DEBT FUELS THE CLIMATE CRISIS: HOW THE FINANCE FLOWS

Executive Summary

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"Nepal is paying the price of global warming even though our contribution is less than 0.1% of emissions" says ActionAid Nepal's country director Sujeeta Mathema in the aftermath of the devastating flash flood caused by a collapsing glacier in August 2026.
CREDIT: ACTIONAID NEPAL

EXECUTIVE SUMMARY

Debt is a major, but fixable, barrier to climate action. **Action on debt could be one of the most impactful and achievable climate solutions available.**

The debt and climate crises are deeply interlinked, trapped in a toxic relationship in which countries and communities on the front lines of the climate crisis are paying the price. The global debt crisis is being felt acutely by the most climate-vulnerable countries, where climate disasters are taking place with increasing frequency and intensity.

Countries on the front lines of the climate crisis are forced to spend so much of their national budgets on sovereign debt repayments that these finance flows are driving fossil fuel expansion, preventing climate action and sustainable development, and leaving communities highly exposed to increasing climate impacts.

The Vicious Cycle between the debt and climate crises is getting worse year on year, causing rising emissions, accelerating climate disasters, stifling climate action and leading to ever deepening debt crises.

Today, available data indicates that **93.5% of the top one-third of climate-vulnerable countries are in debt crisis or at significant risk of debt distress.**[1] Public debt repayment levels in the most climate-vulnerable countries are at an all-time high and globally at least 54 countries are in debt crisis, with many more at significant risk.

1. See ActionAid's full "Debt Fuels the Climate Crisis: How the finance flows" report and Annex including methodology and country data for details: https://actionaid.org/publications/2026/debt-fuels-climate-crisis

Figure 1

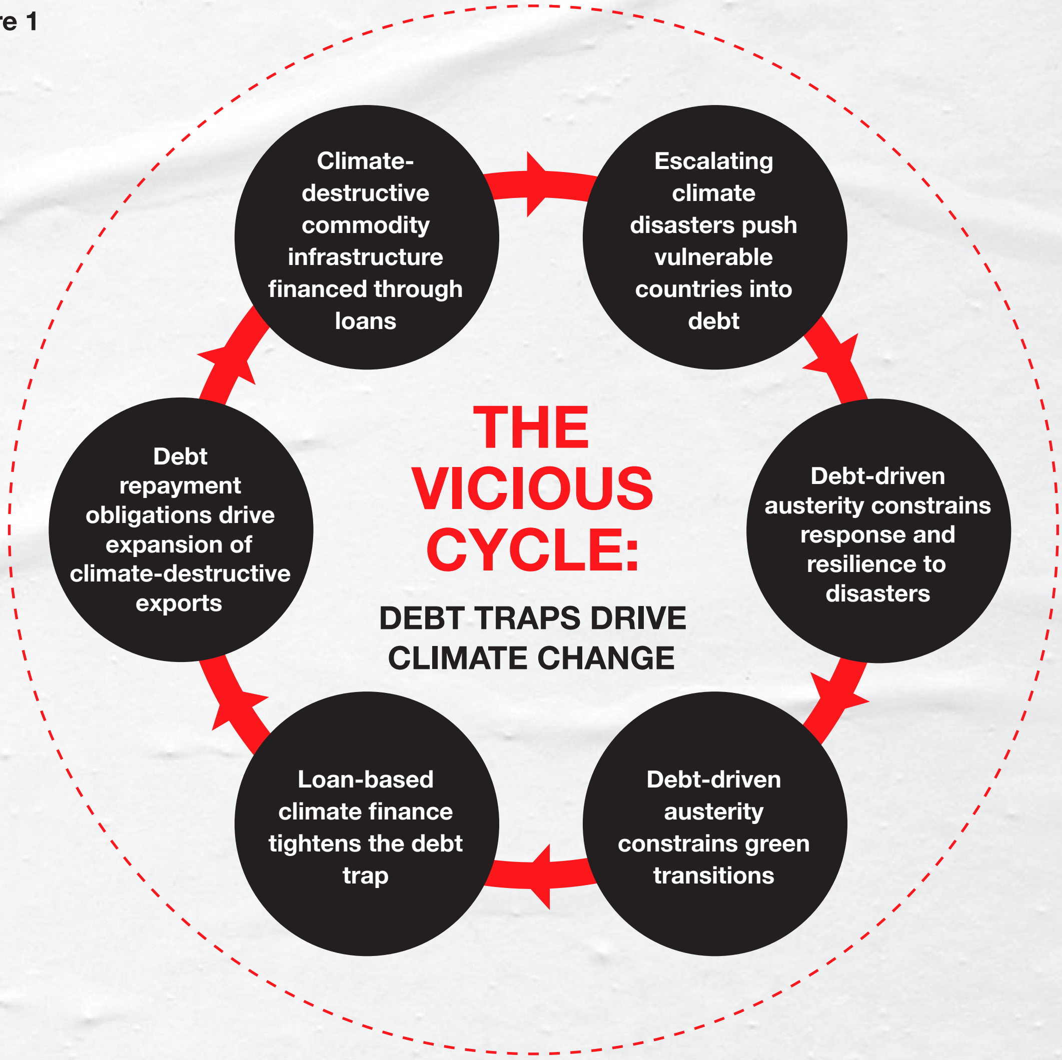
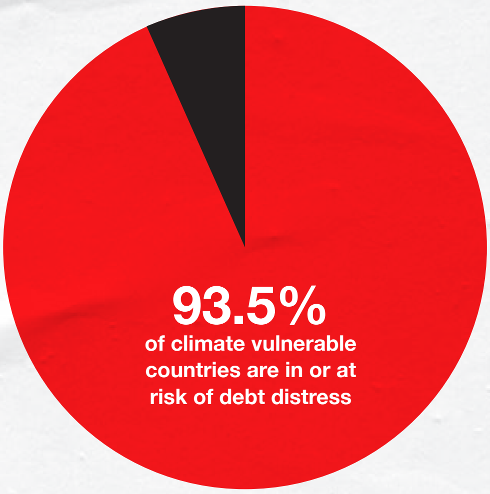
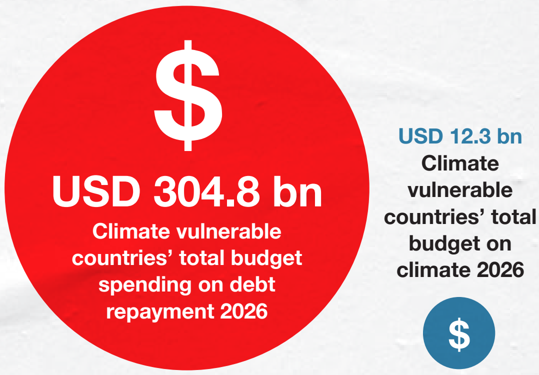


Figure 2: % of climate vulnerable countries in or at risk of debt distress



Sources: *World Bank Debt Sustainability Analysis, supplemented by Debt Justice Portal (62 climate-vulnerable countries with available data)*

Figure 3: Climate-vulnerable countries are forced to spend in total 25 times as much on debt repayments as on climate action

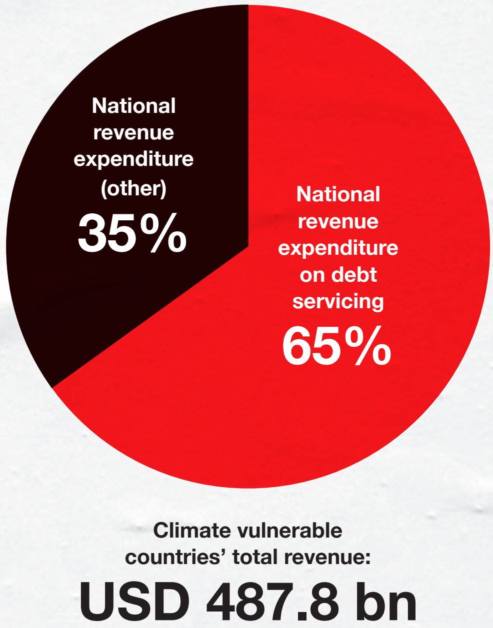


Sources: *DFI Debt Watch Database and countries' climate budget data (54 climate-vulnerable countries had both datasets)*

ActionAid has worked with Development Finance International (DFI) to analyse the available data on the domestic revenues, sovereign debt, national budgets and climate plans of those 65 countries (i.e. the top third) that are most vulnerable to climate change. Details of country-specific data and methodology used are in the Annex of the full report.

This new data analysis reveals the shocking extent to which sovereign debt is fuelling the climate crisis. Key findings include:

Figure 4: National revenue spent on sovereign debt servicing



Sources: *DFI Debt Watch Database (61 climate-vulnerable countries had data available)*

1. **Climate-vulnerable countries are being forced to spend nearly 25 times as much on repaying debt as on climate action.** Indeed, in 2026 total debt servicing on external and domestic debt in these countries is nearly four times that of spending on education, nearly seven times that of health, and nearly six times that of social protection.

2. **The most climate-vulnerable countries are using nearly two thirds (65%) of their national revenues to repay debt.** Instead of enabling climate action and providing essential public services, the bulk of tax revenue (including taxes raised from citizens on the front lines of the climate crisis) is being sent abroad to profit banks, investors, corporations, and governments, the vast majority of which are based in the Global North.

3. **Debt repayment obligations are preventing climate-vulnerable countries from implementing even their most basic climate plans.** The available data indicates that when countries' ratios are averaged out, climate-vulnerable countries are only able to budget for less than half (48.9%) of their Unconditional Nationally Determined Contribution (NDC) costs. And when this figure is calculated by taking an average of the aggregate total, only one quarter (25%) of published Unconditional NDCs have been budgeted for in climate-vulnerable countries. This newly exposed funding gap has alarming implications for the climate outlook, particularly for frontline communities.

4. **Debt cancellation in climate-vulnerable countries could fund their Unconditional NDCs six times over.** Alternatively, debt cancellation could fund all current climate, health, education and social protection spending combined, twice over. While these figures illustrate the shocking extent to which climate action is being undermined by debt, they also offer potential hope - and proof - that a world without unfair debts would be a very different place.

5. **The Global South is paying approximately 225 times more in total debt repayments than it receives in climate finance grants.** In 2026, the Global South is paying USD 8.8 trillion in debt repayments, taking up 43.5% of its budget revenues. This is the debt crisis at its worst-ever level. When it comes to climate finance, however, the most recent figures suggest that the Global North provided approximately USD 39 billion in grant-based climate finance to the Global South in 2024. The vast bulk of the money is flowing in the wrong direction. The countries that have done the least to cause the climate crisis are being forced to finance the countries that have done the most.

Figure 5: Global South finance flows: Climate vs debt

Sources: *Oxfam Climate Finance Shadow Report 2026 and DFI Debt Watch Database*

There are multiple intersecting and underlying global forces driving the debt crisis. These include historic and ongoing injustices, a failing global debt architecture, aggressive private creditors seeking quick profits, and rising global interest rates following Covid-19 and the wars in Ukraine, Palestine and Iran.

For many years it was widely assumed that the debt crisis in the Global South was largely disconnected from climate change issues, or simply arose as a result of financial mismanagement. But in fact, the climate and debt crises are deeply intertwined.

As global temperatures rise, floods, droughts, cyclones, heatwaves and other climate-triggered disasters are becoming more frequent, more intense and more destructive. The escalating costs of recovery and rebuilding forces many governments to take out emergency loans, often at high interest rates and with short timelines to be repaid in full. Forced to impose austerity policies in order to prioritise debt repayments, governments are obliged to cut public spending across the board, including on disaster recovery, adaptation and resilience, or transitions to greener energy and agriculture systems. This has very real consequences for hundreds of millions of people in the most climate-vulnerable communities, who are left at ever greater risk from the devastating impacts of climate disasters. And this affects all of us too, as the debt crisis blocks the urgent action needed to cool the planet.

To make matters worse, the debt crisis can even *accelerate* the climate crisis. Governments in indebted countries are under pressure to earn foreign currency to repay their loans. Many countries feel that the only realistic way to do this in the present global economy is to expand the production and export of fossil fuels and industrial agriculture commodities - the two biggest causes of the climate crisis. Governments at the first conference on Transitioning Away from Fossil Fuels, held in Santa Marta, Colombia earlier this year raised this issue as a core challenge that can handcuff countries to the fossil treadmill. Some countries even take on *more* loans to purchase the necessary fossil fuel or industrial farming infrastructure that they hope will ultimately lead to higher earnings. The deepening debt spiral leads to further budget cuts on climate action and essential public services.

To add to the absurdity, developed countries are failing to meet their obligations to provide climate finance to developing countries, as agreed under the United Nations Framework Convention on Climate Change

(UNFCCC). Two thirds of the finance they are putting forward under the label of "climate finance" is in fact in the form of loans or debt-creating finance instruments. Many of those climate finance loans are going to countries that are already chronically indebted, where existing debt is blocking climate action, and sometimes triggering further climate-damaging investments.

This is an outrageous contradiction. If we conceive of what the Global North owes the Global South as a "climate debt" – a popular and appropriate term given the history of global climate injustice – then we must ask: in what world can you credibly repay your debt by to someone by giving them a loan they must then pay back to you - with interest?

The inevitable consequence of climate-vulnerable countries taking on high-interest and short-term loans after disasters, however, is that they can then be at risk of entering debt distress. Struggling to meet their immediate debt repayment obligations and avoid the even greater economic consequences of defaulting, they are often compelled to turn to the International Monetary Fund (IMF), the "lender of last resort" for additional bailout loans, leading them deeper into debt traps. IMF lending comes with conditions attached, however. Public services must be cut, including investment in climate action and social protection support. Alongside a range of other economic measures, these cuts leave countries even more exposed to the climate crisis. In seeking a cure, the patient effectively gets sicker.

The consequences of the interconnected debt and climate crises fall disproportionately on women and young people, especially those living in poverty. Women and girls bear the brunt of climate disasters and are forced to effectively act as the shock absorbers of debt-induced austerity policies. Women may need to walk long distances to fetch water during drought and are more likely to skip meals and experience gender-based violence when families face hunger. When family finances are squeezed by climate impacts, girls are more likely to be taken out of school before their brothers, or even endure the tragedy of child marriage. Even though women may account for half of the farming population in Global South countries, they face barriers to accessing land, finance and farming support that leave them more exposed to climate impacts. And when public spending is cut, women and girls are the first to lose access to public services, the first to lose jobs in frontline public sector roles, and the first to assume the burden of unpaid care and domestic work that rises both when disasters hit and when services fail.

The combined debt and climate crises also compound the inter-generational injustice with young people losing critical opportunities at pivotal points in their lives and being forced to pay the future price of today's failures.

Examples of the toxic relationship between climate and debt are numerous:

Malawi has been forced to borrow hundreds of millions of dollars in the aftermath of successive destructive cyclones. This means that in 2026, 70% of Malawi's national annual budget will be spent on debt repayments. However, because much of this spending is itself funded by new borrowing, a staggering 129% of the country's revenue is going towards servicing debt.

Zambia is spending over 60% of its entire government budget (and 70% of its revenue) on debt repayment, but has been able to allocate just 0.32% of its total government budget expenditure to climate activities. As the region braces for an intense Super El Niño drought this year, Zambians are concerned that there has been insufficient investment in adaptation or preparedness.

In **Senegal,** where debt servicing is more than 600 times spending on climate, key government initiatives to strengthen resilience, improve food security and cut emissions through agroecology remain unfunded.

"When the rains changed, we changed too," says Christiane a farmer in Ituri province in the Democratic Republic of the Congo. Climate change has affected rainfall patterns and her harvests. Through testing agroecological techniques, she and her local community have found strategies to secure their harvests and livelihoods in the face of climate change.
CREDIT: ACTIONAID DRC

Destructive cyclones, droughts and floods have forced **Mozambique** to take on successive loans that mean the country is forced to spend 117 times more on debt repayment than on climate actions such as strengthening resilience. Repayment obligations mean the country faces relentless pressure to open up to fossil fuel extraction and export projects that have already exacerbated conflict and human rights abuses in the region, and to finance this through yet more loans.

Even though **Nigeria** is the largest fossil producer in Africa, nearly 40% of the country remains without electricity, as most of the country's crude oil is exported to repay debt obligations that currently consume half of the country's revenues.

Bangladesh is forced to spend 184 times more on debt repayment than on climate, amounting to nearly 73% of its budget (and 111% of its revenue), with the cost of the climate crisis exacerbated by fossil fuel infrastructure debts.

The good news is that there are clear and credible solutions that could break the vicious cycle between the climate and debt crises. Many of these have emerged from the Global South, from indebted countries and from climate-vulnerable countries and communities themselves. But they will need international support to deliver a breakthrough. Crucially, these proposals will depend on a coming together of progressive governments and movements who are concerned with either the climate crisis or debt crisis. Progress will depend on making broader connections with feminist movements, youth movements, public service movements and anyone concerned with sustainable development. Integrated solutions for inter-connected crises are needed.

Debt is a major – but fixable – barrier to climate action. Action on debt can free up countries' own resources, reduce the outflow of wealth from the Global South to the Global North, and allow those on the frontlines of the climate crisis to invest in the climate action that they, and the planet, so urgently need.

The recommendations below offer real hope that we can indeed break the vicious cycle.

Recommendations

1. Debt cancellation and debt relief

a. Debt cancellation for all unpayable or unjust external debts - to ensure that no climate-vulnerable country is paying more than **10% of its national revenue on external debt repayments**. Any loans that were lent or borrowed 'irresponsibly' (relative to UNCTAD guidelines) may be considered 'odious' or unjust and should be the first to be cancelled.

b. **Have a universal agreement for automatic debt service cancellation** for *at least five years for any country* faced with a major climate-related disaster that requires urgent financing.

2. Fix the global debt architecture

a. **Support a UN Framework Convention on Sovereign Debt.** Climate justice advocates should work with debt movements and others to include this specific call at every opportunity and urge a vote at the UN General Assembly – ideally in 2027.

b. **Radically reform the present use of Debt Sustainability Analyses** and require them to include the urgent need for investment in climate responses, gender responsive public services and fulfilment of human rights.

c. **Take legislative action in London and New York to require private creditors to join debt restructuring processes,** to participate meaningfully and to force private creditors to accept collective settlements on equal terms with other actors rather than holding out in efforts to maximise their profits.

d. **Regulate existing Credit Rating Agencies to remove conflicts of interest and bias** and establish regional and public credit rating agencies or a multilateral credit rating agency.

3. Public debt and climate audits

Every country facing debt crisis should increase transparency and understanding of the interconnected impacts of debt and climate crises, and how these drive poverty and exclusion particularly for women and girls, by holding public debt and climate audits. These audits would critically examine the impacts of both external and domestic debt on the climate crisis, seeking to agree principles and actions to break the vicious cycle.

4. Scale up grant-based climate finance

Ensure that climate finance from the Global North to the Global South is public, comes in the form of grants, not loans or any other debt-creating financial instruments, and is sufficient to meet the scale of the climate crisis.

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