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15TH V20 COMMUNIQUÉ ON COST OF CAPITAL, DEBT, AND GROWTH PATHWAYS

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“The Debt-Growth Agenda: Unlocking Fiscal Space for Climate Prosperity and
Resilience” in Washington D.C, United States of America*

Recalling the *Third CVF Leaders Declaration—A New Era of Climate Accountability: An Adaptation Package, Debt Solutions, and Health Resilience for Vulnerable Nations*—as the world “hurtles past” 1.5 °C, we urge COP30 to deliver a bold adaptation package, debt solutions for debt sustainability, and pathways for resilient health systems to safeguard the most exposed nations.

We are committed to transforming climate vulnerability into climate prosperity. This shift will require a common understanding of climate vulnerability. We need to establish a clear, robust, and concise definition of climate vulnerability. Climate vulnerability is not just about one’s domicile or location in a certain region. It is not just about geography. It is certainly not merely about the visibility and intensity of impacts or number of people affected or the financial loss of businesses. It is about capacity. And capacity is socio-economic. Our ability to absorb and recover and to bounce forward from climate shocks is determined by fiscal space, cost of capital, access to technology, and institutional capability. These are the basic yardsticks that establish real vulnerability, along with measures of prioritization that determine where interventions are needed with the greatest urgency.

With even greater granularity, climate vulnerability stems not from one or some but the totality of the following:

1. **Disproportionate Impacts:** Climate-vulnerable nations bear the brunt of climate change, with impacts far outweighing their miniscule contributions to cumulative global emissions.
2. **Economic Strain/ Resource Gap:** High cost of capital, unsustainable debt servicing costs, and limited fiscal space make it nearly impossible to invest in resilience or recovery. Notably, there is both ineligibility and differentiation for some larger developing countries with fiscal space to direct resources toward their own vulnerable populations. Instead, they prioritize discretionary ambitions, a particular context that demands emphasis: this highlights a governance and equity challenge, not a resource gap. For many small economies, including small island developing states (SIDS) and least developed countries (LDCs), the lack of capacity to access climate finance is a significant equity challenge.
3. **Technology Access Gap:** Without equitable access to fit-for-purpose technologies, and technology sharing and joint development agreements, adaptation and economic transformation remain out of reach.
4. **Interrupted Recovery:** Prolonged recovery times are a direct result of repeated climate disasters that, when combined with resource gaps/economic strain, create protracted cycles of crises that compound vulnerability.

5. **Systemic Barriers:** The current state of access to and volume of financing perpetuates inequality, blocking pathways to resilience, economic transformation, and climate prosperity.
6. **Scientific Capacity:** Lack of scientific capacity and data gaps on hazards, exposures, and vulnerability jeopardize the ability of climate-vulnerable countries to develop and implement measures that address their vulnerabilities and increase resilience.

There is a strong relationship between climate change and the increasing health challenges faced in V20 countries, deepening existing socio-economic vulnerability. The main elements are:

1. Climate change is a growing driver of refugees globally and an important threat multiplier alongside conflict.
2. People who work outdoors, the elderly, and children are increasingly at risk of heat-related illnesses, and they are now in need of special protection. This places large cohorts of member-country populations under increased and direct threat. Flood and drought increase food and nutrition insecurity, affecting populations' wellness and increasing disease profiles.
3. Warming temperatures mean a rise in vector-borne diseases, further straining already fragile health systems.
4. The developments in points 1 and 2 above expand the range of conditions that health systems must be equipped to address, heightening institutional vulnerability, including training and staffing implications for healthcare institutions and social care systems.
5. Taken together, this means significantly rising health costs. V20 Finance Ministers, confronted with mounting health expenditures linked to climate-related vulnerability, are calling for urgent global cooperation and support to respond to the emerging crisis in their health sectors.

The escalating health crisis reveals what the high cost of capital truly means in human terms.

Why is the cost of capital so high?

The cost of capital for climate-vulnerable economies remains high. It is driven by several intertwined elements: (1) foreign exchange volatility; (2) a persistent mismatch between real and perceived risk; (3) an inadequate global financial safety net; (4) insufficient use of guarantees; and (5) unchecked issues and biases that continue to plague credit rating agencies. On top of these challenges, many of our countries continue to carry a significant share of inflexible debt as well as high debt servicing costs that further constrain fiscal space and limit both ambition and ability to invest in adaptation and resilience. Declining ODA levels further compound these challenges. Official Development Assistance (ODA) and climate finance could play an important role in bringing down the cost of capital through blended and direct financing.

What can be done?

First, we must reduce the gap between real and perceived risk. A critical step is to make the Global Emerging Markets (GEMS) Risk Database public. We need robust and reliable data. This will improve accuracy, reduce the space for bias, and enable solutions that can be locally tailored.

Second, we need to establish more clear asset classes that investors can understand and invest in with confidence.

Third, it is essential we expand hedging tools, strengthen and deepen local capital markets, local currency options, and diversify sources of capital, including with support from multilateral development banks (MDBs). Expanding MDBs' risk-taking mandate (associated risk-bearing capacity) to include market risk (i.e. currency) and maturity transformation risks, as well as additional credit risks, allows investors to engage productively with local market counterparties who may be of lower than usual credit quality to better support the scaling of local currency lending.

Fourth, we must rethink impact and results-based financing. Impact cannot and should not be measured by the number of facilities constructed or programs launched, but by whether people's lives and livelihoods have measurably improved over time.

Fifth, bilateral financing, multilateral climate funds, and MDB financing need to become truly concessional, i.e., priced below the medium-term GDP growth rates with longer tenors. For climate adaptation and health resilience, tenors of up to 40 to 50 years are essential. MDBs must shift from their current role as creditors of last resort to becoming catalysts for transformation. In particular, the International Bank for Reconstruction and Development (IBRD) at the World Bank faces a fundamental trade-off between preserving capital to expand its balance sheet and offering affordable instruments for climate action. This tension must be resolved. Lending at rates above a country's medium-term growth potential while shortening loan terms reduces development impact and compounds vulnerability. The agreement reached under the Financing for Development (FfD) process to encourage a tripling of MDB lending capacity is welcome. MDBs must now lead in operationalizing this commitment by examining their funding gaps against the needs of their borrowers to achieve development and climate change goals and their ability to offer long-term finance at affordable rates. Shareholders should provide additional capital where necessary to bolster MDB capacity. MDBs should also align their instruments with long-term resilience needs.

Given ODA cuts, there is a greater need for international financial institutions to demonstrate leadership in making finance available for an investment push towards climate prosperity.

Can we improve risk management and the global financial safety net?

To build a climate-resilient financial ecosystem, it's time to embrace a layered risk approach beginning with:

- **Adaptation:** Strengthening coastal defenses, climate-proofing infrastructure, enhancing agricultural resilience through climate-smart and diversified farming systems, improving water systems and flood controls, and protecting ecosystems. Adaptation reduces losses but requires urgent access to affordable capital.

- Risk retention: Setting aside funds that members directly control—such as national and local disaster reserves—so that smaller, more frequent shocks can be rapidly financed.
- Preparedness: Emergency systems, evacuation plans, early warning mechanisms, and pre-positioned supplies are indispensable.
- Risk transfer: Protecting against catastrophic losses we cannot prepare for, retain, or adapt to—through insurance, catastrophe drawdown options, regional risk pools, and forecast-based financing. These tools shift part of the financial burden from governments, communities, and businesses to insurers, reinsurers, and capital markets, providing fast access to funding when the worst occurs.

It is clear that a comprehensive approach is urgent and necessary. Anything less would leave us exposed and hurt our people. Over the past 30 years, natural catastrophe insurance claims have grown faster than GDP. Yet we are not starting from zero.

The V20 underscores its support for the CVF Leaders' call for an Adaptation Package as an outcome of COP30. Such a package must ensure that adaptation finance commitments are significantly enhanced and that resources are delivered at scale, at speed, and at costs vulnerable nations can afford.

As a starting point, the V20 reiterates the calls for the rapid delivery of at least US\$4 million for every country completing a National Adaptation Plan, with resources disbursed directly to governments to accelerate implementation.

The V20 further calls for bilateral financing, multilateral climate funds, MDBs to adopt explicit adaptation finance targets, increase the share of concessional lending dedicated to resilience, and align portfolios with Paris Agreement goals and climate prosperity objectives. MDBs must also scale guarantee and risk-sharing instruments that lower the cost of capital and enable private investment.

Finally, the Package should establish global and/or regional guarantee facilities to underpin debt-for-resilience and climate swaps and to crowd in private capital at scale. More specifically, MDBs must support the scaling of debt conversions for development, including through technical assistance and provision of credit enhancement. Up to 25 percent of MDB portfolios could be better utilized for this purpose, specifically by providing credit guarantees for these transactions to improve loan terms, enable debt swaps, and increase the savings generated. Further, integrating debt conversions into wider MDB country strategies on financing investment plans, fiscal plans, resilience, and development planning. Expanding technical assistance can help countries design and execute high-integrity debt conversions aligned with national investment plans.

To complement adaptation efforts, climate and disaster risk financing and insurance must be scaled and integrated into national financial strategies to protect lives, livelihoods, and fiscal stability.

Recalling the 14th Ministerial Communique call for a ten-fold increase in pre-arranged finance to 20% by 2030, followed by a doubling thereafter, the V20 today calls on MDBs to scale up pre-arranged climate and disaster risk finance to represent at least 20 percent of total disaster risk financing by 2035, with the goal of achieving significant progress by

2030. This should be embedded in core features of development bank operations and country support for structured, risk-layered financial strategies—thereby becoming a core component of their country financing offering, facilitating the scale-up and effective uptake of existing and new instruments, and encompassing the inclusion of natural disaster and pandemic clauses in loan contracts and projects, both of which are considered pre-arranged financing instruments. The MDB offering should include a suite of instruments (that evolves over time) to meet this target. Such tools would include, but not be limited to, contingent credit lines, climate-resilient debt clauses (CRDCs), catastrophe bonds with flexible trigger conditions, and insurance. MDBs should also embed pre-arranged instruments within sovereign loan packages, particularly for climate-vulnerable states. This includes expanding the use of CRDCs, *shock-resilient loans*, and other new innovations.

Such innovations include V20 Sustainable Insurance Facility's (SIF) 100-Banks Initiative, the G7-V20 Global Shield against Climate Risks, V20 Loss and Damage Program, and Lifeline, which form a layered strategy for resilience. The 100-Banks Initiative strengthens local banks to deliver climate-smart lending and adapt financial products that directly support MSMEs. The Global Shield ensures pre-arranged tools reach people and enterprises immediately after disasters. The V20 Loss and Damage Program provides targeted and acutely needed assistance to the frontline communities. We thus call for scaled-up funding support for this initiative, noting the proven success of the initial phase. And Lifeline progresses towards addressing immediate balance of payments needs when climate shocks hit, while mobilizing investment for the medium-term.

Moreover, it's clear that there is an urgent need for greater capitalization of the Fund for responding to Loss and Damage (FRLD), including rapid grant disbursements through the Barbados Implementation Modalities (BIM). On the operationalization front, we welcome the Board of the FRLD for having signed off on the BIM, paving the way for the first funding requests to be submitted. The IMF should complement the work of the FRLD by directly integrating loss and damage into its surveillance efforts. By working with finance ministries and local institutions, the IMF needs to help collect data on loss and damage.

Can we make debt work for climate?

From 2025 to 2031, V20 countries are on track to spend a cumulative US\$746.1 billion on external sovereign debt service payments and IMF repurchases and charges. This staggering burden threatens our balance of payments and erodes the fiscal space our governments need to invest in health infrastructure, social protection, development, and climate priorities.

We therefore call for urgent action to break the vicious cycle where debt and climate change compound one another:

- **Extend debt repayment terms** to 40 years. This single measure could reduce payments by US\$267 billion. Combined with lowering interest rates to 1.3%, the savings could reach US\$454 billion—a 37% reduction.
- **Updating Debt Sustainability Analyses (DSAs)** at the IMF and World Bank. The IMF and the World Bank need to ensure ongoing reforms of macro fiscal frameworks and Debt Sustainability Analyses (DSAs) under the Low-Income Country Debt Sustainability Framework (LIC-DSF) Review to take into account the growth benefits of public investments in adaptation, protecting nature, and strengthening climate

resilience over the time horizon of the DSA. Absent significant macroeconomic vulnerabilities, considering the growth benefits will impact debt thresholds in the DSA and improve the macroeconomic feasibility of the investments, thereby supporting countries' climate prosperity/resilient investment plans.

In addition, as part of the LIC-DSF review process, clear criteria must be set for the inclusion of climate-related risk and investments for incorporation in the DSA, in line with the existing IMF and World Bank mandate. While climate is already recognized as macro-critical, it remains inconsistently integrated into baseline assumptions and risk assessments. Strengthening this integration, especially in the LIC-DSF reform process, is essential.

In addition, guidance must be revised for DSAs for Market Access Countries (MACs) at the IMF and World Bank to include the benefits of investments in climate and nature resilience.

Further, enhanced DSAs should clearly reflect the financing terms that permit these investments to be macro-feasible, setting out the full financing mix required, including both private and public capital, strategic debt relief, credit enhancements, and the volume of concessional capital needed for countries to meet the Paris Agreement and 2030 Agenda – to maintain debt sustainability. At present, these insights are buried in technical annexes, when they should be guiding global action.

Capacity strengthening in V20 countries will be critical to support finance ministries to build country-specific medium-term macroeconomic frameworks and develop the capability to conduct independent DSA analyses and sensitivity analyses for climate and nature shocks. This can be achieved through stepped-up technical assistance programs to finance ministries.

- **Reform the G20's Common Framework.** The Common Framework remains too slow and too narrow. We call for an automatic two-year standstill on debt payments, with no arrears. This will accelerate restructuring and ease immediate fiscal pressure. Extending maturities to 40 years would further reduce rollover risks and create stability.
- **Build systemic solutions.** These include debt pauses with targeted relief supported by insurance-like mechanisms, debt-for-resilience/climate swaps, and instruments that automatically adjust payments in response to shocks. A global guarantee facility is essential for debt-for-resilience/climate swaps and to crowd in private investment and underpin more effective, credit-enhanced debt restructurings, and debt-for-resilience/climate swaps.
- **Bolster the Catastrophe Containment and Relief Trust.** The IMF should take advantage of the historically high gold prices by selling a portion of its gold reserves to create an endowment account that would generate a sustainable revenue stream for the CCRT. CCRT could play an important role in reducing debt servicing obligations for climate-vulnerable economies facing climate impacts.

The Debt-Growth Pathway

Not all V20 countries are heavily indebted, but nearly all face significant budget pressures in health, education, resilient infrastructure, and essential services. This creates a severe

fiscal squeeze. The real question is: what does a debt–growth pathway look like, and how do we get there?

Debt must be growth-generating. To achieve this, we need economic reforms, debt sustainability analyses that account for resilience and natural capital, and sound fiscal rules that prioritize inclusive growth through an investment push rather than austerity for its own sake. We also need a lower cost of capital for climate-vulnerable economies and bankable project pipelines, especially supported by the multilateral development banks. MDBs, donors, credit rating agencies, and the IMF must be aligned towards the climate prosperity agenda and should offer coherent and mutually reinforcing policies and programs.

We recognize that we have a responsibility to ensure that MDBs take the actions being requested, which are intended to ensure the identified benefits for V20 members. Critically, we must develop the climate prosperity/investment plans/strategies needed for adaptation to strengthen climate resilience and, importantly, put in place climate-resilient infrastructure. Without these investments, the damage to infrastructure is a major part of the vicious cycle between climate change and debt accumulation.

Climate/resilience investment plans/strategies must be integrated into medium-term macroeconomic and fiscal frameworks to be translated into governments' annual budgets. MDBs, in addition to providing technical assistance for supporting finance ministries in developing medium-term macroeconomic frameworks where needed, must also support capacity strengthening in public investment management.

Aligning Cooperation towards Growth through Climate Prosperity

There are solutions available, but they must be technically sound, politically feasible, and administratively efficient. These include outcome-based financing, the use of special purpose vehicles (SPVs), and “skin in the game” models through national development banks and multi-sovereign wealth investment funds.

At the country level, opportunities exist everywhere. Economies can be diversified and moved up the value chain. Digitalization can be used to promote transparency and accountability. Policies can be designed to level the playing field and ensure fair access to capital. Nations can leverage their demographic dividends, investment in climate action, and improve data systems to shape a future that is both prosperous and resilient. However, harnessing these opportunities will require reinvigorated global solidarity around national ambitions.

The V20 affirms and reiterates the importance of Climate Prosperity Plans (CPPs) as national strategies to mobilize resources and foster collective action that transforms climate risks into bankable opportunities. CPPs are more than costed roadmaps for low-carbon and climate-resilient development; they are multi-phase strategies for investment, technology access, and knowledge transfer, anchored in the convergence of development, climate, and nature.

The V20 recognizes the value of Country Platforms as government-led venues that provide upstream project-development support, clear policy guidance, and alignment between governments and investors, including for carbon market access and debt-for-resilience/climate swaps. These platforms are designed to reduce transaction costs,

unlock new forms of capital, and generate the evidence base required to transition toward sustainable private sector financing.

We underscore the importance of building the evidence base for a transition to private sector financing, which demands direct support to strengthen the private sector in SIDS and LDCs, foster public–private partnerships, and build national and local capacity. There is no substitute for local agency; past errors of externally imposed agendas must not be repeated. There is no substitute for our green developmental statecraft, anchored in national leadership, local agency, and the partnerships we choose on our own terms.

Country Platforms are the running start of implementing CPPs, which place countries firmly in the driver’s seat, ensuring resources are mobilized on their own terms and aligned with national ambitions. Moving beyond fragmented and siloed efforts, such mission-driven, government-led platforms are absolutely essential to steering and crowding in capital and to deliver real outcomes. We urge for Country Platform programming to guarantee new resources of at least US\$8 million of direct access funding to kickstart efforts. For example, upon submission of a fully completed Climate Prosperity strategy to the United Nations Framework Convention on Climate Change (UNFCCC) portal, each country will receive new funding equivalent to at least US\$8 million immediately for a “running start,” enabling rapid delivery and accelerating resilience and prosperity investments.

Our Voice

The V20 underscores yet again how critical voice and representation are towards realizing desired global resilience outcomes.

Recognition of the V20 within the IMF and World Bank is essential to ensure that decisions on finance and stability reflect the realities of the world’s most climate-vulnerable economies.

In the current context of uncertainty and volatility, the IMF must remain well-resourced and agile at the core of the global financial safety net to effectively support all members, especially the most vulnerable. We urge the IMF Executive Board to promptly advance quota share realignment, including a new quota formula, under the 17th General Review of Quotas. To enhance the IMF’s democratic legitimacy, we call for at least a doubling of basic votes to restore historical balance.
