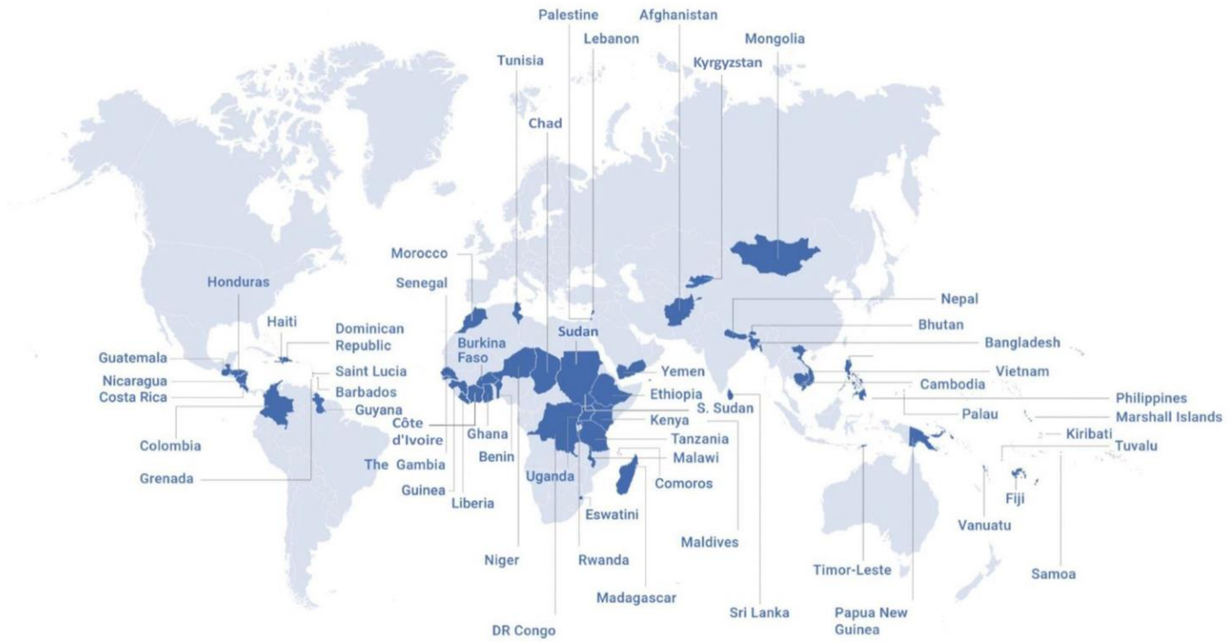

WE WHO ARE
MOSTLY POORER
COUNTRIES
HAVE DONE
OUR BIT TO HELP
SIMPLY BY
REMAINING POOR
BUT THIS
CANNOT GO ON
Mohamed Nasheed


OF ALL STATES
AND PEOPLES
THE FATE
OF THE MOST
VULNERABLE
WILL BE
THE FATE OF
THE WORLD
Climate Vulnerable Forum

Founding of the CVF: Male’, Maldives, November 2009

CVF established V20 to translate the political agenda into financing and real economy progress in October 2015 in Lima, Peru

58 COUNTRIES STAND TOGETHER TO FIGHT CLIMATE CHANGE



Current CVF/V20 Chair

Ghana
2022 to present

Bangladesh
2020 to 2022

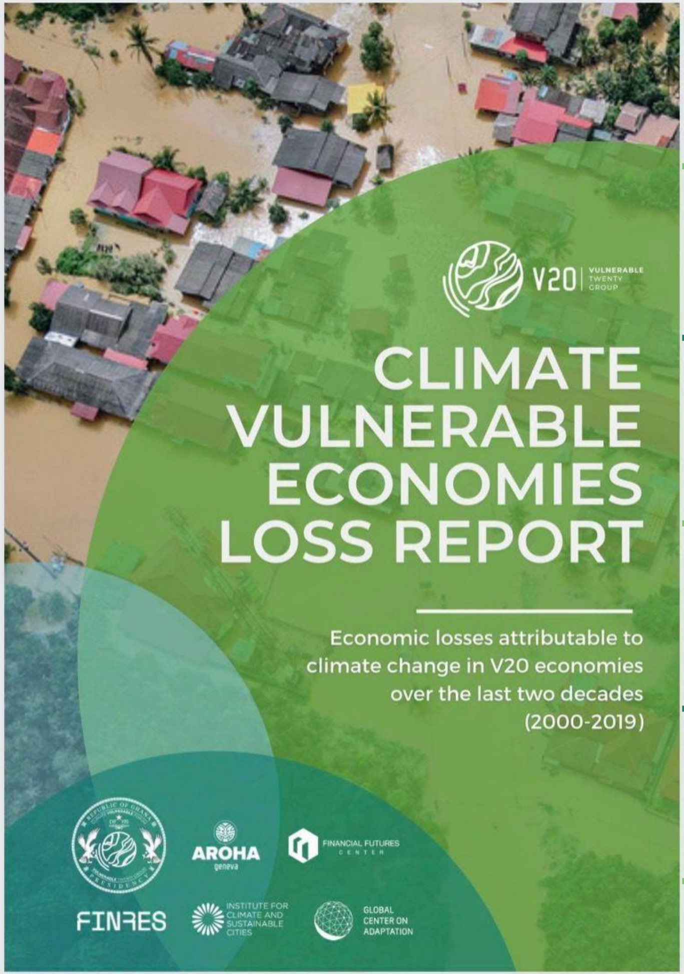
Marshall Islands
2018 to 2020

Troika

CVF & V20 members from 58 developing countries

Snapshot of Key Issues

01	Climate finance	promoting progress on USD 100 billion delivery, doubling in adaptation finance to 2025, debt sustainability/restructuring, and improved finance access
02	Climate prosperity plans	optimizing climate action in development and mobilizing finance and investment for domestic actions and priorities
03	Cost of capital	mobilizing additional resources in the form of guarantees to offset high capital costs for climate investments and debt sustainability; Accelerated Financing Mechanism
04	Financial protection	closing the 98% V20 financial protection gap against climate risks through the G7-V20 Global Shield against Climate Risks, including premium and capital support, Sustainable Insurance Facility & Global Risk Modelling Alliance
05	Carbon financing	Win-win exchanges can help meet global goals, deliver fair-share action, and provide crucial financial support for ambitious climate action that would otherwise not be viable.
06	Loss & damage	V20 Loss and Damage Funding Program under the G7-V20 Global Shield's V20 window in JMDF



Key Findings

20%

V20 would be 20% wealthier today.

Climate change eliminated 1/5th of wealth over the last 2 decades.

US$ 525B

V20 economies have lost US$ 525 Billion

In aggregate dollar terms because of climate change's effects (2000-2019)

51%

The most at risk countries would be twice as wealthy today were it not for climate change.

Economic losses exceeded half (51%) of growth since 2000 for most at-risk countries

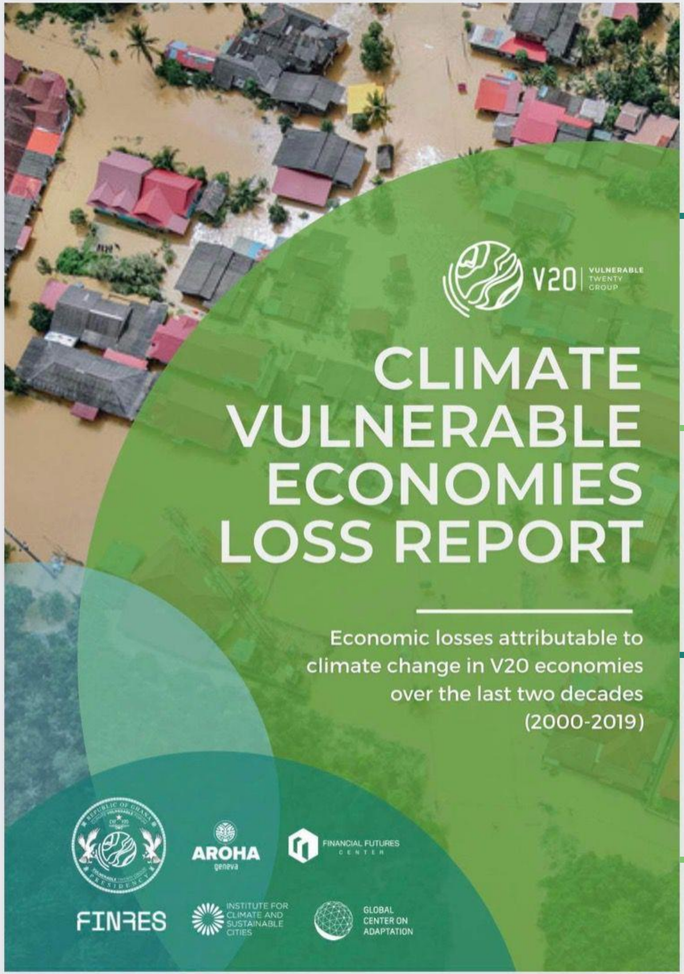
1%

Economic losses cut GDP by 1% per year.

On average

Year to year reduction in GDP per capita growth attribute to climate change is 25%

Of the economic growth of the V20 economies.



Key Findings

Temperatures are far beyond optimal for economic growth

Most V20 economies instead incur economic losses- additional warming greatly increases risks of losses in the future.

Warming is set to be 1.5 °C in the next decade

Even if mitigation efforts continue to be made, losses will incur. Adaptation would need to accelerate at a phenomenal rate to offset growing losses

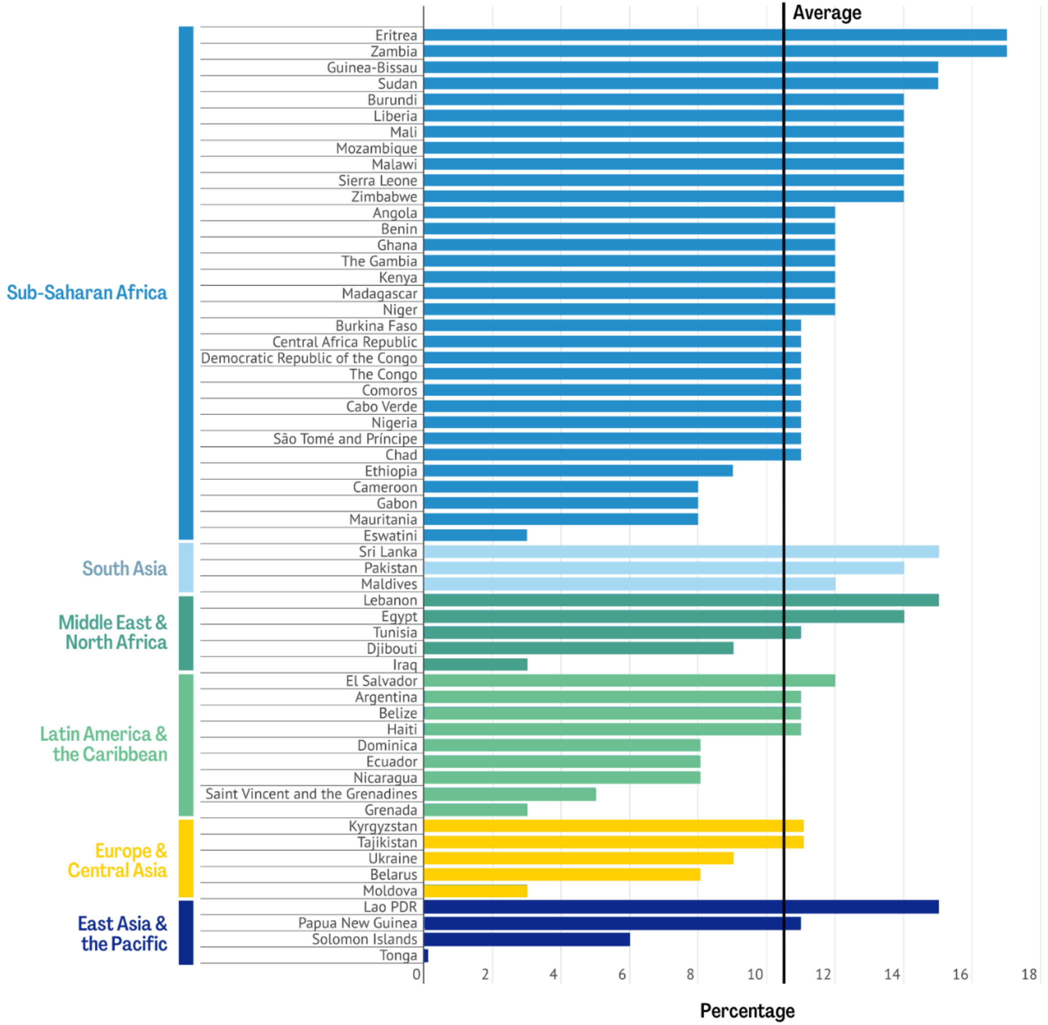
Economic losses are higher in the last 2 decades than previous decades

The V20 economies are not adapting fast enough.

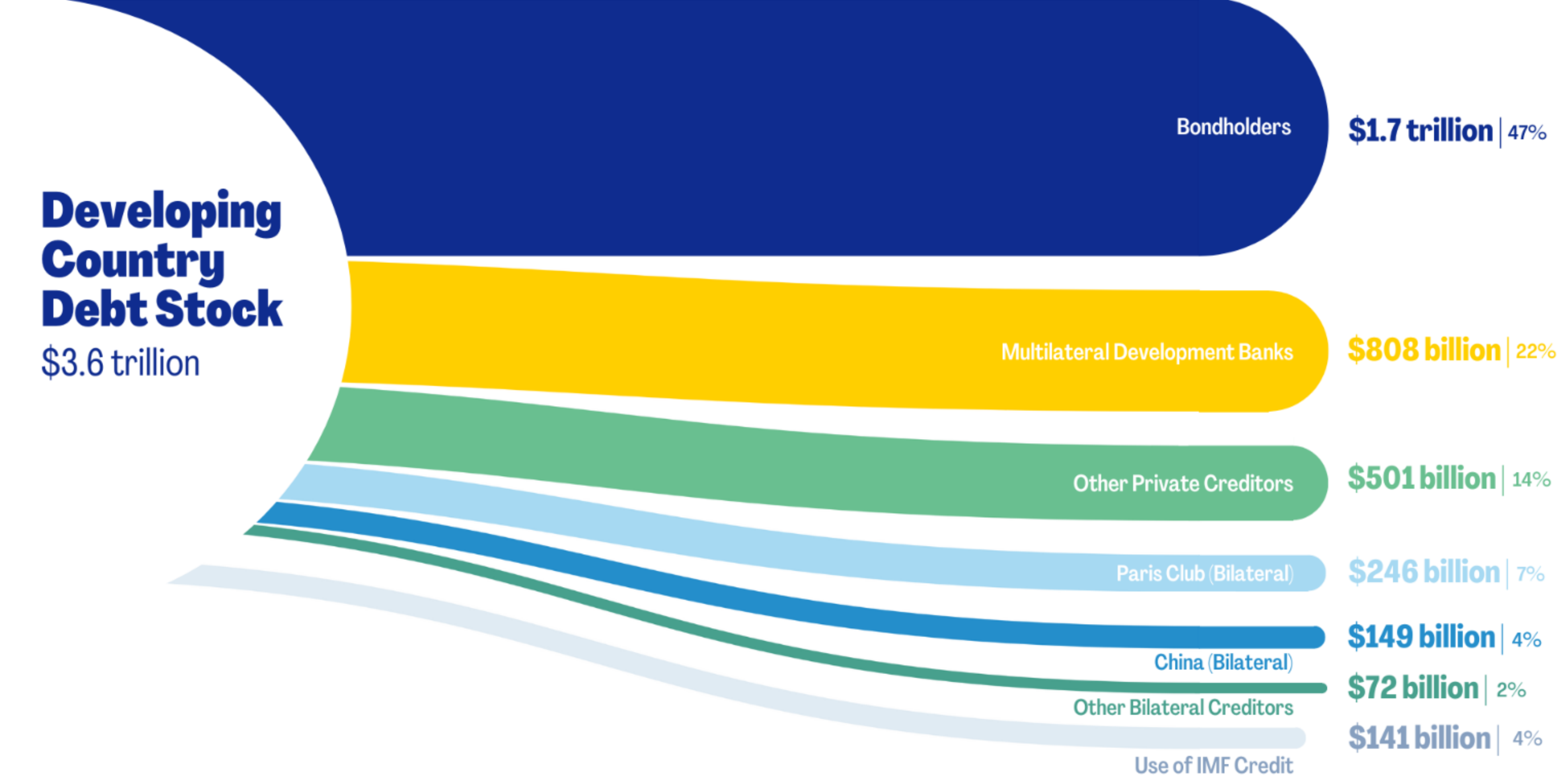
International resources supplied to V20 economies can diminish the negative macro-economic effect

Underscoring the importance of funding for loss and damage

A High Cost of Capital Challenges EMDEs in Making New Investments

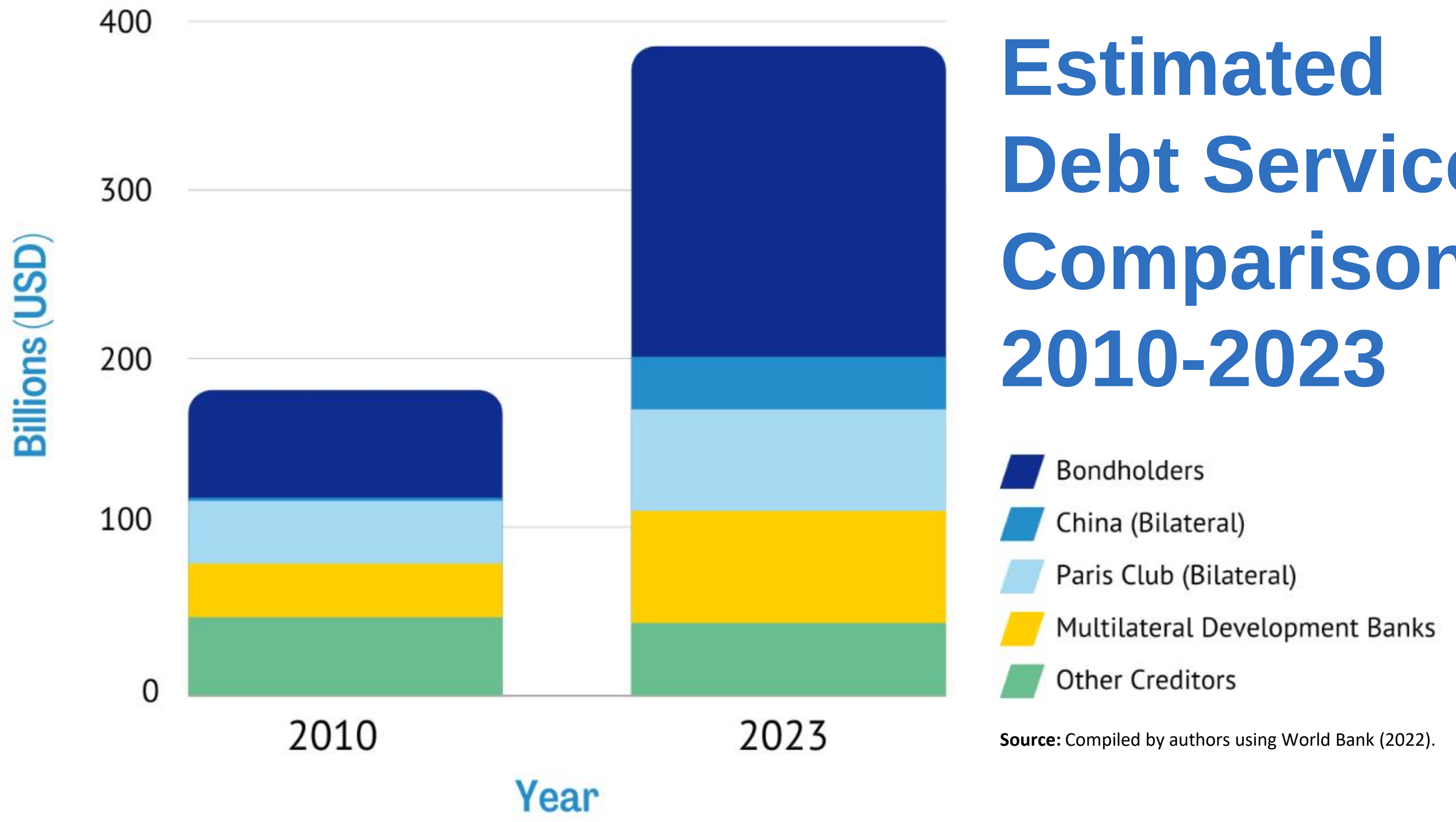


Source: CountryRisk data and authors' calculations. Debt Relief for Green and Inclusive Recovery (DRGR)



Source: Compiled by authors using World Bank (2022).Green and Inclusive Recovery (DRGR)

Estimated Debt Service Comparison, 2010-2023



Source: Compiled by authors using World Bank (2022).

Source: Green and Inclusive Recovery (DRGR)

By the Numbers

$1 trillion

per year is needed in EMDEs (other than China) to accomplish the Paris Climate Agreement targets and achieve the UN 2030 SDGs

8 countries

are currently in default (emerging markets)

61 countries

already in and at risk of debt distress

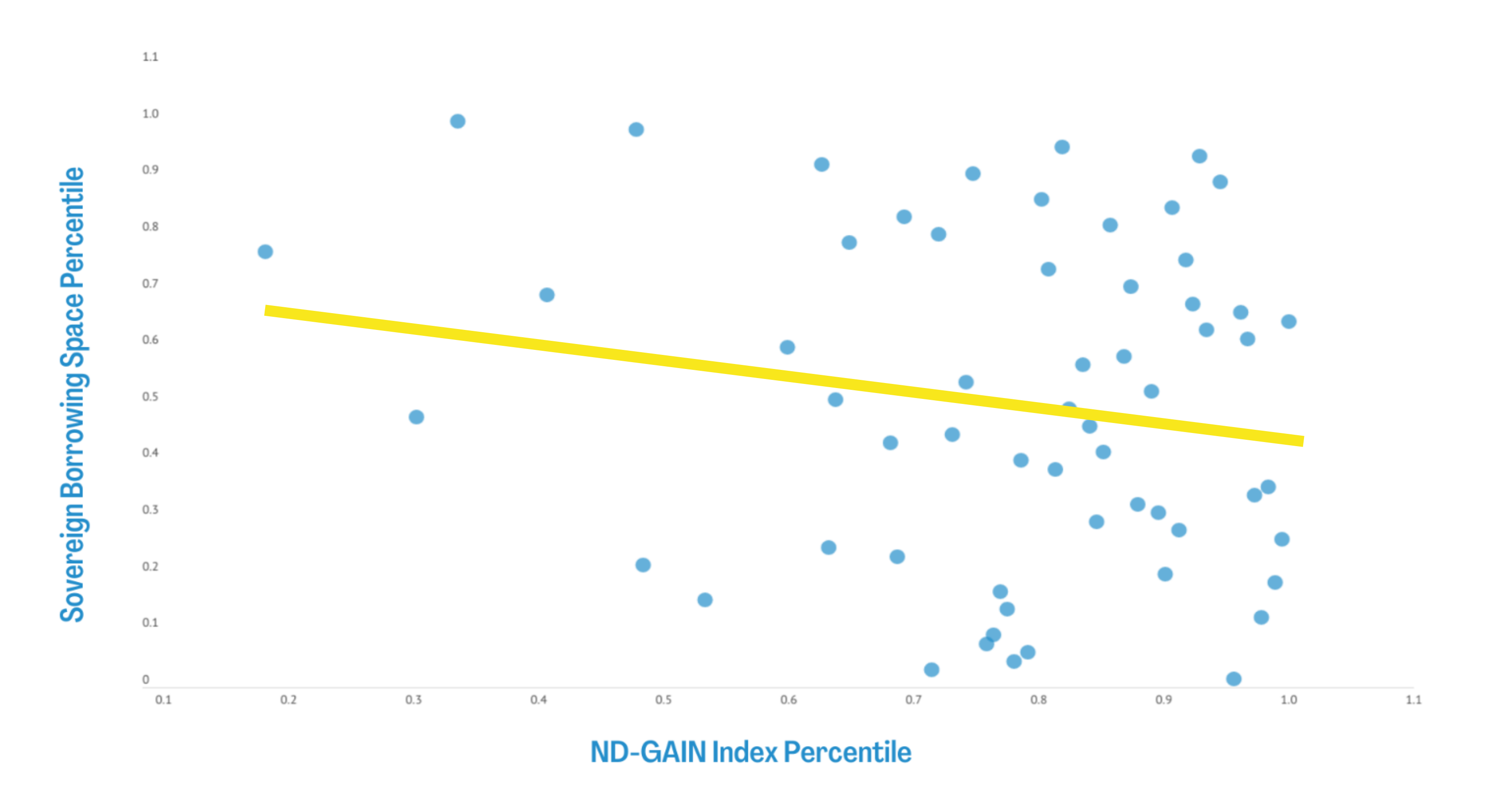
The G20 Common Framework Falls Short

1 Leaves **middle-income countries** out of relief.

2 **Doesn’t compel** all creditors to the negotiating table.

3 **Not linked** to climate and development goals.

Climate Vulnerability and Sovereign Borrowing Space



61 countries

many among the most climate vulnerable, are acutely at or near debt distress and need immediate debt relief alongside other measures.

New Common Framework Countries

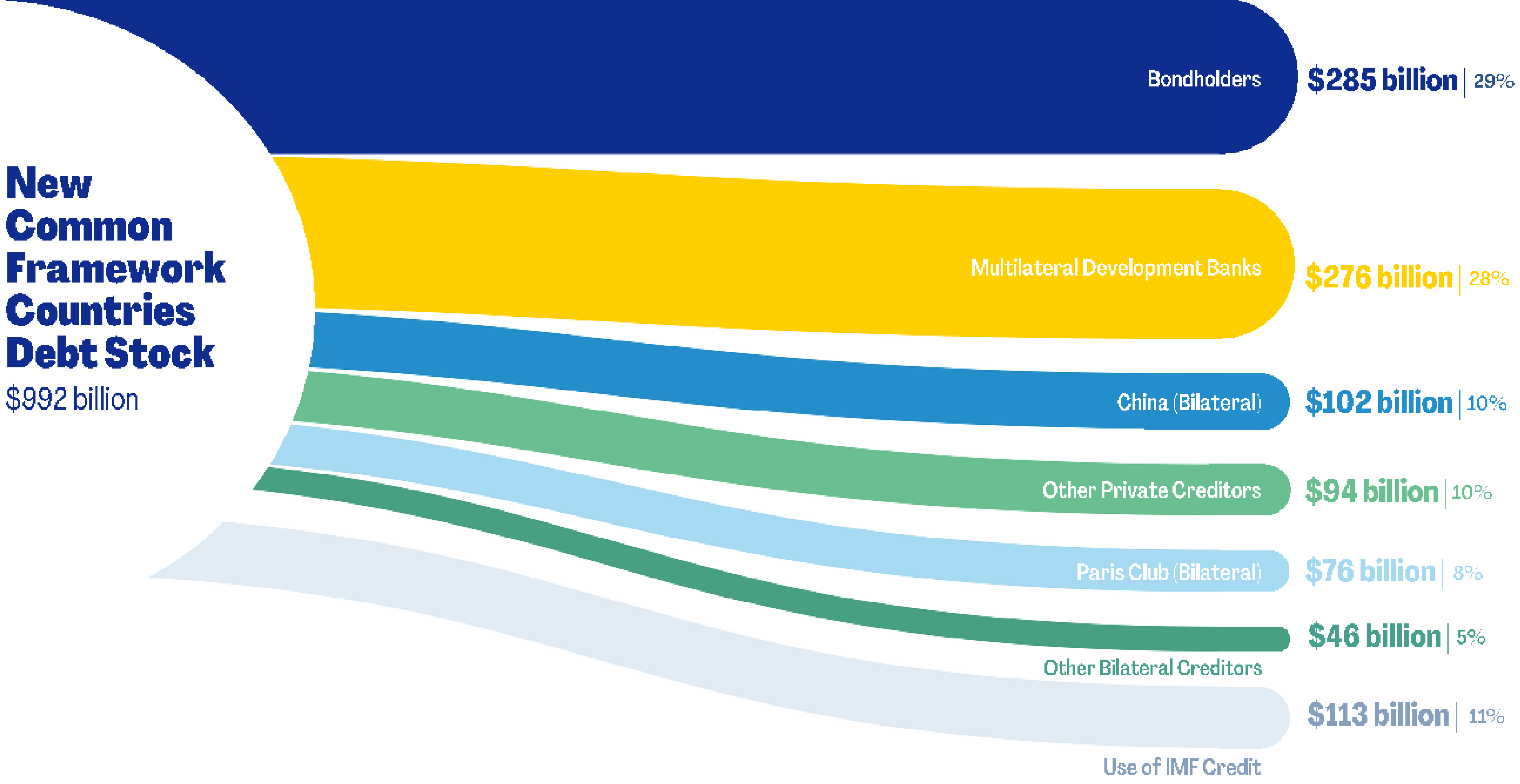
Afghanistan
Angola
Argentina
Belarus
Belize
Benin*
Burkina Faso
Burundi
Cabo Verde
Cameroon*
Central African Republic
Chad
Comoros
Congo, Dem. Rep.
Congo, Rep.
Cuba**
Djibouti
Dominica

Ecuador
Egypt
El Salvador
Eritrea*
Eswatini
Ethiopia
Gabon
Gambia
Ghana
Grenada
Guinea-Bissau
Haiti
Iraq
Kenya
Kiribati**
Kyrgyz Republic
Lao PDR
Lebanon

Liberia*
Madagascar
Marshall Islands**
Malawi
Maldives
Mali
Mauritania
Micronesia
Moldova
Mozambique
Nicaragua
Niger
Nigeria
Pakistan
Papua New Guinea*
Samoa
São Tomé and Príncipe
Sierra Leone

Solomon Islands
Somalia
Sri Lanka
St. Vincent and the Grenadines
South Sudan**
Sudan
Tajikistan
Tonga
Tunisia
Tuvalu
Venezuela**
Ukraine
Zambia
Zimbabwe

*High risk or actively in debt distress and low sovereign fiscal space according to the IMF; **No International Debt Statistics data available.

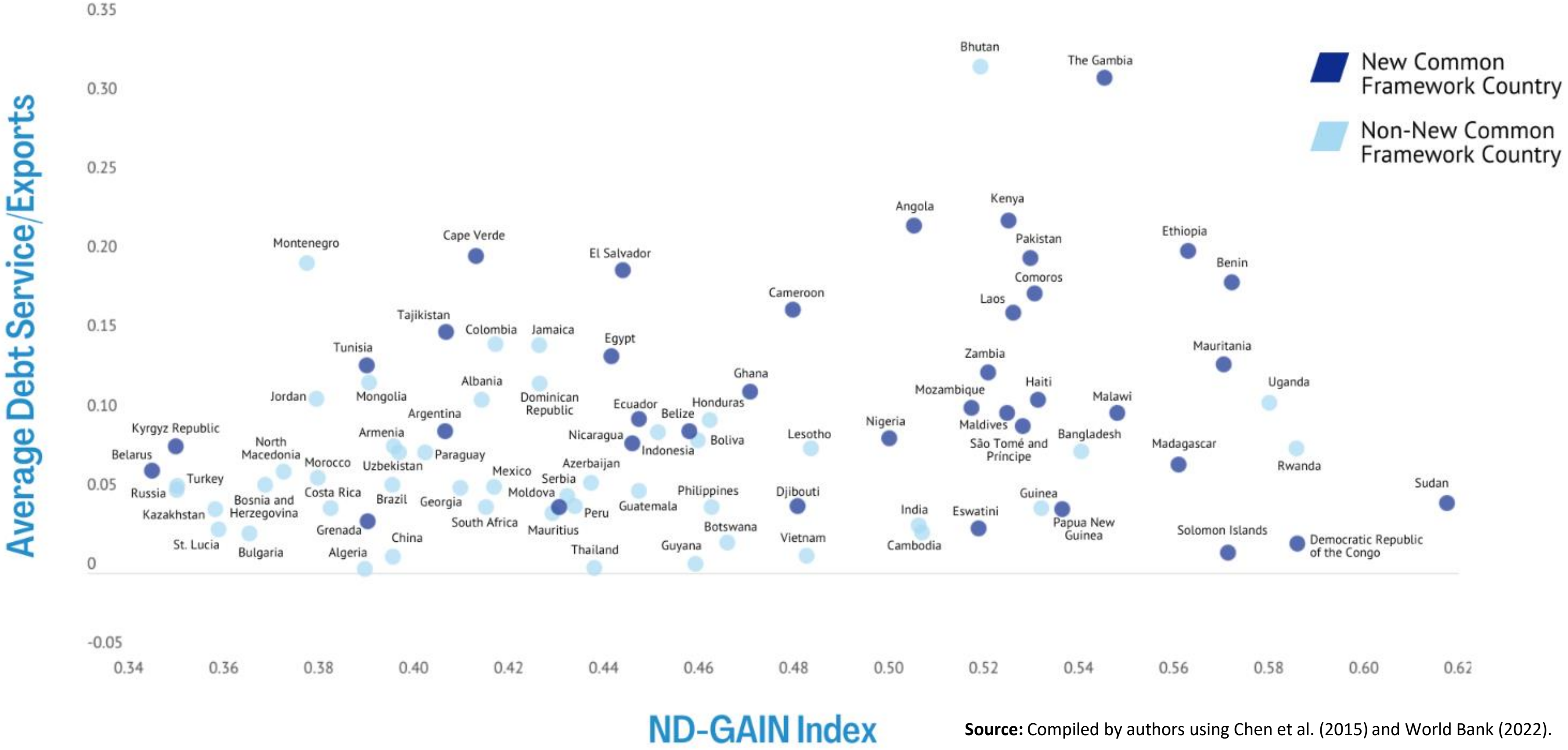


Source: Compiled by authors using World Bank (2022). Green and Inclusive Recovery (DRGR)

Ensuring Private-Sector Participation and what options around the climate-debt nexus around pre-arranged funds and financing for improved risk-layering/risk-sharing

Pre-arranged funds and financing

Climate Vulnerability, Debt Service and Government Revenue for New Common Framework Countries



Source: Compiled by authors using Chen et al. (2015) and World Bank (2022).

Key Findings

- Emerging market and developing economy (EMDE) external debt levels and service payments **have more than doubled since the 2008 global financial crisis.** Between 2008-2021, EMDE sovereign debt increased from $1.3 trillion to $3.6 trillion.
- **Climate vulnerable countries have some of the most significant debt distress.** A higher climate vulnerability correlates with a lower sovereign borrowing space and high debt service payments against exports.
- **More than $812 billion in debt** needs to be restructured across all creditor classes for 61 countries 'New Common Framework Countries'. We estimate that public and private creditors will have to **grant haircuts between $317 billion to $520 billion** in debt relief.
- **Between $37.1 billion to $61.9 billion** is needed to fund the guarantee facility that would provide enhancements for newly issued 'green and inclusive recovery' Brady bonds that private and commercial creditors can swap with a significant haircut against old debt.
- **At least $30 billion** in debt needs to be suspended over for the next five years to allow these 61 countries immediate relief, provide financial assurance to new creditors and compel reluctant creditors to the negotiating table.

Source: Green and Inclusive Recovery (DRGR)

Sovereign Debt Restructuring and Renegotiation

Reforming sovereign debt architecture to prevent crises, support the provision of affordable long- and short-term financing, and improve prospects for effective and fair restructurings.

Accra-to-Marrakech Agenda (A2M)

#1 Make Debt Work For Climate

#2 Transform the International and Development Financial System

#3 Reach a New Global Deal on Carbon Financing

#4 Revolutionize Risk Management for our Climate-Insecure World Economy

ACCRA MARRAKECH AGENDA

V20 | VULNERABLE TWENTY GROUP

#1 MAKE DEBT WORK FOR THE CLIMATE

It is urgent to ensure that V20 countries overcome the cost of capital challenges. **We need the G20 to finance development-positive climate actions in debt-distressed climate-vulnerable economies.** Moreover, debt treatment should consider the investment needs of national climate strategies and programs.

What is needed:

- A **reform of the Common Framework** that enables all debt distressed climate vulnerable developing economies to obtain the necessary debt relief in a predictable, efficient and timely manner, so that V20 countries can leverage new financing to pursue their Climate Prosperity Plans.
- **Guarantees and other incentives** such as debt service standstills to encourage the participation of all creditor classes for speedy resolution of debt negotiations.
- Credit enhancement should accompany **debt restructuring (including shock resilient debt and swaps)** to attract new investment for development-positive climate action, and incentives for existing creditors to participate early.
- Given the climate insecure future for economies, debt treatment should support the enhancement of climate resilience and the transition to climate-smart development, and **inclusive debt-sustainability analysis** considering the investment needs of national climate strategies and plans such as **Climate Prosperity Plans**.

How can the inclusion of state-contingent elements in sovereign debt contracts, help to address the challenges of sovereign debt sustainability and mitigate risks for both borrowers and creditors?

- Task Force Report: All IMF programs should have state-contingent elements for their loans.
- Important that:
    - a) the WB expands to SIDS and all climate vulnerable countries regardless of income
    - b) IMF follow suit (either with clauses or through a bolstered CCRT that would make payments for the same period) and
    - c) that the IMF work with governments to create pari passu conditions that these would extend across all debt consistently.

What are the potential benefits and drawbacks of incorporating these elements into debt contracts?

Benefits:

- Help to better manage risk for the sovereign or incentivise certain desirable policies.

Drawbacks:

- Low liquidity.
- Higher cost of financing if not widely adopted.

How can the debt resolution process be expedited and made more effective within the Common Framework for Debt Treatment?

Sticks

IMF can trigger its payment into arrears program, have a payments standstill during negotiations and broader restrictions on the outflow of capital, pass executive orders/legislation that compels creditor classes to act swiftly (as was done under HIPC and Iraq War) and have an open depository that lists those actors that do not participate.

Carrots

The IMF/G20 can provide partial guarantees on newly restructured debt. (E.g. for old debt held by private creditors is swapped against a significant haircut for new sustainability-linked debt that comes with a partial credit enhancement through a guarantee facility.

What improvements can be made to ensure timely and comprehensive debt restructuring for eligible countries?

'Timely' = IMF/G20 can provide partial guarantees on newly restructured debt.

'Comprehensive' = an adequate enough reduction in the NPV of a country's debt to enable them to pursue their climate plans (e.g. CPPs)

Reworking the DSA of the IMF to include the potential of climate shocks as well as the real financing needs of a climate plans/CPP. That would build the correct quantum of debt relief that is needed across creditor classes.

Eligibility should be broadened beyond IDA countries to include climate vulnerable MICS

IMF should provide an option for all sovereign debtors to request an updated DSA as a basis for negotiations with its public and private creditors.

Legal safeguards for debt restructurings and limiting opportunities for holdouts to derail negotiation processes and outcomes.

For countries that are not eligible for the Common Framework, does the Global Sovereign Debt Roundtable (GSDR) provide enough relief?

The GSDR does not provide relief.

Forum to discuss strengths and weaknesses of the regime in a broader way than simply at the table of individual restructurings.

Need to address expanding the Common Framework for countries that are SIDS and vulnerable, not simply the income poor.

How can international cooperation and coordination be strengthened to support these countries in achieving debt sustainability and avoiding prolonged debt crises?

G20, G7, and major shareholders of the IFIs need to align the Common Framework with the Paris Agreement and the SDGs.

Debtors should link together and form coalitions to advance debtor friendly proposals.

- Debtor coalitions like the envisaged ‘Emergency Coalition for Debt Sustainability and Climate Prosperity’ will be critically important to raise the voice of debtor countries.

What lessons can be drawn from the implementation of the G20 Common Framework for Debt Treatment in Zambia and the GSDR in Sri Lanka?

1

The diversity of creditors had a gridlock over participation that prolonged the deals.

2

The DSAs were not aligned with the Paris Agreement or SDGs and thus the level of debt relief was wholly inadequate.

How can these lessons inform the design and implementation of future debt restructuring initiatives?

1

Diversity of creditors + gridlock: the “carrots and sticks” to expedite the process and bring all creditors to the table.

2

Better DSAs that incorporate climate shocks and spending needs aligned with Paris, SDGs and biodiversity will present the true level of debt relief needed.

We need a framework that delivers quick and fair resolution of sovereign debt problems. Everything else will lead to “too little, too late” outcomes

What measures can be taken to improve and balance international liquidity in order to mitigate the macroeconomic risks associated with sudden stops or reversals in capital flows?

How can international financial institutions, such as the IMF and WB, play a role in providing liquidity support and creating mechanisms to mitigate the risks of capital flow volatility?

What policy tools and instruments can be employed to enhance liquidity management and prevent liquidity crises?

What policy actions can member countries take at the national level to break the cycle of repeat build-ups of sovereign debt and debt crises?

Nations can deploy capital flow management measures (CFMs), macro-prudential policies, and reserve management strategies to both limit the inflow and outflow of capital.

During 'surges' of capital flows when interest rates are low in the advanced economies CFMs are needed to curb short term flows toward longer run capital flows that build resilience and low carbon growth.

During sudden stops and outflow surges triggered by interest rate hikes and global shocks countries need outflow regulations in place.

Overall, we need a better global financial safety net that also accounts for climate risks.

IMF can strengthen the monitoring of international capital flows and the build-up of risks related to international debt exposures.

How can they strengthen debt management frameworks, improve fiscal governance, and enhance transparency and accountability in debt-related transactions?

It's Now or Never

- Climate vulnerable countries need a coalition and group discussion that brings forth collective proposals that articulate a debtor / vulnerable friendly approach to debt management at the global level.
- At the national level countries could use adapted forms of DSAs to better monitor their own debt levels and to juxtapose with those DSAs that are not aligned with the Paris Agreement during negotiations.
- In terms of fiscal governance countries should shift away from forms of economic activity that accentuate the impacts of climate change on an economy and that steer a country toward higher carbon forms of economic activity and instead move towards resilience and domestic renewables.
- There should be full transparency of all creditors, domestic fiscal budgets, and beyond

Emergency Coalition for Debt Sustainability and Climate Prosperity

https://www.v-20.org/our-voice/statements/group/v20-statement-on-emergency-coalition-for-debt-sustainability-and-climate-prosperity

V20 VULNERABLE GROUP OF TWENTY
GRUPO DE LOS VEINTE VULNERABLES
GROUPE VULNÉRABLE DES VINGT
مجموعة المعرضين العشرين

FDL Finance for Development Lab

TASK FORCE ON CLIMATE, DEVELOPMENT AND THE IMF

DRGR

ACCRA-MARRAKECH AGENDA

It’s Now or Never

Please feel free to contact us at secretariat@v-20.org
for any further questions or clarifications.