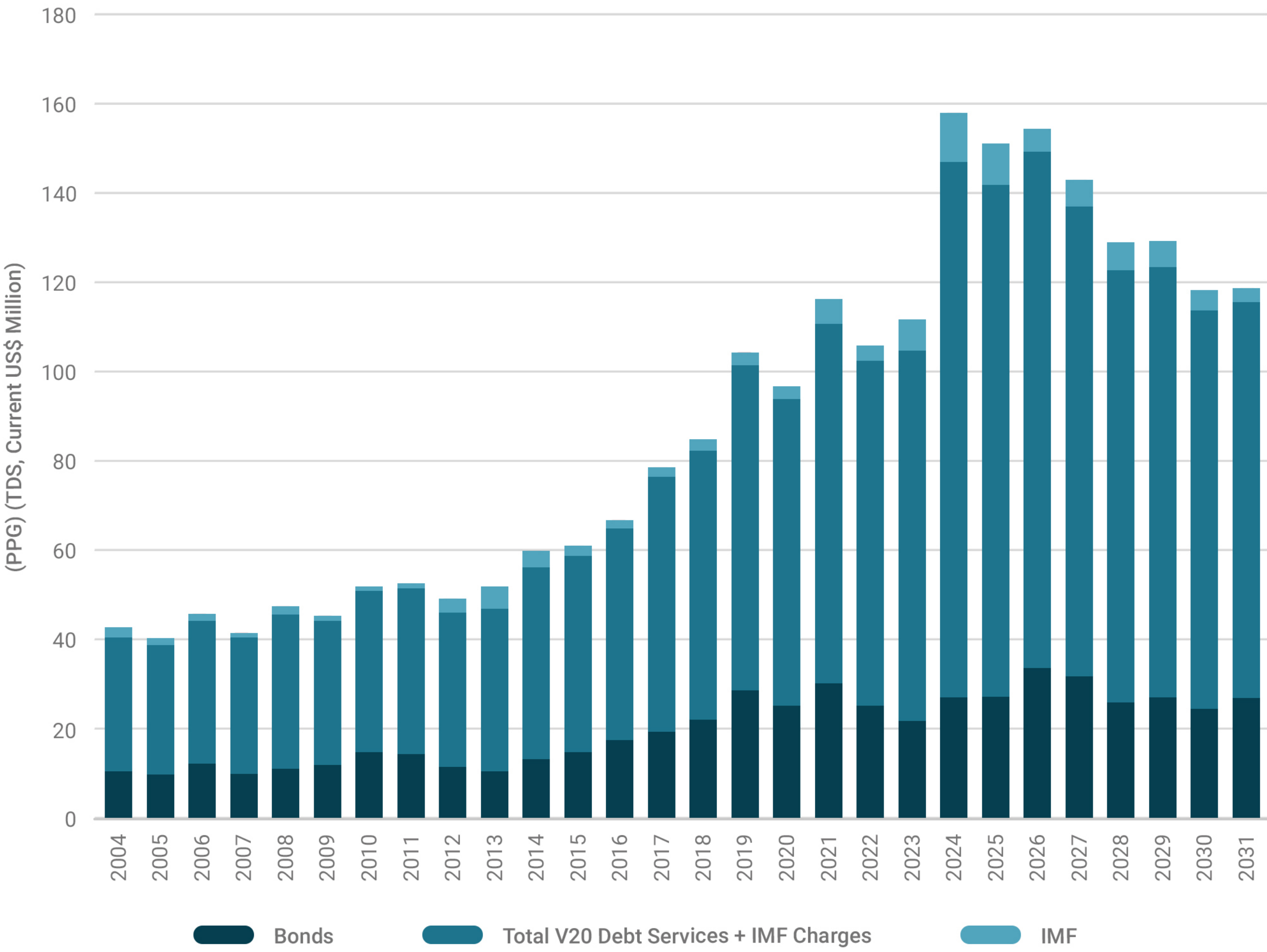
FIGURE 8:
NET TRANSFERS ON PUBLIC AND PUBLICLY GUARANTEED EXTERNAL DEBT, V20 COUNTRIES, 2013-2023



Source: Compiled by authors using World Bank International Debt Statistics (2024)

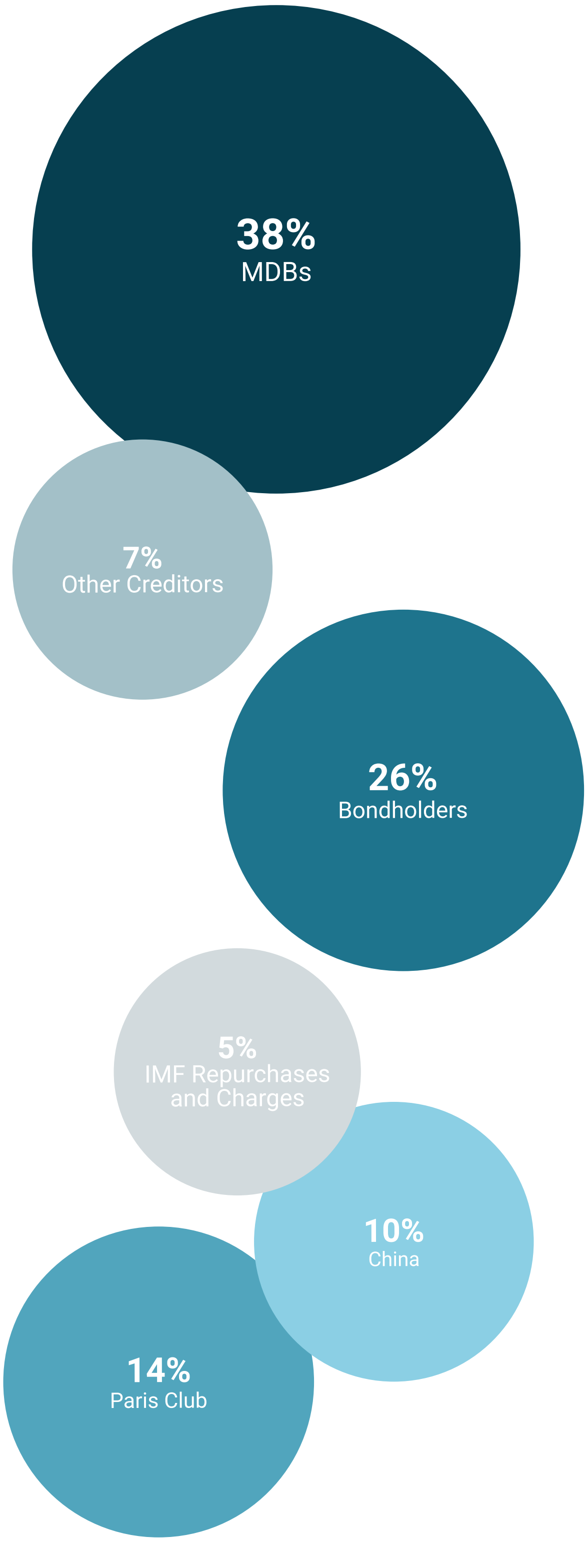
Figure 9 provides a clear illustration of how debt service payments spiked for V20 members in 2024, which is in part explained by the need to resume repaying the debt service payments that were earlier suspended. As part of the global response to the COVID-19 pandemic, the Group of 20 (G20) launched the Debt Service Suspension Initiative (DSSI), which enabled deferral of debt service payments for a short period of time. In total 32 V20 members joined the initiative and were able to reschedule $11.1 billion of debt between 2020-2021, according to the World Bank's International Debt Statistics (WB IDS). Additionally, due to the shock of the COVID-19 pandemic, V20 members also borrowed from the IMF and have been repaying that debt, which is reflected in the sharp increase in debt service payments as well. The downward taper however should be interpreted with caution. The WB IDS database captures debt contracted up to December 2023. Hence, future obligations are underestimated. V20 members are continuing to issue new bonds and refinance existing credit lines which the charts do not currently capture.

FIGURE 9:
V20 EXTERNAL SOVEREIGN DEBT SERVICE AND IMF REPURCHASES AND CHARGES, 2004-2031



Source: Compiled by authors using World Bank IDS (2024)

FIGURE 10:
V20 EXTERNAL SOVEREIGN DEBT SERVICE, 2025-2031

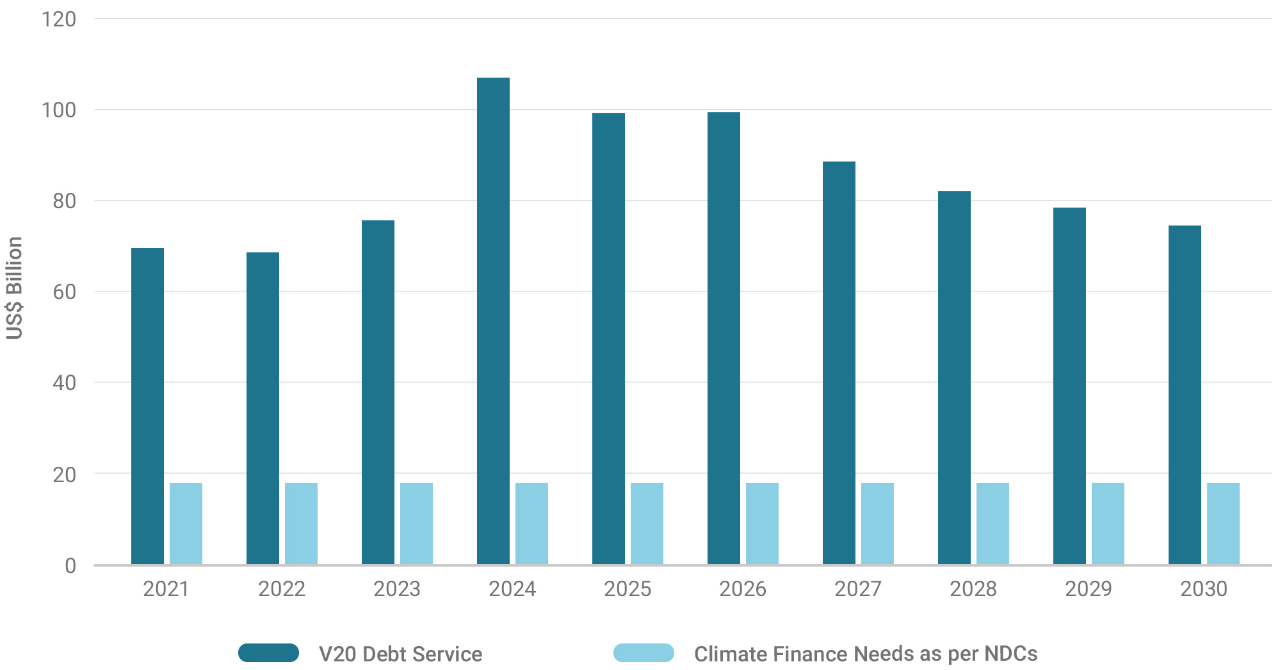


Source: Compiled by authors using World Bank IDS
Note: data from 2024 to 2031 are projections

As shown in Figure 9, sovereign external debt service payments rose three-fold between 2014 and 2024. In the years 2025-2031, total debt service payments and IMF repurchases and charges will account for an accumulated $746 billion, with MDBs receiving 38 percent, followed by bondholders at 25 percent, China 10 percent and Paris Club at 14 percent (Figure 10).

To put the significance of the debt service payments into perspective, Figure 11 compares them with estimated climate finance needs communicated by countries in their nationally determined contributions (NDCs). In general terms, every year V20 members are spending roughly four times more on external PPG debt service than on their identified climate investment needs. Another indicator is relative expenditure on health and education compared to debt service payments. Based on the data available, between 2020 and 2022, 12 V20 countries spent more on interest payments than on education, and 16 countries spent more on interest payments than on education. Sixteen countries spent more on interest payments than on health, with eight countries spending more on interest payments than on health and education combined (UNCTAD 2024).

FIGURE 11:
EXTERNAL SOVEREIGN DEBT SERVICE VS FINANCING NEEDS FOR NATIONALLY DETERMINED CONTRIBUTIONS, V20 COUNTRIES, 2021-2030



Source: Compiled by authors using Climate Policy Initiative (2024) and IDS World Bank data (2024)
Note: Data from 2024 to 2030 are estimates

WIDER TRENDS IN EXTERNAL FINANCE

Public finance in V20 countries is shaped by wider trends in external finance. The emerging patterns pertaining to foreign direct investment (FDI) and remittance suggest heavy concentration in both cases. When examining foreign current net inflows across V20 members, remittances have been the most important source between 2018 and 2023. Net financial flows include FDI, portfolio investment, personal transfers (remittances) and external debt. These inflows increased by 3 percent between 2022 and 2023, a slower pace compared to the 7 percent average annual growth over the previous four years. Remittances, which include personal transfers and compensation of employees, are highly concentrated among a few V20 countries, with just nine of them accounting for nearly 70 percent of all remittances within the group in 2023.[1]

FDI flows, on the other hand, have been highly volatile over the past five years. After a 20 percent decline in 2020 relative to 2019 due to the COVID-19 shock, FDI rebounded in 2021, surpassing pre-pandemic levels with a 31 percent increase. However, this growth has slowed, with FDI increasing by 15 percent in

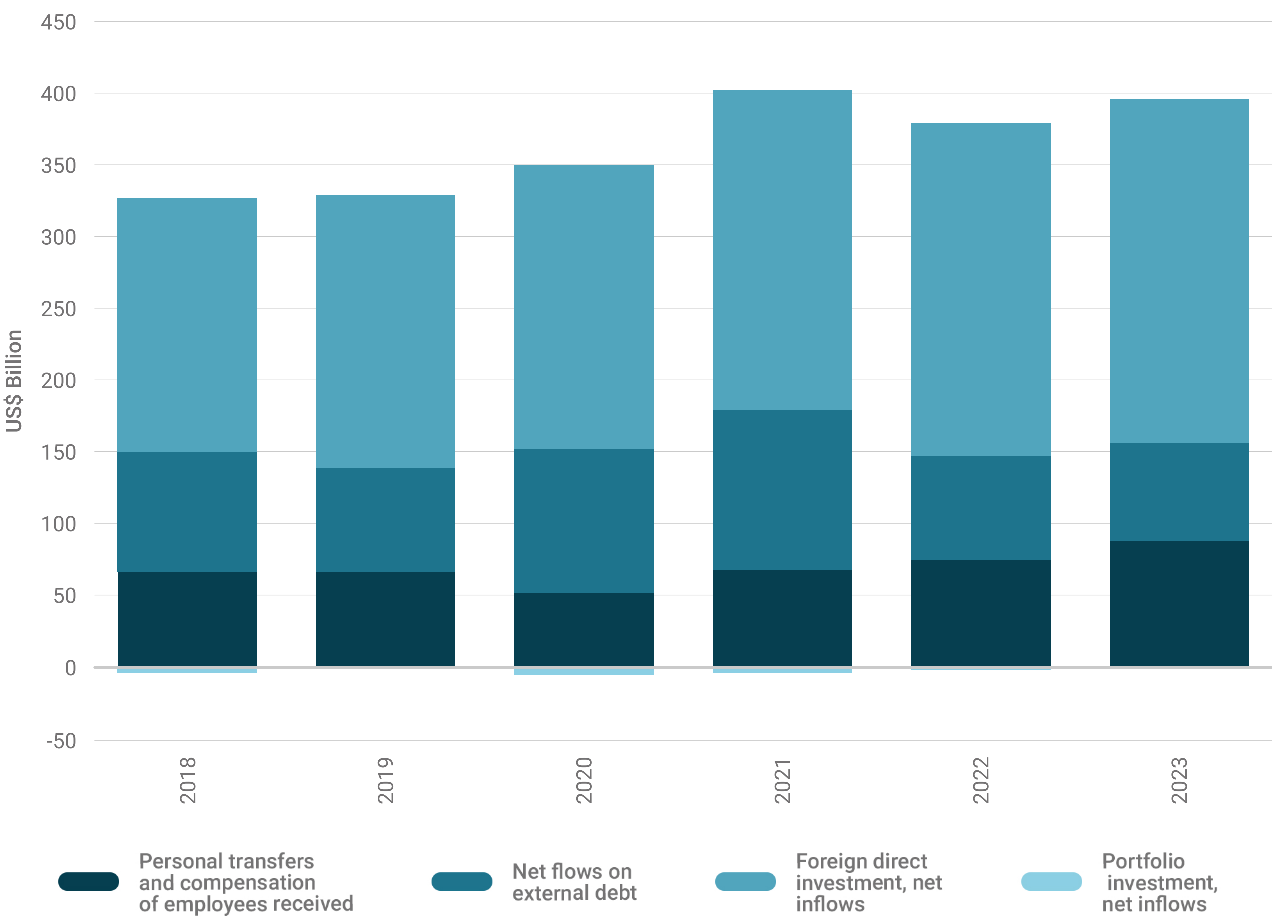
[1] The nine countries are the Philippines (16 percent), Pakistan (11 percent), Bangladesh (9 percent), Guatemala (8 percent), Viet Nam (6 percent), Morocco (5 percent), Nepal (4 percent), Dominican Republic (4 percent), and Colombia (4 percent).

2022 and 10 percent in 2023. The concentration of these flows is even more pronounced than remittances, as Viet Nam and Colombia alone received 36 percent of all FDI inflows in the V20 group in 2023. Portfolio investment flows have also been particularly volatile, with the Philippines receiving $0.4 billion (or 62 percent) of total net portfolio flows of the group in 2023.

Overall, net financial flows (debt and equity) have been highly volatile, showing only a modest 7 percent recovery in 2023 relative to 2022, following a sharp 17 percent decline between 2021 and 2022 (Figure 12). This instability highlights recent challenges V20 countries have faced in securing consistent external financing.

The concentration of these flows means that most V20 countries still rely primarily on debt flows for foreign currency. However, net flows in external debt have been declining, dropping by 5 percent between 2022 and 2023, following a sharper 35 percent decline between 2021 and 2022. This suggests a broader trend of shrinking external financial debt flows towards most V20 countries, potentially constraining their access to foreign exchange needed for investment.

FIGURE 12:
NET FINANCIAL FLOWS TO V20 COUNTRIES: DEBT, EQUITY AND REMITTANCES



Source: Compiled by authors using World Bank IDS (2024)

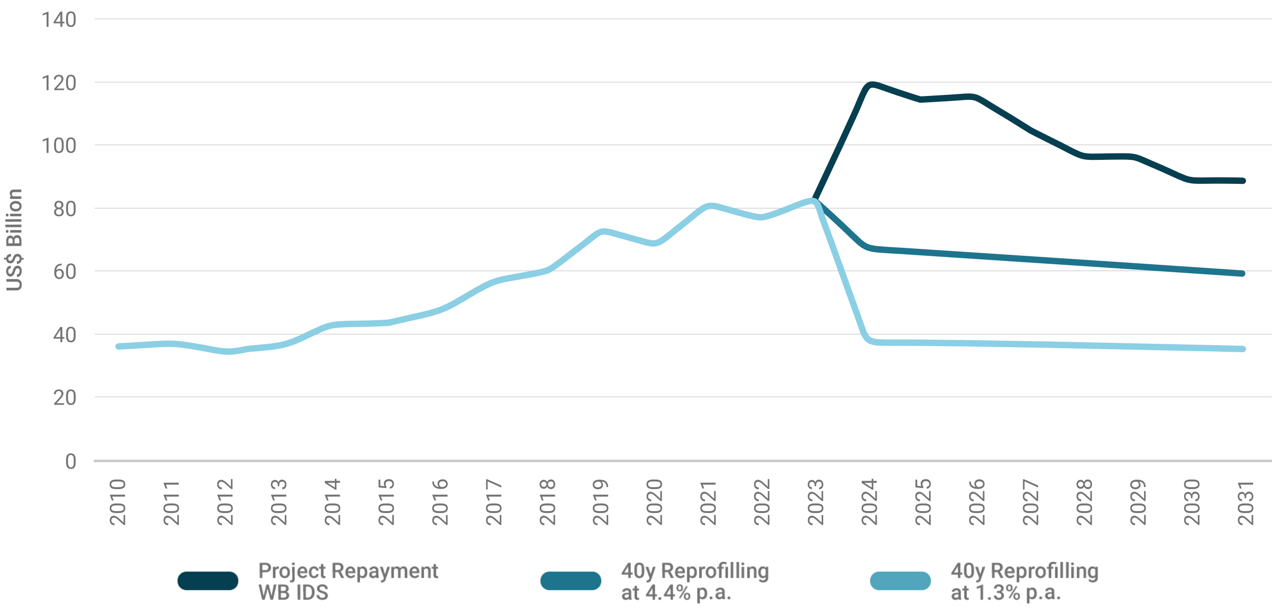
ADVANCING DEBT SOLUTIONS

From 2025 to 2031, V20 total external sovereign debt service payments and IMF repurchases and charges will account for a cumulative total of $746.1 billion, putting pressure on V20 balance of payments and the ability of governments to spend on social, development and climate priorities (Figure 13). A long-term debt reprofiling option could help V20 countries enhance investments in these critical areas.

If V20 creditors extended the group's debt maturity by 40 years at their current cost of borrowing (an average 4.4 percent per annum in 2023 for V20 countries), total payments from 2025 to 2031 would reach $480 billion - $267 billion less than current obligations (blue line, Figure 13). This approach would be net present value neutral, like the Debt Service Suspension Initiative that was established during COVID-19, meaning that it would not result in a reduction of earnings for creditors. However, a longer repayment period of 40 years instead of 5 years would smooth out the repayment schedule for countries, providing essential breathing room.

When debt reprofiling is extended and combined with a reduction in the interest rate, it can lead to a decrease in the net present value of the debt (Wang and Qian 2022). For V20 debt, we estimated an extension of 40 years with a new interest rate of 1.35 percent, consistent with the rates from the World Bank's concessional lending arm, International Development Association (red line, Figure 13). According to our calculations, this would represent a 37 percent reduction in V20 debt in NPV terms. Moreover, in this case, V20 countries would pay just $293 billion in external sovereign debt service between 2025 and 2031 - $454 billion less than currently scheduled.

FIGURE 13:
V20 EXTERNAL SOVEREIGN DEBT SERVICE AND IMF REPURCHASES AND CHARGES, 2010-2031 (PROJECTIONS AND REPROFILING SCENARIOS).



Source: Authors' calculations based on WB IDS (2024).

IV.
LOOKING FORWARD

As climate vulnerable economies, V20 members face an urgent and immediate need to mobilize resources to build resilience and achieve climate prosperity. External finance is a crucial element of the financing mix that these countries will have to deploy to support investment-driven growth paths. The analysis of net flows here reveals ODA levels measured against GNI steadily dropping over time. In the meantime, debt vulnerabilities have been amplified: the V20's total external debt stock has steadily expanded.

While the external debt stock relative to GNI has steadily declined (although it rose during the pandemic), debt service payments, when assessed against government revenue, have risen to levels only previously seen in the year 2000. The escalating level of debt service payments highlights the fiscal constraints faced by V20 members; debt servicing costs are four times higher than climate investment needs. In this manner, high debt servicing costs have eroded fiscal space and constrained climate investments.

The creditor mix for V20 countries shows the major role played by MDBs in supplying external finance, though it is worth noting that the share of sovereign debt owed to private creditors has rapidly increased over the last 10 years. This changing landscape underscores the need for a fit-for-purpose sovereign debt architecture that can bring all relevant multilateral creditors to the negotiating table – while preserving their preferred creditor treatment status – along with private creditors, through a combination of carrots and sticks.

The Fourth International Conference on Finance for Development is an important opportunity to advance reforms to the sovereign debt architecture. Countries in distress need timely, predictable, comprehensive and meaningful debt relief to mount economic recovery. Likewise, the Global Financial Safety Net (GFSN) is very thin for climate vulnerable economies, especially in sub-Saharan Africa (Mühlich and Zucker-Marques 2023). Therefore, bolstering the GFSN to ensure that countries have access to liquidity support will be essential. Table 1 shows the range of options countries have access to in the GFSN, with most V20 members only having access to the IMF.

Photo credit: October 2016, First utility scale solar farm (10MW) in Trents, St. Lucy, Barbados | Shutterstock

TABLE 1:
ACCESS TO THE GLOBAL FINANCIAL SAFETY NET, V20 COUNTRIES, DECEMBER 2024

ACCESS TO CENTRAL BANK CURRENCY SWAPS		Sri Lanka* (2x: w/ Bangladesh mutual, w/ China) Bangladesh* (w/ Sri Lanka, mutual) Mongolia (w/ China) Pakistan* (w/ China) Suriname (w/ China) Ethiopia (2x: w/ China and w/ UAE) Philippines* (w/ Japan)
ACCESS TO REGIONAL FINANCIAL ARRANGEMENTS	**Chiang Mai Initiative Multilateralization**	Cambodia, Philippines*, Vietnam
	Latin American Reserve Fund	Colombia, Costa Rica, Paraguay
	South Asian Association for Regional Cooperation	Afghanistan, Bangladesh*, Bhutan, Sri Lanka*, Maldives, Nepal, Pakistan*
	European Union Macro-Financial Assistance	Jordan and Tunisia
	Eurasian Fund for Stabilization and Development	Kyrgyz Republic
IMF ACCESS ONLY		Benin, Burkina Faso, Barbados, Côte d'Ivoire, Congo, Dem. Rep., Dominica, Dominican Republic, Fiji, Ghana, Guinea, the Gambia, Grenada, Guatemala, Guyana, Honduras, Haiti, Kenya, Kiribati, Liberia, St. Lucia, Madagascar, Marshall Islands, Mozambique, Malawi, Namibia, Niger, Nicaragua, Nauru, Palau, Papua New Guinea, Rwanda, Senegal, Sierra Leone, South Sudan, Eswatini, Chad, Togo, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu, Tanzania, Uganda, Vanuatu, Samoa

Source: Compiled by authors, based on Mühlich et al. (2024)
Note: Countries with an asterisk indicate they are covered by the three layers of the GFSN (IMF, swaps, and regional financial arrangements)

Photo credit: February 2016, Windmill power generators in Kalpitiya, Sri Lanka | Shutterstock

A crucial ingredient in overall debt sustainability is the cost of borrowing. The World Bank's concessional lending arm, the International Development Association (IDA), has been an important source of low-cost finance for V20 members. The international community should recommit to supporting the provision of concessional finance to low-income and climate vulnerable economies.

Ongoing reviews of instruments at the IMF provide additional points of entry. The IMF/World Bank Low-Income Country Debt Sustainability Framework should fully integrate climate risks as well as investment needs. This diagnostic should also help identify the volume of concessional finance required to enable countries to maintain sustainable debt paths while making the necessary investments required to achieve their development and climate change goals.

Likewise, with the comprehensive review of the Resilience and Sustainability Facility (RSF) underway, the IMF should work to establish free-standing access to the RSF to enable countries without existing IMF programs to receive finance as well. Since countries that are more climate vulnerable are more likely to seek IMF support, the IMF's instruments should also better reflect the needs of climate vulnerable economies. These instruments should be calibrated to enable the scale of financing required to be met with appropriate levels of concessionality.

Second, the program conditions attached should reinforce national strategies rather than impose austerity. The IMF's review of conditionalities provides another opportunity to shift away from austerity policies towards an investment push centered around harnessing growth opportunities and building resilience. Finally, the IMF should replenish the Catastrophe Containment and Relief Trust (including with a portion of IMF gold sales) and expand its eligibility to support countries facing natural disasters. Currently, many climate vulnerable economies are not eligible to borrow from the CCRT. As Table 2 shows, just 21 V20 countries are eligible.

Only 18 V20 members are eligible to use the World Bank's climate resilient debt clauses (CRDCs), as indicated in Table 2. The eligibility perimeter needs to be widened, and the triggers need to be reassessed to ensure that economically significant impacts are incorporated into the design of the instrument (Ahmed and Rambarran 2024).

TABLE 2:
V20 COUNTRIES ELIGIBLE TO USE CCRT AND WORLD BANK CRDCS

ELIGIBLE TO USE CCRT	Afghanistan, Burkina Faso, Chad, Congo, Dem. Rep. of the, Ethiopia, Gambia, Guinea, Liberia, Madagascar, Malawi, Mozambique, Niger, Rwanda, Sierra Leone, South Sudan, Sudan, Tanzania, United Republic of, Togo, Uganda, Yemen
ELIGIBLE TO USE WB CRDCS	Barbados, Bhutan, Comoros, Dominica, Dominican Republic, Eswatini, Fiji, Gambia, Grenada, Guyana, Haiti, Kiribati, Maldives, Marshall Islands, Namibia, Nauru, Palau, Papua New Guinea, Saint Lucia, Samoa, Suriname, Tonga, Trinidad and Tobago, Tuvalu, Vanuatu

The Baku to Belém Roadmap provides another opportunity to elevate the need for debt solutions. As this brief indicates, V20 members are facing tight fiscal constraints that are directly impeding climate investments.

The extent of unsustainable debt burdens varies across the membership. Therefore, the range of solutions deployed should include comprehensive restructuring for countries facing debt distress to lowering the cost of capital in situations where affordability of finance is the primary constraint. Climate resilience clauses should be integrated into debt instruments (Ahmed and Rambarran 2024). Debt-for-climate swaps could be useful to free up resources towards climate and nature goals; however, they ought to be seen as one instrument in a broader range of debt solutions that will be required.

As time is of the essence when it comes to building resilience, the sovereign debt architecture needs to be urgently reformed to ensure it can support and reinforce efforts to spur growth and accelerate climate action and help end the climate-sovereign debt doom loop. The changes suggested here are critical to economic and social wellbeing in CVF-V20 member countries which are experiencing heavy debt burdens.

V.
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VI. ANNEX

V20 MEMBERS IN THE IDS DATABASE:

Afghanistan
Bangladesh
Benin
Bhutan
Burkina Faso
Cambodia
Chad
Colombia
Comoros
Costa Rica
Côte d'Ivoire
Congo, Dem. Rep. of the
Dominica
Dominican Republic
Eswatini
Ethiopia
Fiji
Gambia, The
Ghana
Grenada
Guatemala
Guinea
Guyana
Haiti
Honduras
Jordan
Kenya
Kyrgyz Republic
Lebanon
Liberia
Madagascar
Malawi
Maldives
Mongolia
Morocco
Mozambique
Nepal
Nicaragua
Niger
Pakistan
Papua New Guinea
Paraguay
Philippines
Rwanda
St. Lucia
Samoa
Senegal
Sierra Leone
Sri Lanka
Sudan
Suriname
Tanzania
Timor-Leste
Togo
Tonga
Tunisia
Uganda
Vanuatu
Viet Nam
Yemen, Republic of

ACKNOWLEDGMENT

This report acknowledges the contributions of the following reviewers:

- H.E Elizabeth Thompson, Barbados' Ambassador Extraordinary and Plenipotentiary for Climate Change, Law of the Sea and Small Island Developing States and Sherpa to Prime Minister Mia Mottley on matters related to the CVF-V20 Presidency
- Dr. Kevin P. Gallagher, Professor of Global Development Policy, Frederick S. Pardee School of Global Studies, Boston University
- Jwala Rambarran, V20 Senior Advisor, CVF-V20 Secretariat
- Sara Jane Ahmed, Managing Director and V20 Finance Advisor, CVF-V20 Secretariat
- Bhavi Shah, Research Assistant, Global Development Policy Center, Boston University
- Rosa He, Research Assistant, Global Development Policy Center, Boston University
- Mark Lynas, Scientific Advisor, Office of the CVF Secretary-General
- Renato Redentor Constantino, International Policy Advisor, Office of the CVF Secretary-General
- Aishath Rafha Mohamed, Communications Associate, CVF-V20 Secretariat

Africa Trade House,
Ambassadorial Enclave,
Liberia Road,
Accra, Ghana

www.cvfv20.org
secretariat@cvfv20.org
climatevulnerableforum&v20

ClimateVulnerableForum
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