13th V20 Ministerial Dialogue Communique

From Promise to Practice: Realizing Climate Prosperity through Financial Reform, Debt Solutions, and Affordable Capital

[Adopted on 22 October 2024, Washington D.C.]

Our nations are on the front lines of the escalating climate emergency. In a year where rising global temperatures temporarily breached the 1.5 degrees Celsius survival limit, the most climate vulnerable countries were once again hit hardest by extreme weather events. Hurricane Beryl tore through the Caribbean, leaving devastation in its wake: homes reduced to rubble, entire communities displaced, livelihoods and lives lost. Typhoon Jenny brought catastrophic rains to the Philippines, forcing thousands from their homes. In Bangladesh, months of devastating floods displaced millions and damaged vital infrastructure. In the Democratic Republic of Congo, drought-intensified wildfires burned through 22 million acres in just one week. In Sudan and Yemen, floods worsened humanitarian disasters caused by conflict.

As global temperatures climb perilously close to the 1.5-degree Paris target, our hopes and dreams are slipping away. Emissions still continue to rise year on year, and little help arrives from those who have the greatest historical responsibility for aggravating these climate disasters. Our nations are hemorrhaging money: vastly more capital flows out due to increasing debt payments to fund the cost of disasters than comes in from concessional loans and investment. This is development in reverse: every year our mitigation and adaptation financing gap is widening, tipping us deeper into vulnerability. As climate vulnerable nations, we have come together in solidarity, to assist each other in building a better tomorrow, and so our combined voices - representing a fifth of the world’s entire population - can be heard everywhere.

Thus:

1. We, the V20 Finance Ministers, representing 70 climate-vulnerable nations, welcoming Nauru and Suriname as new members, are facing escalating sovereign debt burdens and rising costs of capital, and are collectively calling for significant reforms to the international financial architecture that are inclusive, equitable, and responsive to our unique challenges. Against the backdrop of a turbulent global landscape, an international climate crisis, worsening debt burdens, outdated international financial policies, persistent long-term unemployment in our countries and a growing cost of living crisis, the Accra-to-Marrakech Agenda (A2M) provided a vision based on a reimagined global financial order. We emphasize the need for financial systems to address the climate and debt vulnerabilities of our countries. We advocate for fair access to climate finance, debt relief, and disaster support, all while promoting resilience and sustainable development. The recently endorsed Climate Vulnerable Forum (CVF) Leaders Declaration, taking its building blocks from Accra-to-Marrakech Agenda (A2M), Antigua and Barbuda Agenda,

Bridgetown Initiative, SDG Stimulus and Nairobi Declaration, underscores the urgency of reform to the global financial system to ensure greater speed and fairness.

2. The current financial system is deeply flawed, diverting crucial funds to the wealthiest from the countries that need them most. A report by the G20 Independent Expert Group (IEG) in 2023 highlighted net outflows from Emerging and Developing Countries rose by USD 68 billion to nearly USD 200 billion taken out by private creditors in interest and net repayments. In contrast, international financial institutions and assistance agencies extracted USD 40 billion, while net concessional assistance was a mere USD two billion, despite widespread economic distress and loss of livelihoods in climate-vulnerable regions. This alarming situation forces us to slash essential spending on health, education, and infrastructure.

3. Our total external public and publicly guaranteed debt stock currently amounts to just over USD 945 billion, significantly constraining our ability to mobilize resources towards investing in critical climate and development initiatives. Projections indicate that debt servicing will increase to USD 122 billion by 2024, with V20 members expected to pay almost USD 905 billion between 2022 and 2030. The IMF reports that 19 out of the 70 V20 countries are in debt distress or at high risk of it. Eight nations are allocating more than 20% of their tax revenue to external debt servicing.

4. Consequently, half of the world's poorest countries are now poorer than they were before the pandemic. We also lack funding for adaptation, which remains less than 10 percent of global climate finance flows, and the gap is widening. Only a very small fraction of adaptation finance reaches the frontline of the climate crisis, where it is most urgently needed by the local communities. This highlights the urgency needed for immediate action considering substantial and increasing climate-induced losses. According to the Climate Vulnerable Economies Loss Report, an estimated USD 525 billion has been lost over the last 20 years (2000-2019) by the V20 economies due to the impact of climate change on temperature and precipitation patterns. In other words, our economies and communities would be 20 percent wealthier today if not for climate change. The 1.5 Celsius limit of the Paris Agreement becomes more critical as many V20 countries have already warmed to mean temperatures that are far beyond what would be optimal for generating economic growth, and thereby instead incur economic losses—additional warming will only carry V20 economies further from the optimum, greatly increasing the risks of losses in the future. A staggering 98 percent financial and social protection gap exists across climate-vulnerable economies and, as a result, pre-arranged and trigger-based solutions, including adaptive social protection, can be especially useful to reduce currency liquidity pressure for climate vulnerable economies in the face of expected climate change-induced disasters.

5. We stand just over five years away from 2030. By that time, emissions must be reduced by nearly 50% if we have any intention of staying within that critical 1.5°C warming threshold. Urgency must be the drumbeat of every local, regional and international discussion—anything less is dereliction of duty to the peoples of this world.

Governance and Institutional Transformation:

6. Over the last few years, convergence has finally been reached around the need to transform the international financial architecture to unlock urgent action on climate change and consolidate efforts aimed at a climate prosperous future. However, representation of climate vulnerable economies, especially the 70 members of the V20, remain dismal in the governance of the Bretton Woods institutions. V20's voice and representation in the IMF and World Bank must be improved. This is critical to IMF and World Bank legitimacy, important for impact, and vital for policy traction. Part of the solution is to have more inclusive discussions internally, and more balanced governance.

7. Thus far, governance reform has been far too slow. At the International Monetary Fund (IMF), despite calls in IMFC communiques for more than a decade to expand the voice and representation of developing countries, the 15th and 16th General Review of Quotas ended without realignment. V20 members account for just 6.7% of IMF quotas, despite representing 1.75 billion people - 21% of the global population. This needs to change and fast. We welcome the upcoming IBRD and IFC's shareholding reviews and the IMF's June 2025 deadline for making progress on the quota formula. Adjustments on the quota formula must take place while ensuring protection of quota and voice of the most vulnerable countries during the 17th General Review of Quota (GRQ).

8. It is high time for the boards of the Bretton Woods institutions to reflect current economic realities. They must recognize that the institutions they govern need to catch up faster. The Bretton Woods institutions need to be injected with a greater sense of urgency, opportunity and additional capital because reality—especially the ever-harsher reality imposed by climate change—continues to move rapidly, outpacing the rate of transformation and rendering previous institutional strategies and tools obsolete.

9. A critical step towards more balanced discussions internally is the recognition of the V20 as an Intergovernmental Group by the Bretton Woods Institutions. The V20, representing more than one-third of the Bretton Woods member countries, have unique contextual and substantive experience and expertise to contribute to dramatically enable the agendas of the International Monetary and Financial Committee (IMFC) and the joint World Bank Development Committee. Recognition of the V20 is in the self-interest of these institutions.

Mobilization of Climate Finance through the IMF Transformation:

10. The IMF also needs to upgrade its purpose and instruments to better reflect pressing challenges. The Global Financial Safety Net remains highly inadequate and inequitable.

As climate-vulnerable countries face additional shocks, the IMF must contribute to shock-proofing the global financial system. The adequacy of the IMF resources must take into account the climate crisis and, as called for by the Bridgetown Initiative, the IMF should incorporate Climate Resilient Debt Clauses for debt pauses and debt relief in its financing. Moreover, as called for by the V20's Accra-to-Marrakech Agenda, it is important for the IMF to launch a replenishment drive for the Catastrophe Containment and Relief Trust (CCRT) and increase the use of pre-arranged and trigger-based liquidity mechanisms that are well-tailored to capture the shocks climate-vulnerable countries face. The CCRT's current capitalization stands at 124 million Special Drawing Rights (SDRs) despite being a critical toolkit of the IMF to help countries address loss and damage. There is also an opportunity for the IMF to consider expanding eligibility for CCRT funding to include climate-vulnerable economies that are susceptible to rapid onset as well as slow onset climatic shocks.

11. The Special Drawing Rights (SDRs) have an important role to play, both through an additional allocation and rechanneling to multilateral development banks (MDBs) and to instruments including the Resilience and Sustainability Trust (RST). The RST provides concessional, longer-term financing to help eligible IMF members address key structural challenges such as climate change and pandemic preparedness, while strengthening their prospective balance of payments stability. To realize the catalytic potential of the RST and crowd-in private investment, there should be a focus on high-ambition transformation. To enhance its scope and effectiveness, it should be accessible to countries whether they have a concurrent IMF Upper Credit Tranche (UCT) program or not. Moreover, the RST by design should focus on providing debt solutions for debt distress and climate vulnerable countries including the use of RST resources to back new bonds following debt restructuring negotiations. That said, given the tremendous liquidity needs, it is time for the IMF to again authorize at least USD 650 billion issuance of SDRs for climate-vulnerable countries to invest in resilience and sustainable development.

12. The IMF's review of its conditionalities is an important opportunity to align IMF program design with the need for climate vulnerable countries to close the investment gap. The IMF should shift away from its emphasis on fiscal consolidation towards supporting countries that meet their investment mobilization needs in a fiscally sound and financially stable manner. IMF program conditions should be aligned with the Paris Agreement and avoid locking countries into high-cost fossil fuel extraction and use which would increase exposure to transition risks. IMF program conditions should refrain from enabling raw material exports and instead focus on processing and value-engineering for export to enable growth in our economies. We welcome recent changes to the surcharge policy and encourage the IMF to make further downward revisions. We are calling for the IMF to maintain the concessionality of the Poverty Reduction and Growth Trust (PRGT) resources to protect climate vulnerable economies. We call for discontinuation of the new tiered PRGT interest rate system to avoid overburdening climate vulnerable countries already facing dire funding challenges.

13. We emphasize the Leaders' call for a reformed IMF, endorse the Action Agenda advanced by the V20 and G24's Task Force on Climate, Development and the IMF and look forward to a report back from the IMF on progress made to urgently reform the IMF and urge member states to support a full alignment of the IMF with our development and climate change goals.

World Bank Group and Global Public Goods:

14. First, quantity. Preserving a livable planet demands a stepwise increase in affordable development finance, and the World Bank Group will only be able to fulfill its mission if it is adequately resourced. Efforts to increase the scale of financing including concessional finance through balance sheet measures, as recommended by the G20 Independent Expert Group on Strengthening MDBs, are welcome. The latest G20 communiqué stresses the importance of undertaking balance sheet optimization measures alongside new capital injections. We look forward to the confirmed unlocking of at least $357 billion in lending capacity over ten years and capital increases to achieve an additional $300 billion annually to equip the MDBs including the World Bank with more resources so that countries can embark upon the structural transformation of their economies.

15. We are pleased that the Bank has increased its ambitions by targeting 45% of its annual financing to climate by 2025. We call on the World Bank to undertake a review of client needs to determine additional capital required by the World Bank to ensure that it can support the achievement of development and climate change goals. For many climate vulnerable economies, International Development Association (IDA) resources are a lifeline and remain the largest concessional financing source for development and climate action. The Bank has set its ambitions through the Evolution Roadmap of becoming a bigger and better bank. A bigger bank cannot be possible without a bigger IDA. We call on all efforts from donor countries towards a strong IDA21 replenishment of at least $120 billion this year. Donors should also consider the use of guarantees to unlock more IDA funding.

16. Moreover, while the World Bank uses per capita income to determine income status and access to concessional funding, it is a metric which ignores the multi-dimensional vulnerabilities of many countries as well as their resilience to shocks. That said, we recognize the incorporation of vulnerability indicators in the form of a Small Island Economy Exception, but just as important, the metric locks many non-small island V20 countries out of concessional financing options critical to fostering resilience and reducing long-term debt dependence. As a result, many countries remain in a middle-income trap. It's almost a trapdoor because the only way out is down.

17. Second, finance must be affordable. Lowering the cost of capital is fundamental to enabling sustainable development and climate resilience. As for financing of revenue-generating climate action, the overall weighted average cost of capital should not exceed medium-term GDP growth rates, including through 25- to 50-year loans, local currency

financing, first-loss capital, and guarantees to enable domestic capital participation. Adaptation and resilience finance should be highly concessional, or grant based. Third, the World Bank Group hosts most of the world's climate funds as financial intermediary funds. We call on the Bank as a global convener to provide guidance to climate funds for harmonizing and streamlining access to ensure vulnerable countries can maximize access to climate financing to address the growing adaptation finance gap.

18. Fourth, there is no more wiggle room on global public goods. We look forward to the successful testing of the Global Challenge Programs, recognizing that the World Bank must make the leap now and once and for all to figure out how they can support broader, system-wide provisioning. With artificial intelligence and speed in resource mobilization, the World Bank can course-correct to support critical global public goods.

Towards a New Collective Quantified Goal (NCQG) for Climate Finance:

19. We recall the CVF Leaders Declaration of September 2024 and re-emphasize that the NCQG represents a pivotal opportunity to correct past shortcomings of the $100 billion climate finance target. We therefore call for COP29 to agree on a core science-based public climate finance goal that reflects our evolving needs and priorities. The NCQG must be ambitious, trackable, and actionable, prioritizing investments in resilience and transformative change. The NCQG must directly connect with ongoing reforms to facilitate effective resource mobilization, enhance accountability in the international financial system, and address cost of capital, debt instability, and loss and damage comprehensively. Specifically, to incentivize lower-cost capital, the NCQG must stipulate that finance counting towards the goal must be differentiated based on its cost, such as on a grant-equivalent basis, avoiding the $100 billion goal's flawed system of counting all grants and loans equally.

Relating to the Sovereign Debt Resolution:

20. We must shift the focus away from metrics that do not reflect the reality in certain cases such as the overreliance on Debt-to-GDP ratios with a threshold of 60%. We must consider first and primarily how debt was accumulated, what it has been used for, and the specific challenges nations face. Some V20 members, particularly in the Caribbean and other island states, have been living with "unsustainable" debt for more than 30 years. This underscores the need for a more tailored and context-sensitive evaluation of debt sustainability that reflects the unique vulnerabilities and economic realities faced by climate-vulnerable nations.

21. Moreover, we are accumulating unsustainable debt to pay for damages and recover from climate shocks fueled by the failure of developed nations to curb emissions at rates prescribed by the Paris Agreement. In other words, debt accumulation after climate shocks is a survival mechanism but not bad financial management.

22. Climate impacts fuel debt crises, and debt crises further crowd out the fiscal space needed to generate and deliver climate resilient investments. Given how debt distress is affecting climate vulnerable economies, sovereign debt resolution must be a core element of any climate and development financial package.

23. Part of the financial package should include an acceleration in capacity and standardization of frameworks across our countries to unlock investments and scale up access to tools and markets. We need targeted technical support to strengthen national and regional institutions, focusing on biodiversity, carbon sinking, debt solutions, capital market access, resource pooling, technology sharing, and aligning fiscal policies with development goals.

24. We recognize the efforts of the global sovereign debt roundtable and encourage continued efforts to expand eligibility to middle-income countries, and provide timely debt relief commensurate with climate and development investment needs for an enhanced G20 Common Framework. We need a sovereign debt resolution framework that reflects the current creditor landscape. While the creditor landscape is very different today than what it was even twenty years ago, the IMF will need to show real leadership and its shareholders must enable the IMF by helping to land a sovereign debt architecture that works for all.

25. Second, debt solutions must be ambitious and anchored in the realities of the most vulnerable. Restructuring efforts need to open fiscal space so that countries are able to make the climate investments required to pursue development-positive trajectories, rather than continuing to postpone meaningful debt relief. Normalizing Climate Resilient Debt Clauses can include meaningful debt pauses and debt relief. Debt restructuring discussions should place significant emphasis on Debt Sustainability Analyses (DSAs) that should now take into account real climate and development investment needs, natural capital, and climate risks, moving away from austerity towards growth-generating climate and development investments. Austerity measures which destroy livelihoods and crush aspirations are not inevitable; they reflect a deliberate fiscal choice. The ongoing review of the Low-Income Country Debt Sustainability Framework is an opportunity to course-correct to include alternative scenarios that capture the growth opportunities unlocked by climate investments in the short, medium and longer-terms. The scenarios should examine the macroeconomic and debt sustainability implications of financing mixes consisting public, concessional and private finance sources while capturing the growth enhancing effects of climate investments and their ability to lower sovereign risk.

26. We welcome efforts to increase net positive inflows to countries. This commitment needs to be supported by enabling MDBs with more capital. An ambitious IDA replenishment has to be a part of the response alongside scaled up concessional finance through bilateral and other channels. We also underscore the need for a sovereign debt resolution architecture that is capable of responding to the full range of country needs. Countries witnessing or at risk of solvency challenges need a robust, predictable architecture that

restores economic growth and facilitates accelerated transformation and upgrading the sovereign debt architecture will require concerted global leadership.

27. Given the above, we reiterate the CVF Leaders Declaration requesting the United Nations Secretary-General, in collaboration with the IMF, to initiate an independent review of the sovereign debt architecture, building on the Global Sovereign Debt Roundtable, with a view to making concrete recommendations for transformation to the Fourth International Conference on Financing for Development in 2025.

Innovative Financing and Private Sector Participation:

28. We must use the entire financial artillery—leveraging everything from non-debt creating instruments such as equity and convertible loans and debt, a portfolio of pre-arranged and trigger-based financial products, carbon markets to natural capital valuation and biodiversity credits.

29. MDBs should more effectively catalyze private financing of $500 billion annually and channel this towards low-carbon transformation and adaptation, the removal of barriers, and the scaling of project support. We call on the MDBs to deploy guarantees that can provide credit enhancements and issue bonds directly linked to the implementation of our climate and development plans including Climate Prosperity Plans, especially to attract domestic private capital as a priority. We further call on the IMF and MDBs to support the development of well-regulated national and regional sustainable capital markets to attract long-term investments and savings.

30. Innovative financing solutions which are non-debt creating instruments will certainly need to be pursued to reduce the procyclical conditions which burden many climate vulnerable, debt-distressed countries. Bilateral partners and the private sector are encouraged to engage in debt-for-climate swaps, offering debt cancellation and lower cost debt in exchange for investments in green initiatives such as forest management, renewable energy, and biodiversity conservation.

31. In terms of risk management, pre-arranged and trigger-based funds and anticipatory financing for predictability and enhanced risk sharing, especially through strengthening regional risk pools, regional financial arrangements, adaptive social protection and automatic access to Catastrophe Deferred Drawdown Options (CAT DDOs).

32. Additionally, carbon marketplaces hold a potential to drive corporate climate action. In this vein, carbon finance plays a key role in supporting net-zero development. Multilateral Development Banks (MDBs) must ensure transparent carbon price discovery and uphold the integrity of carbon markets, both voluntary and involuntary, to safeguard the 1.5°C climate target. These measures are essential for building and scaling carbon markets.

33. Moreover, recalling the CVF Leaders' Declaration of September 2024, the integration of natural capital into international financial reform is critical to building a more resilient and sustainable global economy. Valuing natural capital and biodiversity as assets on national balance sheets and assigning biodiversity credits is an urgent priority, as this would not only acknowledge their intrinsic financial and ecological significance, it would also reduce the cost of debt service by lowering physical risks associated with climate impacts and contribute to global climate stability.

Protect Climate Vulnerable Countries from Procyclicality of Credit Rating Changes:

34. The reduction in Overseas Development Assistance (ODA), high cost of capital, crippling debt and the relentless threat of climate change which lead to lower credit ratings, creates a cycle of rising debt and financial instability. The international financial community, especially credit rating agencies and the reinsurance industry, must cease issuing unfair risk premiums and instead provide accurate valuations by increasing their transparency about methodologies and data. We call on the IMF and World Bank to leverage on their convening power and wide membership to provide a pathway to counter the risk of credit downgrades that often occur during macroeconomic difficulties that exacerbate an already worsening situation.

Conclusion

35. It is important for all members to re-energize leadership around the World Bank and IMF where regaining and recovering opportunities to support climate vulnerable countries will require revisiting size and lending capacity and administrative efficiency, improving evenhandedness (especially at the IMF), more inclusive discussions at the Board levels, and more organized (and explicit instruments) for tackling debt, climate- fueled disasters, and global public goods. Otherwise, the relevance of the WB and the IMF will continue to erode. The IMF and the World Bank must regain their stature to hold us together.

36. As we prepare for COP29 in November 2024 and the Fourth International Conference on Financing for Development in June 2025, we seek the avid support of the international community, to expedite key decisions on the international financial architecture reform agenda. Siloed efforts will not provide the synergy needed to propel the agenda.

37. As we look ahead, we warmly welcome the historic first Caribbean Presidency of the Climate Vulnerable Forum and the V20 Finance Ministers under the leadership of H.E. Mia Mottley, Prime Minister of Barbados. With her unwavering dedication and visionary leadership, we are confident that this Presidency, with the continued support from the V20 members, will be a driving force in advancing the global agenda for financial and climate justice, forging a future that prioritizes both people and planet.