

Debt Fuels the Climate Crisis: How the finance flows

ActionAid report 2026

Detailed Methodology note

The full report can be found at the following link: <https://actionaid.org/publications/2026/debt-fuels-climate-crisis>

Please note that summary data tables, calculations and a methodology summary can be found in the report Annex. This note explains the methodology and sources in more detail than the report Annex.

This report has developed several new sets of data in order to present a clear picture of trends relating to debt and climate in the Global South.

- The number of climate-vulnerable countries in debt distress. (Part 1, page 12)
- ActionAid worked with Debt Justice to analyse trends relating to the role of private finance in debt in the Global South. (Part 2, page 30)
- ActionAid worked with Development Finance International (DFI) to analyse the available data on the domestic revenues, debt, national budgets and climate plans of the top third most vulnerable countries, as well as some additional middle-income countries. (Part 3, page 37)
- Comparisons between the amount of annual debt repayments and climate finance received in the Global South (Part 3, Page 42)

The section below outlines the methodology and sources for each of these datasets.

1) Climate vulnerable countries in debt distress

The statistic used on page 12 relating to 93.5% of the top third most climate vulnerable countries being in debt distress or at significant risk of debt distress is detailed in Table 4 of the report Annex. This looks at the same list of the 65 countries that are most climate vulnerable and then lists the debt status according to the World Bank's [Debt Sustainability Analysis](#) which ranks countries as in Debt Distress or at high, moderate or low risk. Only where data was not available on this database for a specific country, we used the [Debt data portal](#) from Debt Justice (which uses the word 'crisis' instead of 'distress' but otherwise follows the same nomenclature). Combining these two sources we found data for 62 of the 65 countries and found 13 in debt distress or crisis, 22 at high risk and 23 at moderate risk and only 4 at low risk (both high and moderate are deemed to be 'significant risk).

2) Private sector financing trends

Figures 3 and 4 in section 2 under the heading 'Private Creditors taking over' are based on data produced by Tim Jones at Debt Justice. These are based on the same list of the top third most climate vulnerable countries. They draw on the World Bank IDS database which for some countries includes data on interest payments by creditor group and total debt owed. We used these to estimate the average interest paid by a government each year. This may not reflect the actual interest rate on loans if any are in default, or if there is any misreporting by governments

to the database. We suspect these reasons lead to our estimate being lower than the actual interest rates on loans.

The World Bank database also includes the average interest rate on new loans taken out in any year. This data is more patchy and also produces averages which seem lower than other public information, such as the interest rates on bonds. However, they also show a clear increase in rates in recent years. This data is only available up-to 2024.

The first table used shows the mean average interest rates for countries which:

- a) have external debt payments to private creditors that are over 10% of total external payments,
- b) are not known to have been in default in recent years and
- c) have data on interest rates in the World Bank database (22 countries in total)

The second table on mean maturity on loans from different categories of lenders draws on the same World Bank database which includes data on average maturity of new official (multilateral and bilateral) and private loans. Like the data on interest rates on new loans, this data is patchy. We have calculated the average maturities on new loans for the same 22 countries (based on the criteria outlined in the above paragraph)

This finds that maturities on official loans are on average 2-3 times longer than on private loans. For official loans, maturities have been gradually shortening over the last decade or so, from the mid-20s to low-20s. There is a less clear pattern with maturities for private loans, but they appear to have fallen to the lowest level in at least 15 years in 2024, with both mean and median average of just over 7 years.

3) National budgets and plans in climate vulnerable countries and additional countries

ActionAid worked with Development Finance International (DFI) to identify and calculate data on the relationship between debt service, climate spending and social spending in the most climate vulnerable countries, a number of additional countries.

1.1 Countries in scope

In order to analyse the extent to which sovereign debt levels are affecting spending on climate action and other public services in climate vulnerable countries, the “top” third of climate vulnerable countries were identified using the Notre Dame [Global Adaptation Initiative](#) rankings of most climate-ready and climate-vulnerable nations. Those at the bottom of the ranking are most climate vulnerable.

Ordinarily a third of the 195 UN nations would come to 65 countries. It is probably not a coincidence, however, that some of the countries considered to be most vulnerable to climate change also face challenges of serious conflict and/or democracy deficits, that prevent them from gathering or reporting data.

7 countries (Eritrea, Sudan, Yemen, Afghanistan, Syria, North Korea, Myanmar) do not have publicly available data on Debt or Climate spending. A further 4 did not have available data on their climate budget plans for 2026 (Djibouti, Kiribati, Marshall Islands, Vietnam). While the majority of the remaining climate vulnerable countries have published their Nationally Determined Contributions (NDCs) and associated costs, 26 have also taken the additional step of costing out their Unconditional NDCs.

1.2 Debt service, social spending and revenue data sources

The sources for the debt service, social spending and revenue data in the report have already been scoped and worked on by DFI. Multiple sources have been quality-controlled for their accuracy, comprehensiveness and timeliness during the last decade for DFI's Debt Watch database, Government Spending Watch database and Commitment to Reducing Inequality Index.

The Debt Watch Database is compiled in the following way: DFI compiles all debt and macroeconomic data from the IMF World Economic Outlook (debt stock, revenue, expenditure and GDP) and IMF country (including loan programme and Article 4) documents (debt service). These data are comparable across countries and credible globally. DFI also cross-check them against national budget or debt management documents. For a limited number of countries where recent IMF mission reports do not exist reflecting data uncertainty or conflict, DFI temporarily replace IMF with national data. Detailed data from the Debt Watch database can be provided upon request to mail@dfi.org.uk and data summaries are available online at www.development-finance.org

DFI compiles sector spending data from government budget/budget implementation documents for 122 G77 member countries. For 98 of these countries, these primary-sourced data are taken from DFI's Government Spending Watch (GSW) database. Where COFOG-compatible breakdowns are not published in budget documents, data are taken from secondary sources including the AsDB, CEPAL, Eurostat, ILO, IMF, OECD, UNESCO and WHO.

In all cases, data are for 2026, to be as timely as possible. Obviously, these data are not final actual spending numbers, but debt service and climate spending almost always closely match (or exceed) budgeted amounts. In addition, if we are trying to judge the degree to which debt service is pushing aside other types of spending, it is at the moment of budget decision-making that this occurs. The data are updated "in real time" - as soon as a new IMF or national document is published, and are currently up to date as of July 2026. As such, Debt Watch is more timely and comprehensive than other global databases (eg UNCTAD, World Bank, UN sectoral agencies).

Debt data cover all public and publicly-guaranteed debt, disaggregated into external and domestic; and into principal and interest payments. For comprehensiveness of analysis, they are presented in both USD and domestic currency.

All macroeconomic data are from the IMF *World Economic Outlook* database, to ensure comparability across countries and credibility. In a limited number of countries (currently 3) where IMF data do not exist reflecting data uncertainty or conflict, we temporarily replace IMF with national data.

1.3 Climate spending data

The scoping exercise looked at three types of documents: Budget documents, Nationally Determined Contributions (NDC) reports and National Adaptation Plans (NAPs).

Countries' climate specific budgets were identified in the climate vulnerable countries that publish this data, using the Classification of the Functions of Government (COFOG) system agreed by the UN, or other supplementary approaches such as climate tagging, SDG classification, detailed programmatic spending, or ministry classification.]

However, budgets vary widely in how they present climate spending. Usually, the best way to identify the “purpose” of spending is to analyse its “functional” classification using the Classification of the Functions of Government (COFOG) system agreed by the UN. However, there is no COFOG code for climate-related spending – partly because a broad definition of climate-related spending (ie spending which may have a positive impact on adaptation, mitigation, resilience or loss and damage) stretches across many ministries and would overlap with other COFOG classifications such as spending on energy, transport, water etc.

In this light, countries have tried several ways to show climate spending:

1. Ten countries¹ have engaged in “**climate tagging**” processes eg with UNDP or other support, whereby they tag budget spending as being “directly” climate linked if climate action is its main purpose, or “indirectly” climate linked if it might help with climate goals. The danger of this is that including “indirect” spending may overstate climate spending considerably. Nevertheless, wherever such “broad” climate tagging exists, we have used it to define a country’s budgeted spending because that is the official number used by the country, usually in a separate “climate budget document” or “climate spending statement”.
2. Three countries (Bhutan, Cameroon, Mozambique) have tried to get round the lack of a COFOG classification by classifying **spending according to the SDG** which is its main objective (SDG 13 being broadly similar to directly-climate linked spending); or by disaggregating their functional classifications of spending to make it easy to see which proportion of their environment spending is going on climate (Antigua and Barbuda, the Maldives, Namibia and Thailand). This is probably a more realistic assessment of climate spending levels than some of the very broad “indirect climate tagging” discussed above”. We have used these wherever they are available.
3. Some, like Malawi, have very **detailed programmatic or functional budgets** which allow the reader to track the purpose of each spending line. This counts only “directly” climate linked spending, where confronting climate change is the main objective of the project or unit. In examining country budgets for this project, we have tried whenever a country has detailed programmatic budgets to replicate this practice by going painstakingly through each budget line across multiple ministries, to identify spending on climate projects/programmes. For 20 countries, it has been possible to do this across all ministries; and for 11 more we have been able to identify the climate spending in a broader environment ministry.
4. The least transparent countries disaggregate spending only by “administrative category” ie the ministry, department or agency responsible for it. In the remaining 21 countries, we have been able to identify the ministry or agency responsible for climate spending, but not to disaggregate its spending any further, and therefore can only specify in the data the total for the ministry which has climate in its name, even if this may include non-climate environment spending and is therefore an overestimate of such spending (as well as excluding all spending which is not administered by climate agencies).

This means that budgeted climate spending data should be interpreted carefully. With a broad definition of climate spending, it represents an average of 11.6% of total spending in “tagged” budgets; with a narrower definition based on primary direct purpose of the spending, it is 3.3% of total spending in the SDG13 budgets and 1.2% in the countries where it has been possible to

¹ Benin, Burkina Faso, Honduras, Mauritania, Nepal, Pakistan, Rwanda, Senegal, Timor-Leste, Togo. Brazil, India and South Africa have also engaged in such processes but have not published a climate-tagged budget.

identify direct spending from multiple agencies. In countries where we have been able to identify direct spending only in the environment budget it averages 0.37% of total spending. Where we have had to use the whole environment budget as a proxy for climate spending, it averages 2%.

While most countries have delivered updated NDCs to the UNFCCC, a number do not contain costing/ needs estimates. Of these countries (26 out of the 65 most climate vulnerable) have disaggregated their costing into Unconditional (i.e. that the country has theoretically committed to finance itself) and Conditional (that can be implemented if additional funding such as climate finance is forthcoming) NDC needs. 25 of these 26 countries also had climate budget data available, allowing for comparison between datasets.

It should also be noted that the scale of climate spending included in NDC plans varies dramatically, from a narrow definition of projects with a main focus being adapting to or mitigating climate change, to (in a small number of cases) virtually all of the national development plan on the basis that most sectors (electricity, health, roads and transport, social protection, WASH) are somehow connected to climate change even if the projects listed show no signs of aiming at mitigation or adaptation (e.g. are about extracting more water from the ground to provide to citizens rather than managing it sustainably). Four of the NDCs also include costings for loss and damage, but many from countries which are constantly hit by climate disasters do not. There is clearly a lot of work to do in improving the quality and comparability of NDC spending needs data.

A surprisingly small number of countries (only 26) have submitted NAPs to UNFCCC. Of these, only 3 NAPs contain costing numbers which are not superseded by NDC data (Antigua and Barbuda, Tuvalu and Vietnam): for these countries, we have used NAP data limited to adaptation spending needs.

1.4 Interpretation of the climate spending data

The three different types of source documents need to be interpreted differently:

Budgeted spending represents the amounts governments are able to allocate in budgets, and are spending now.² Comparing these with debt service gives a clear idea of the tiny amount of actual spending, and the degree to which many governments are barely able to allocate any climate spending from their own revenues, partly due to high debt service burdens.

Unconditional NDC data should *theoretically* be seen as firm commitments by governments to spend. However these can be - and clearly are being - undermined by fiscal austerity/high debt service issues or possibly delays in disbursing climate finance, preventing such spending from being budgeted. Comparing Unconditional NDCs with debt service therefore gives a very good idea of how much debt is crowding out climate spending.

Overall NDC or NAP spending needs (if not disaggregated into conditional and unconditional amounts) should be seen as overall aspirational costed spending needs and compared with debt service data mainly for their relative scale (e.g. they can give an idea of whether cancelling all debt service would allow countries to fulfil their climate financing needs).

²² It should be noted that in virtually all documents examined, actual climate spending in 2025 was very close to budgeted spending, because of the nature of the projects funded which were mostly consultancy reports, travel expenses and local or national consultations on strategy documents, and were therefore implemented on time.