

TURN
DEBT
INTO
Hope

Rising Tides, Rising Debt:

CLIMATE AND DEBT VULNERABILITY IN THE
PACIFIC, LATIN AMERICA AND THE CARIBBEAN



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Rising Tides, Rising Debt: Climate and Debt Vulnerability in the Pacific, Latin America and the Caribbean

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Cover photo: Children at a school in Samoa where their water supply is impacted by climate change. Credit: Tara Harvey.

Back cover photo: Planning for the future: Parents of young farming students at Tutu Rural Training Centre, Taveuni Island, Fiji. Credit: Tutu RTC.



Executive Summary

Countries of the Global South face a vicious cycle of debt and climate crises. In 2025, Caritas Oceania and Caritas Latin America & the Caribbean compared experiences to better understand how their regions are impacted and what solutions are being proposed. This report contributes to an understanding of the intertwined debt, development and climate crises in the Pacific and Latin America & the Caribbean (LAC), in the lead-up to the COP30 climate conference and G20 meetings of 2025.

Debt and Climate Vulnerability in the Pacific

While Pacific Island Countries (PICs) contribute less than 0.03 percent of global greenhouse-gas emissions, they are among the world's most climate-vulnerable nations. Environmental pressures that are eroding livelihoods and threatening the viability of many island states and territories are intersecting with growing debt burdens. Many Pacific Island economies are at high risk of debt distress. Borrowing to respond to repeated climate shocks compounds the problem: each disaster-related loan reduces fiscal space for the next and limits funds available for climate adaptation, creating a vicious cycle.

Debt and Climate Vulnerability in Latin America

Latin America and the Caribbean also face a deepening climate and debt crisis, as climate hazards intensify – such as droughts, wildfires, hurricanes and floods. Overall public debt has wavered around 70 percent of GDP or above since the pandemic. Most climate finance for the region is delivered as loans, raising questions about long-term sustainability. Unless grant components are significantly increased, climate finance can amplify the debt risks it aims to resolve. Latin America pioneered debt-for-nature swaps since 1987 and these have delivered mixed results.

Comparative Analysis

Climate vulnerability and sovereign debt issues are reflected in the experiences of both regions. Pacific Small Island Developing States (SIDS) often exhibit higher debt-service-to-revenue ratios and narrower economic bases, while many LAC economies are larger but carry significant absolute debt stocks. Investment in resilience and adaptation is critical for both regions, without increasing debt burdens.

The Vicious Cycle

Climate vulnerability and sovereign indebtedness are reinforcing one another, as repeated climate shocks erode productive capacity, reduce fiscal space, and push governments to borrow again. Rising debt servicing then absorbs national revenues that might otherwise fund recovery, and adaptation. This “climate-debt trap” undermines both development and environmental goals, leading to continued reliance on external finance and exposing countries to the volatility of global capital markets. Climate vulnerability and indebtedness are interlocking crises, and developing countries will remain trapped in a cycle that undermines fiscal stability and climate action, unless global finance is aligned with the realities of the climate emergency.



Policy Responses and Innovations

In the Pacific and Latin America, governments, civil society, and faith-based networks are developing their own policy responses to confront the constraints of an unjust financial order. In the Pacific, the focus is on strengthening local ownership through grant-based financing, transparency, and the creation of the Pacific Resilience Facility (PRF). In Latin America, initiatives such as debt-for-nature swaps, regional finance platforms, and green fiscal taxonomies may mobilise resources for climate action but can also deepen dependence on market-driven finance.

Challenges and Critiques

The growing momentum around innovative financing mechanisms has sparked optimism but also exposed challenges and contradictions. Across the Pacific and Latin America, structural inequities, limited access to concessional finance, and continued reliance on market-based instruments have raised concerns. Caritas Oceania has consistently reported a lack of community involvement in climate adaptation, while middle-income countries in Latin America are systematically excluded from concessional debt treatment or relief initiatives. Climate-linked loans and bonds may repackage conventional debt with minimal environmental or social benefit, while the experience of Fiji's green bonds in 2017 suggests the administrative burden and compliance costs can outweigh the benefits.

Towards Climate Justice and Financial Reform

The converging crises of debt, inequality, and climate change have underscored the need for a fundamental transformation of the global financial system. Caritas calls for factoring in “ecological debt” – the environmental cost owed by historically high-emitting countries to those most affected by environmental impacts such as climate change. A genuine reform agenda must include mechanisms that prevent the recurrence of debt crises while ensuring climate justice. The intertwined debt, development and climate crises represent moral failures that undermine human dignity and integral human development. Debt must serve life, not the other way around. As COP30 approaches, the Caritas network urges global leaders to replace debt dependence with solidarity, and financial domination with justice.

I have repeatedly stated that foreign debt has become a means of control whereby certain governments and private financial institutions of the richer countries unscrupulously and indiscriminately exploit the human and natural resources of poorer countries, simply to satisfy the demands of their own markets. In addition, different peoples, already burdened by international debt, find themselves also forced to bear the burden of the “ecological debt” incurred by the more developed countries. Foreign debt and ecological debt are two sides of the same coin, namely the mindset of exploitation that has culminated in the debt crisis. In the spirit of this Jubilee Year, I urge the international community to work towards forgiving foreign debt in recognition of the ecological debt existing between the North and the South of this world. This is an appeal for solidarity, but above all for justice.

Pope Francis, Message for the World Day of Peace 2025, #7.

Recommendations

Another heartfelt appeal that I would make in light of the coming Jubilee is directed to the more affluent nations. I ask that they acknowledge the gravity of so many of their past decisions and determine to forgive the debts of countries that will never be able to repay them. ... this is a matter of justice. If we really wish to prepare a path to peace in our world, let us commit ourselves to remedying the remote causes of injustice, settling unjust and unpayable debts, and feeding the hungry.

Pope Francis, *Spes non confudit*, 2024, #16.

These recommendations are made in light of our comparison of Pacific and Latin America regional analyses and consideration of *The Jubilee Report* of the Jubilee Commission, as a contribution to the Turn Debt into Hope campaign in the Year of Jubilee.

- Expansion of grant-based climate finance and equitable access to international funds;
- Debt cancellation or restructuring for countries facing climate-related losses;
- Transparent and participatory debt governance mechanisms, in particular:
 - A UN-led sovereign debt framework, such as an international bankruptcy court, or an international mediation service under UN auspices. (Jubilee Report, p. 18)
 - reforms to establish a new architecture to allow for the cancellation or restructuring of unsustainable and illegitimate debts,
 - the development of new debt sustainability assessments,
 - more transparency about debt from borrower and lender governments and agencies,
 - mechanisms to limit predatory finance from undermining debt restructuring efforts, and
 - legislation to ensure more transparent governance and management of debts.
- Local ownership: community participation in climate finance decisions.
- Regional solidarity, through mechanisms such as joint negotiation blocs at global forums.
- Consolidation of climate finance mechanisms: To improve access for vulnerable countries.
- Mobilisation of unused IFI funds to support climate-vulnerable nations.
- Automatic debt service suspension for countries facing climate disasters.
- Scaling up grant-based finance through rechannelled Special Drawing Rights (SDRs).
- Debt-for-climate swaps – should be considered with great care. As the Jubilee report advises: the agreements must be transparent, align with national development strategies, and not divert resources from poverty reduction or necessary investment in infrastructure. Transaction costs should be low, and private intermediaries must not extract excessive profits. They should not substitute for restructuring of unsustainable debts.



Find out more and sign the petition calling for cancellation of debt and reform of the global financial system, at:
www.turndebtintohope.caritas.org



1. Introduction

Climate vulnerability is a pressing issue in the Global South, where countries face a vicious cycle of debt and climate crises. This year Caritas Oceania and Caritas Latin America & the Caribbean undertook a comparison of their experiences, to understand how their regions are impacted and what solutions are being proposed amid the intertwined economic, environmental and social crises of our time.

We drew from analysis of key regional reports from both the Pacific and Latin America, and held an online strategy webinar/workshop “COP30: Debt as Climate Impact” on 16 October 2025, hosted by Caritas Australia. The workshop aimed to share experiences and perspectives – commonalities and differences – and come up with policy recommendations ahead of the COP30 UN climate conference in Belem, Brazil and G20 meeting following in South Africa.

This report is the outcome of that combined work: exploring differences and similarities in climate impacts, debt profiles and challenges, and policy responses in each region. It examines what lessons can be learned, and what steps need to be taken to achieve ecological, social and economic justice.

The workshop was held in the week that Caritas Internationalis presented the first round of signatories of the Turn Debt into Hope campaign – at meetings of the World Bank and International Monetary Fund. In opening the webinar, Caritas Oceania President Cardinal Soane Mafi of Tonga acknowledged our connectedness as ordinary people of the land and sea:

Now today, our two regions come together to look at the twin challenges we face on debt and climate. Our regions hold the two great lungs of the earth – the Ocean and the Amazon forest, and we are the custodians of their care and the people they support. On our behalf, these lungs absorb carbon dioxide and give us the oxygen we breathe. They give life to the earth, and we are called to share in that life-giving process. Together, we are stronger as a network and we give life not only to the people of our two regions, but also to the whole earth.

We were joined by the expertise of Maia Colodenco, a member of the Jubilee Commission set up by Pope Francis in the Year of Jubilee to raise awareness about the debt crisis, and to propose solutions to overcome it and ensure it does not happen again. As the Jubilee Commission Report (2025) highlights, the world faces a profound debt and development crisis. Debt-distressed countries in the Global South sacrifice crucial investments in education, healthcare, infrastructure, and climate resilience to make payments to external creditors: 3.3 billion people live in countries that spend more on interest payments than on health. Climate change disproportionately affects vulnerable populations and regions that contribute the least to the problem, making these countries highly vulnerable.

We seek financial and political reform with a human face. As Ms Colodenco told the webinar:

People are really suffering, and this has a human cost behind it. It's not only about figures, it's about people, about children not being able to go to school, about not being able to feed their families. There are real and deep costs behind this debt and development crisis, and as we start to recognise it, we can start to work on debt relief... and with debt relief, there also comes the space to deliver to the citizens.

We present this report as a small contribution to the debate on debt, development and climate finance, as we face the 30th meeting of the Conference of Parties of the United Nations Framework Convention on Climate Change in Brazil, followed by the G20 meeting in South Africa. We call on political decision-makers at those gatherings to act for people and planet, to provide a future of hope for all.

Losing Land, Losing Churches in Oceania

When Brother Solomon MSC (below) was growing up in the 1980s in Central Province, Papua New Guinea, his school and church at his village of Nabuapaka were 100 metres inland. In 2016, the community realised the sea was moving in, but hoped it would be temporary. By 2024, the sea reached the village and cemetery. Their church, pictured in 2024, collapsed into the sea in 2025, and the whole village moved further inland; the former village site is now completely under water. Brother Solomon wants people's eyes to be opened. "We would like the world to continue on its awareness and efforts on climate change. Climate change is real, and we are asking people to help us, support us in any way possible to build our church again."



Photo: Tony Sutorius

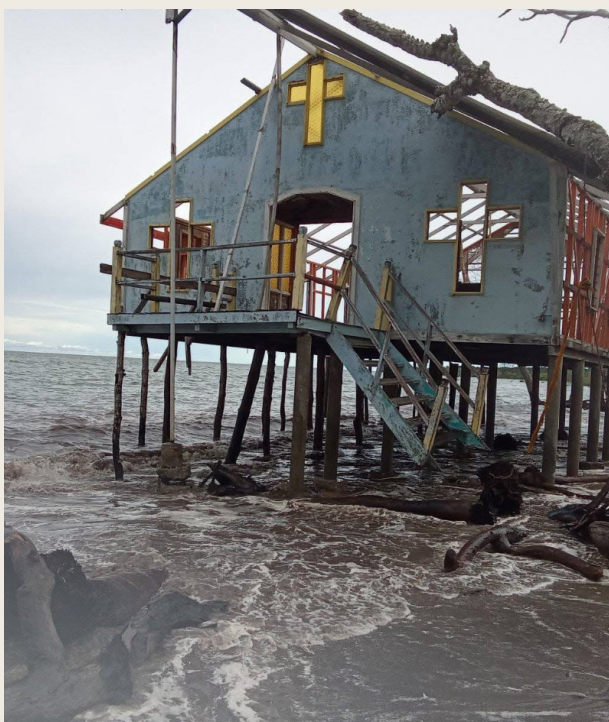


Photo: Brother Solomon



2. Debt and Climate Vulnerability in the Pacific

The Pacific region faces a unique convergence of climate and debt crises. While Pacific Island Countries (PICs) contribute less than 0.03 percent of global greenhouse-gas emissions, they are among the world's most climate-vulnerable nations. Rising sea levels, stronger cyclones, coral bleaching, and shifts in fisheries are eroding livelihoods and threatening the viability of many island states and territories. These environmental pressures intersect with growing debt burdens, constraining the ability of governments to invest in resilience and social protection.

2.1 The Debt–Climate Nexus

The joint Caritas/Jubilee Australia report *Weathering the Storm* (2024) identifies a strong “nexus” between achieving sustainable development and building climate resilience. Without resilience, development progress stalls; without sustainable and inclusive development, communities cannot build resilience.¹ Pacific nations’ financial positions are increasingly shaped by climate shocks, while recovery from cyclones, floods and droughts requires spending often financed through new loans, reinforcing debt accumulation and climate vulnerability.

2.2 Diversity of Debt Situations

Pacific economies are diverse in size, structure and exposure. The *Weathering the Storm* case studies – Fiji, Kiribati, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu – illustrate this variety.²

According to data in *Weathering the Storm*, more than half of Pacific Island economies analysed are at high risk of debt distress. (See Table 1.) Fiji and Samoa already display debt-service-to-revenue ratios above one of the thresholds commonly used to signal fiscal distress – about 15 percent of government revenue.³ In these countries, debt servicing is constraining health, education and infrastructure spending. Tonga and Vanuatu remain below the threshold but are projected to exceed it within a few years.⁴ By contrast, Kiribati, Tuvalu and Solomon Islands face lower repayment pressures, but their narrow revenue bases make them vulnerable to external shocks.

Small populations, narrow export bases and vulnerability to disasters mean that even moderate debt can quickly become unsustainable. Borrowing to respond to repeated climate shocks compounds the problem: each disaster-related loan reduces fiscal space for the next.

2.3 Climate Finance Gap and Debt Pressures

The *Weathering the Storm* analysis estimates that the Pacific requires around US\$1.5 billion annually to address climate mitigation, adaptation and loss-and-damage needs.⁵ Actual inflows of climate finance amount to only USD 0.2 to 0.6 billion a year, leaving a substantial shortfall. Unless this gap is met through grants, governments may be forced to borrow, thereby driving debt levels higher. The mismatch between needs and finance creates a “double bind”: climate vulnerability raises fiscal risk, while the debt burden limits adaptation capacity. For small island economies, a single cyclone can severely impact GDP. For example, Cyclone Winston in Fiji (2016) caused damage equivalent to 31 percent of GDP, while Gita in Tonga (2018) caused damage at 38 percent of GDP.⁶

Table 1: Summary of key debt statistics for Pacific Islands Countries

Country	Date of data	GDP (million USD)	Public Debt Stock (million USD)	Debt-to-GDP Ratio (%)	Proportion of External/Domestic debt	IMF Risk of Debt Distress
Cook Is	Jun 2024	374	131	35	100/0	N/A
Fiji	Jun 2024	5848	4,518	78.0	36/64	Moderate
Kiribati	Jun 2023	206	31	15.0	100/0	High
Marshall Is	Jun 2022	263	60	22.8	100/0	High
Micronesia	Dec 2022	224	38	17	94/6	High
Nauru	Jun 2024	154	37	24	67/33	N/A
Palau	Jun 2022	246	163	66.2	100/0	Moderate
PNG	Jun 2024	31 855	16,276	51.1	49/51	High
Samoa	Jun 2023	945	316	33.4	100/0	High
Sol Is	Jun 2023	1505	263	17.5	58/42	Moderate
Tonga	Jun 2023	547	203	38.0	87/13	High
Tuvalu	Dec 2023	64	4	5.8	69/31	High

Source: Caritas/Jubilee Australia, *Weathering the Storm*, p 13.

2.4 Ecological and Economic Pressure

Dependence on limited revenue sources deepens vulnerability. Kiribati and Tuvalu rely heavily on fisheries licence fees and sovereign funds, while Tonga and Samoa depend on remittances.⁷ Any sudden drop in these income streams can trigger a debt shock. The search for new revenue has led some governments to expand extractive industries such as mining – even deep-sea mining – as potential sources of foreign exchange.⁸ These ventures carry environmental and social risks and may undermine long-term environmental sustainability.

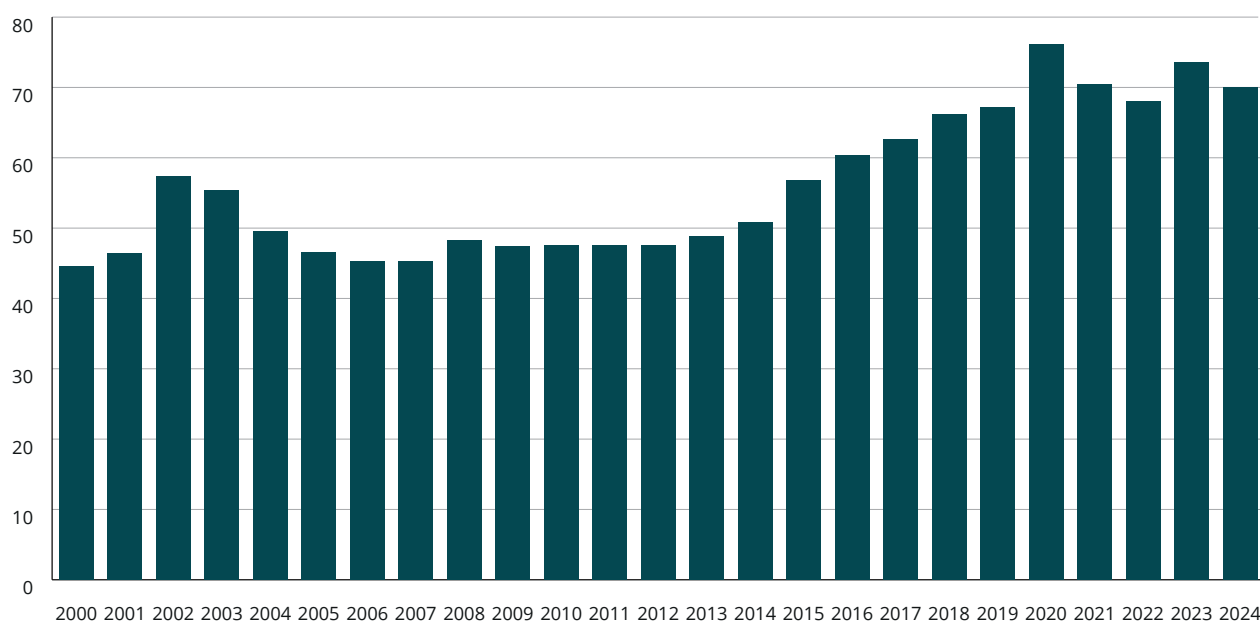
2.5 Human and Ecological Impacts of Climate Change

Sea-level rise threatens coastal settlements and infrastructure across low-lying atolls such as those in Tuvalu and Kiribati. Fisheries, a cornerstone of food security and government revenue, are affected by ocean warming and acidification. Changing migratory patterns of tuna are projected to reduce Pacific Island nations' total fishery revenue by up to 10 percent by 2050.⁹ Increased salinisation of soil and freshwater supplies reduces agricultural productivity, worsening food insecurity and increasing import dependence. These impacts directly erode the tax base, further limiting debt repayment capacity.

3. Debt and Climate Vulnerability in Latin America

Latin America and the Caribbean (LAC) face a deepening intersection of climate risk and sovereign debt pressure. Overall public debt in the region has remained above 50 percent of GDP since 2014, wavering around 70 percent or above since the pandemic (see Figure 1). This level constrains fiscal space in many economies and leaves governments exposed when climate shocks occur.

Figure 1: Latin America & Caribbean general government gross debt (% GDP)



Source: LATINDADD, based on IMF data.

3.1 Debt Burdens Meet Climate Shocks

Climate hazards in LAC are diverse and intensifying. Droughts across the Southern Cone (southern) and Andean (northwest) regions, hurricanes and floods in Central America and the Caribbean, and increasingly destructive wildfires in Chile and Bolivia have all exacted heavy economic tolls. These impacts occur against the backdrop of high debt, which reduces governments' ability to finance large-scale resilience programs. When disasters strike, budgets must be reallocated to emergency relief or reconstruction, or governments must borrow anew. ECLAC and IDB analysts note that repeated relief and reconstruction cycles materially weaken fiscal positions across LAC, particularly where debt service already absorbs a significant share of government revenue.¹⁰

3.2 Climate Finance Largely Loan-Based – the Debt Link

A central structural issue is how climate finance is delivered. Although multilateral and development-bank lending for climate projects has expanded, most of it remains loan-based. The United Nations Framework Convention on Climate Change's (UNFCCC) Standing Committee on Finance's Sixth Biennial Assessment (BA6) finds that about 81 percent of MDB climate finance is provided as loans.¹¹ Finance intended to build climate resilience is deepening debt exposure. In addition, most countries in LAC are middle income, and do not qualify for grants, or have



graduated from World Bank International Development Association status providing eligibility for low-interest loans and grants.

The IDB's 2023 Climate Finance Database records that climate-finance flows to LAC in 2023 were dominated by public-sector loans and concessional lending rather than grant transfers.¹² This loan-heavy model raises questions about long-term sustainability. Unless grant components are significantly increased, climate finance can amplify the debt risks it aims to resolve.

3.3 Fiscal Strain: Relief, Reconstruction, and Budgets

Climate-related disasters regularly trigger spikes in expenditure and borrowing. Relief and reconstruction costs undermine social spending and divert capital from preventative adaptation. Few governments can mobilise this scale of funding without additional debt. Post-disaster reconstruction borrowing often compounds fiscal stress by raising interest obligations and reducing medium-term fiscal space.

3.4 Debt-for-Nature and Climate Swaps

Latin America pioneered debt-for-nature swaps with Bolivia in 1987. Others following suit in the region include Ecuador, Peru, Colombia, Chile, Costa Rica, Belize, Barbados and Uruguay.¹³ Such mechanisms combine debt relief, market mechanisms, and conservation finance.

The initial experiences were “unsatisfactory”, according to José Oscar Henao Monje, Coordinator of Knowledge Management and Projects of Caritas Latin America & the Caribbean. This was for two main reasons: “... because of the conditions that a country must meet to access this financing, and because it does not guarantee mechanisms for territorial participation (citizen audit) that guarantee compliance with the commitments in its implementation.”¹⁴

However, he says more recent swap actions may create hope for promoting sustainable environmental, social and economic impacts. More recent swaps in the region include:

- In 2021, Belize negotiated a deal with The Nature Conservancy, reducing its debt by nearly US\$189 million to generate \$180 million in conservation funding over 20 years. It was notable for being the world's largest refinancing for debt for ocean conservation.¹⁵
- Ecuador's 2023 Galápagos deal, the world's largest, replaced high-cost debt with lower-interest “blue bonds”, generating debt-service savings of about US\$1.1 billion and releasing US\$450 million for marine protection around the Galápagos Island.¹⁶
- Barbados in 2024 completed a debt-for-climate swap to generate US\$125 million in savings to finance climate-resilient water and sewage projects.¹⁷

Some regional civil-society networks continue to urge caution. Analysis by the Latin American Network on Debt, Development and Rights (LATINDADD) in 2023 argues that most swaps are brokered through US-based conservation organisations and investment banks under confidentiality agreements, offering limited transparency. Because the new conservation funds are often administered through private intermediaries, communities directly affected by projects may remain excluded from decision-making.¹⁸

Another concern is that debt-for-nature swaps may not deliver net relief. Sometimes, only a small fraction of the nominal debt is cancelled, while participating governments assume new obligations to keep policy conditions set by external actors. This can amount to a form of



green conditionality: environmental protection framed in fiscal terms that still prioritise creditor interests over the social needs of the people affected.¹⁹

While debt swap instruments attempt to link fiscal relief with environmental outcomes, their scale and cost benefits remain limited, relative to the region's overall debt and financing needs.

3.5 Country Case Studies

Chile (Southern Cone)

Although Chile maintains moderate debt levels relative to peers (public debt about 38 percent of GDP in 2023), its exposure to wildfires and drought shows that even middle-income economies face growing climate-related costs. Wildfires in February 2023 affected over 430,000 hectares of land, burned 2500 homes, and caused an estimated US\$883 million in losses, prompting emergency spending and insurance payouts. Drought in the central region has also strained agriculture and hydropower generation, pushing authorities to invest heavily in water-management infrastructure.²⁰ Chile's experience demonstrates that climate shocks carry fiscal multipliers even for credit-worthy states.

Caribbean SIDS (Small Island Developing States)

The Caribbean's small island states face the sharpest manifestation of the debt–climate trap. Many carry debt-to-GDP ratios exceeding 80 percent and suffer frequent hurricanes that inflict damages equal to 30–200 percent of GDP in a single event. Development Finance International and other analyses highlight that debt service consumes such a large share of government revenue that essential services and resilience investments are underfunded.²¹ The Caribbean SIDS experience closely parallels that of Pacific small islands, underlining the urgency of grant-based climate finance and targeted debt-relief mechanisms.

3.6 Comparative Insights

Across LAC, the dual challenge of climate vulnerability and sovereign debt mirrors that faced by Pacific Island countries, though at different scales. Pacific SIDS often exhibit higher debt-service-to-revenue ratios and narrower economic bases, while many LAC economies are larger but carry significant absolute debt stocks. Both regions share exposure to extreme climate events and limited ability to fund adaptation within the fiscal rules set by their governments. Investment in resilience and adaptation is critical for both regions, without increasing debt burdens. The experience of both regions points to a new global approach linking debt relief and climate justice: expanded grant-based finance, fair debt-workout frameworks, and sustained investment in resilience.

In regard to considering debt swaps for the Pacific, debt swaps tend to work better for bilateral debt, but are much more complicated when multilateral and/or commercial debts are factored in. Not all countries have commercial debt (only a few Pacific nations do) but multilateral debts are proportionally high for many Pacific nations.

CASE STUDY: Community Climate Resilience in Chile

Chile is one of the most climate-vulnerable countries in the world, meeting seven of the nine vulnerability criteria defined by the UNFCCC. In recent years, the country has been affected by drought, sea-level rise, heatwaves, floods, and wildfires. Caritas Chile has helped families and communities affected, but also works with people to strengthen their resilience in the face of worsening climate change impacts.

“Dedicating resources to climate resilience is not an expense; it is an investment,” says Catherine Mella Quiroz, Coordinator of the Environment, Risk Management and Emergency (MAGRE) program for Caritas Chile. “It is also an act of repair and justice.”

This is seen in a forest fire risk reduction program carried out in the Canal Chacao community, Quilpué commune, Valparaíso region of Chile. Community and ecological resilience are strengthened, collaborative work occurs among local actors, lives are saved, property is preserved, ecosystems are cared for, and biodiversity is protected. The territorial model focuses on families and community, promoting resiliency, participation, and innovation, in the context of climate crisis and risk management.

There are four stages:

1. Creating local committees as a base structure.
2. Community training disaster risk analysis, including risk mapping.
3. Community planning with local agencies, to develop community prevention, evacuation and emergency plans.
4. Implementation of innovative local actions, funded through a small community investment fund. This may support community early warning systems, rainwater harvesting, and planting of native and heat-resistant species.

These community-focused, locally led practices could be replicated and scaled up through greater public financing, within the framework of climate commitments made by the parties to the Paris Agreement – with support from developed countries of the Global North, who bear the greatest responsibility for greenhouse gas emissions. They have a historical ecological, economic, and social debt to the peoples of the Global South.

“Natural disasters are not natural,” says Catherine Mella Quiroz. “They are the consequence of a lack of planning in disaster management, and today we need to take action, we need to take action from the communities and this is possible if we continue to network together, because, together we can be of hope.”



Caritas Chile provided relief, recovery and supported communities on preventative measures following wildfires in Valparaíso in February 2024. Credit: Canal de Chacao Group.

4. Comparative Analysis: Pacific versus Latin America

Dimension	Pacific	Latin America
Climate Risks	• High vulnerability to cyclones, sea-level rise, saltwater intrusion. • Coastal erosion, coral bleaching, and declining fisheries further endanger food security. • Small island states such as Tuvalu, Kiribati, and the Marshall Islands face existential threats, including loss of land, displacement, and cultural heritage. • Economic losses from single cyclone events can reach 30–50% of GDP.	• Recurrent droughts, floods, hurricanes, and increasing wildfires. • Agricultural expansion causing deforestation. • Climate shocks intensify inequality and migration pressures. • Urban flooding and heatwaves are growing threats, particularly in informal settlements.
Debt Profile	• Small economies with limited revenue bases and high exposure to external shocks. • Average public debt exceeds 60% of GDP in several countries, and debt service consumes 15% of annual government revenue. • Many Pacific states depend on concessional loans for rebuilding after disasters.	• Predominantly middle-income countries with large but diverse debt portfolios. • Average public debt at or above 70%. • Debt service costs have risen sharply, reaching 3.2% of GDP regionally and over 5% in major economies. • Most public debt funds social and climate programs, but rising interest costs crowd out investment. (LATINDADD)
Climate Finance	• Severe funding gap: estimated USD 1.5 billion annual adaptation need versus USD0.2-0.6 billion in inflows. • Access to Green Climate Fund constrained by complex procedures and limited administrative capacity. • Grant-based finance and debt cancellation needed to replace loans that deepen vulnerability.	• Climate finance flows overwhelmingly loan-based. • LATINDADD critiques the ‘financialisation’ of climate policy and warns that reliance on loans from CAF, IDB, and private creditors perpetuates debt dependency.
Adaptation Capacity	• Limited institutional and fiscal capacity to design or scale up adaptation initiatives. • Reliance on donors leads to fragmented projects. • Strong community resilience and traditional knowledge systems support local adaptation, but national implementation capacity remains weak. • Pacific Resilience Facility (PRF) offers a promising model of locally governed financing, though undercapitalisation limits impact.	• Higher technical capacity and access to capital markets, but fiscal rigidity and inequality restrict adaptive investment. • low growth constrains public budgets. • Adaptation relies on external financing with conditionalities. • Regional initiatives such as the Latin American Climate Platform seek to coordinate efforts but remain underfunded.
Innovative Solutions	• Advocacy for debt relief, transparency. • South–South solidarity on climate justice. • The PRF exemplifies Pacific-led innovation for resilience. • Participatory oversight of funds. • Integration of ecological debt concepts in global frameworks.	• Experimentation with debt-for-nature swaps, but debt relief remains minimal. • Green/blue bonds, but limited debt relief and high transaction costs. Inequality, extractivism, and weak social safeguards in debt-linked climate finance.



5. The Vicious Cycle of Debt and Climate Crises

5.1 Framing the Debt–Climate Feedback Loop

Climate vulnerability and sovereign indebtedness are reinforcing one another in a destructive feedback loop. Repeated climate shocks erode productive capacity, reduce fiscal space, and push governments to borrow again to rebuild. Rising debt servicing obligations then absorb national revenues that might otherwise fund resilience, recovery, and adaptation. This “climate-debt trap” undermines both development and environmental goals, leading to continued reliance on external finance and exposing countries to the volatility of global capital markets.²²

This vicious cycle has become increasingly visible in recent years as the cost of successive cyclones, droughts, floods, and wildfires impact already-strained balance sheets. The experience of small island developing states, and middle-income countries in Latin America demonstrate how the structural features of the international financial system – high interest rates, short-term capital flows, and creditor-dominated decision-making – magnify vulnerability rather than reduce it.

5.2 Rising Borrowing Needs After Climate Disasters

Climate disasters are immediate fiscal shocks. Reconstruction demands arrive within weeks, while tax revenues collapse due to damage to agriculture, tourism, and infrastructure. Lacking fiscal buffers, many governments resort to emergency borrowing from international markets or multilateral institutions.

Such borrowing compounds future risks: new loans add to repayment obligations just as climate impacts intensify. The Centre for Economic Policy Research (CEPR) warns of a “climate-debt doom loop,” in which extreme weather events repeatedly destroy physical assets, push up import needs, and weaken currencies – raising the cost of external repayment.²³ LATINDADD likewise documents how the rising frequency of droughts and floods across Latin America has driven governments to issue new sovereign bonds or draw on IMF facilities to cover reconstruction costs, even when previous debts remain unpaid.²⁴

The result is that climate adaptation – meant to reduce vulnerability – becomes itself a source of fiscal fragility. Where international aid fails to cover disaster losses, debt becomes the default instrument of climate finance, embedding structural inequity between creditors and climate-exposed countries.

5.3 Debt Servicing and Shrinking Fiscal Space

High debt service ratios crowd out adaptation and social spending. In 2024, the Center for Economic and Policy Research (CEPR-USA) estimated that 21 low-income countries transferred an average of 14.5 percent of government revenues to external creditors, while 94 middle-income countries transferred an average of 7.2 percent.²⁵

This redirection of resources undermines progress on the Sustainable Development Goals (SDGs) and the Paris Agreement. As LATINDADD observes, in Latin America and the Caribbean debt service in 2021 was equivalent to 91 percent of total social spending on education, health, and social protection.²⁶ Governments under repayment pressure may postpone investments in early-warning systems, flood defences, and low-carbon infrastructure – projects that could mitigate future costs.



The human consequences are severe. Communities already on the frontline of climate change face compounding risks: deteriorating public services, weakened resilience, and reduced employment as austerity measures take effect.

5.4 Lack of Concessional and Grant-Based Finance

The imbalance between concessional and non-concessional finance further locks countries into the debt cycle. While the UNFCCC recognises the need for grant-based climate finance, in practice most flows arrive as loans. LATINDADD estimates that 81 percent of climate-finance commitments to Latin America and the Caribbean between 2016 and 2021 were loan-based rather than grants.²⁷

These loans are often provided in foreign currency and at commercial rates, amplifying exposure to exchange-rate fluctuations. Rising global interest rates since 2022 have pushed debt service costs sharply higher. For climate-vulnerable countries, this means that accessing funds to rebuild after a cyclone or drought can worsen fiscal stress more than the disaster itself.

5.5 Structural Bias and Financial Architecture

Underlying the vicious cycle is a creditor-centred global financial architecture that systematically favours repayment over resilience. Decision-making power lies largely with advanced economies and private investors, not with climate-vulnerable states. Debt-restructuring frameworks remain limited in scope and often exclude middle-income countries.²⁸

CEPR-USA says that debt-distressed countries suffer under austerity measures imposed by IMF loans, such as cuts to basic public services, while risking further costs – and possible loan-based recovery – from climate-related disasters.²⁹

LATINDADD says the climate crisis and the debt crisis need to be addressed together, recognising that the debts of the Global South have increased much in recent years. Proposals to cancel debt need to be considered, so countries can use their fiscal resources to address the climate crisis, especially after an extreme climate event. LATINDADD advocates for automatic debt-service suspension following major climate disasters and for a United Nations arbitration mechanism to restructure unsustainable debts.³⁰

5.6 Conclusion: Breaking the Loop

Climate vulnerability and indebtedness are no longer separate policy domains but interlocking crises. As long as climate finance relies primarily on new borrowing, and global institutions prioritise creditor repayment over resilience, developing countries will remain trapped in a cycle that undermines both fiscal stability and climate action.

Breaking the loop requires three shifts:

1. Recognition of climate resilience as a global public good, serviced by grants;
2. Reform of international debt architecture to allow timely, fair, and automatic restructuring; and
3. Integration of ecological debt principles into all debt-sustainability analyses.

Only by realigning global finance with the realities of the climate emergency can the world avoid a future of cascading debt and environmental breakdown. Section 6 will examine emerging policy responses and regional innovations that could enable this transformation.



6. Policy Responses and Innovations

6.1 Introduction

As climate and debt crises converge, countries across the Global South are not waiting for external solutions. From the Pacific to Latin America, governments, civil society, and faith-based networks are developing their own policy responses to confront the constraints of an unjust financial order. These initiatives range from community-led climate funds to experiments in debt restructuring and green finance. Yet while many are promising, they also expose deeper systemic flaws – particularly the continued dominance of loan-based finance, limited participation of affected communities, and the risk that “innovative” mechanisms reproduce old hierarchies rather than transform them.³¹

This section reviews emerging approaches from both regions. In the Pacific, the focus is on strengthening local ownership through grant-based financing, transparency, and the creation of the Pacific Resilience Facility (PRF). In Latin America, initiatives such as debt-for-nature swaps, regional finance platforms, and green fiscal taxonomies may mobilise resources for climate action but can also deepen dependence on market-driven finance.

6.2 Pacific Policy Responses

As outlined in *Weathering the Storm*,³² Caritas Oceania and its partners call for an immediate increase in grant-based climate finance sufficient to meet adaptation and loss-and-damage needs. They urge the establishment of a debt-and-climate framework under the UNFCCC to ensure borrowing remains sustainable, and for the creation of a simplified public financial vehicle to channel climate grants directly to vulnerable countries. In the longer term, they support global reforms, in line with the Bogota Declaration of September 2023, including debt-cancellation mechanisms, transparent governance, and legislation against predatory lending – to prevent new debt traps.

Caritas Aotearoa New Zealand is also encouraging other countries to follow the “New Zealand Model” of providing climate finance solely as grants (rather than loans) – as the New Zealand government does. This approach is the most cost-effective mode of climate finance, helping Pacific countries build resilience for the future and support sustainable development, without incurring more destabilising debt.

These priorities reflect a moral claim as much as a fiscal one – the principle that Pacific peoples should not have to pay twice for a climate crisis they did not create. Regional institutions have begun to incorporate this thinking into practice through the development of locally-governed financing tools, most notably the Pacific Resilience Facility.

6.3 Pacific Resilience Facility (PRF)

The establishment of the Pacific Resilience Facility (PRF) has been a major undertaking across many years for the Pacific Islands. Established as a type of sovereign wealth fund to channel climate financing into communities, the PRF has emerged with enormous potential to be a Pacific-



controlled tool for financing action on climate change.

The immediate challenge is capitalisation to allow it to generate the revenue required. The initial capitalisation target of US\$1.5 billion;³³ would have generated US\$200 million in initial triennial disbursements. However, the target has been reduced to US\$500 million.³⁴ As of October 2025, the PRF had secured US\$162 million in initial pledges with contributions from over a dozen countries – still far short of the revised-down target.³⁵

Its goal to begin disbursing funds in 2027 relies on adequate capitalisation. Failure to reach its capitalisation target may result in the PRF not being able to implement community projects on the scale needed to meet its vision of transformative change.

The PRF has also attracted concern from Pacific civil society organisations who have highlighted the lack of clear mechanisms for engagement to support its work. Caritas Oceania has long advocated for community participation in climate finance projects – their lack of inclusion in the processes of PRF appears to be missing an opportunity and may result in projects being funded that are not as suitable.

6.4 Latin America Innovations

Debt-for nature swaps were discussed in Section 3.4. In parallel, regional development banks – the CAF Development Bank of Latin America and the Inter-American Development Bank (IDB) – have launched “green finance” initiatives and taxonomies to attract sustainable investment. While these instruments have improved access to climate finance for some middle-income economies, they also reproduce dependence on loan-based finance. Between 2016 and 2021, approximately 80 percent of climate-related funds mobilised in Latin America were delivered as loans rather than grants.³⁶

This structure shifts climate responsibility away from historical emitters and toward vulnerable nations. However, LATINDADD warns that unless climate finance is decoupled from new borrowing, the region risks entering a green-debt trap – financing adaptation through the very instruments that perpetuate inequality.³⁷

6.5 Comparative Reflection

Pacific initiatives emphasise ownership and justice but struggle with scale and access to capital. Latin American mechanisms have mobilised significant sums but often under terms that re-entrench creditor power. Each region demonstrates partial progress toward a more equitable climate-finance order, yet both expose the limits of innovation within an unreformed system. A critical comparison suggests three lessons:

1. Local ownership and participatory governance are indispensable to legitimacy and effectiveness.
2. Grant-based mechanisms such as the PRF offer a model for genuine resilience finance, while market-based swaps should be approached cautiously until transparency and debt-relief outcomes are guaranteed.
3. Regional solidarity – through mechanisms like joint negotiation blocs at global forums – could shift decision-making power within the international financial architecture.



6.6 Conclusion

Policy innovation in the Global South is a form of resistance: to reclaim fiscal sovereignty and climate justice from systems built to favour creditors. The Pacific's calls for grant-based finance and self-governed resilience funds, coupled with Latin America's insistence on transparency and equity in debt-swap arrangements, may outline the contours of a new paradigm.

Yet these initiatives will only succeed if accompanied by structural reform – comprehensive debt-relief mechanisms, concessional finance that does not deepen dependency, and recognition of ecological debt owed by high-emission nations. As better regional models evolve, they can collectively inform a global campaign for climate-resilient finance rooted in justice and solidarity.

Section 7 will examine the obstacles to realising these ambitions: transparency, governance, and the risk of new forms of green conditionality.



7. Challenges and Critiques

The growing momentum around innovative financing mechanisms has sparked optimism but also exposed deep challenges and contradictions in the global response to debt and climate crises. Across the Pacific and Latin America, the persistence of structural inequities, limited access to concessional finance, and the growing reliance on market-based instruments have raised concerns in civil society.

7.1 Transparency and Accountability Challenges

While debt-for-nature swaps and other hybrid arrangements are often presented as “win-win” instruments, transparency and public participation remain limited, as was discussed in Section 3.4. LATINDADD emphasises that such instruments, when negotiated primarily by investment banks and global intermediaries, risk prioritising financial returns over social and ecological outcomes. The concentration of decision-making among creditors and private actors excludes the communities most affected by debt and environmental degradation.

In the Pacific, similar concerns apply to access and governance within multilateral climate finance frameworks. Caritas Oceania environmental reports monitoring climate finance since 2015 consistently reported a lack of community involvement in climate adaptation projects. The 2024 *Weathering the Storm* report documents long delays and complex reporting requirements in accessing the Green Climate Fund, which have disadvantaged smaller administrations. Unclear approval processes and inadequate consultation with civil society weaken the legitimacy of global funds intended to serve vulnerable populations.

7.2 Limited Access to Concessional Finance

A persistent inequity in the global financial system is that middle-income countries – many in Latin America – are systematically excluded from concessional debt treatment or relief initiatives. Some countries such as Ecuador, Colombia, and Peru, face acute climate vulnerabilities but are considered “too rich” for concessional support from International Financial Institutions (IFIs) and need to resort to higher-cost debt instruments to finance their climate investment needs. LATINDADD argues that this narrow, binary classification ignores social realities and traps countries in a cycle of debt rollover at ever-higher costs. CEPR echoes this critique, noting that high interest rates and credit-rating downgrades have pushed developing countries to divert billions away from adaptation investments toward debt servicing.

Pacific Island countries face similar restrictions but of a different nature. While some qualify for concessional financing through IFIs, the procedures are cumbersome and conditionalities heavy. Small populations and limited fiscal capacity make it difficult to meet co-financing requirements. As Caritas Oceania notes, the irony is that those least responsible for the climate crisis bear the highest per-capita costs of adaptation while being least able to borrow or access grants.



7.3 Risk of Greenwashing and Extractive Trade-Offs

Debt and climate instruments have increasingly become sites of financial innovation – yet innovation does not always equal justice. The expansion of “green” and “blue” finance has raised concerns that sustainability labels mask the continuation of extractive economic models. Both CEPR and LATINDADD caution that climate-linked loans and bonds often serve to repackage conventional debt with minimal environmental or social benefit.

7.4 Green and Blue Bonds in the Pacific

Green bonds were first issued in 2007 with the intention of raising money for specific environmental initiatives. Most have been issued in developed countries, and Europe dominates the market. Green bonds are often structured like traditional bonds but include a “use of proceeds” clause stating that funds will be used for green investments. In theory, investors pay a premium out of concern for sustainability. However, the limited research suggests a mixed picture, with some studies showing a slight “greenium”³⁸ (cf “premium”) and others finding that any benefit is offset by certification and reporting costs.³⁹

Fiji was the first developing country to issue green bonds in 2017, supported by the World Bank’s International Finance Corporation and later the Commonwealth Secretariat. An assessment by the Pacific Network on Globalisation and Third World Network found that these bonds “are not the least concessional, provide no materially significant (if any) greenium, and are far more onerous for the government in terms of managing the use of proceeds”.⁴⁰ The Fiji case thus serves as a cautionary tale: the administrative burden and compliance costs can outweigh the benefits, diverting scarce resources and failing to substitute for genuine climate finance.

7.5 Exclusionary Global Frameworks

The IMF and G20 debt frameworks continue to favour creditor interests, providing limited space for affected states to participate meaningfully. The so-called Common Framework for Debt Treatment has been criticised for its narrow eligibility and slow implementation. As both LATINDADD and the Jubilee Commission note, debt restructuring processes remain ad hoc, opaque, and dominated by private bondholders. Small Island Developing States (SIDS) remain excluded entirely.

These governance failures continue the imbalances at the heart of the debt–climate nexus. Until debtor countries and affected communities have an equal voice in setting the terms of restructuring and financing, reforms will remain partial and reactive rather than transformational. As the Jubilee Report (2025) notes, developing countries must have greater representation in the decision-making processes that determine global financial rules.⁴¹



8. Towards Climate Justice and Financial Reform

The converging crises of debt, inequality, and climate change have underscored the need for a fundamental transformation of the global financial system. The Caritas network frames this as a question not merely of economics but of justice – linking fiscal sovereignty to the moral imperative of protecting people and planet.

8.1 Reframing Debt as a Moral and Developmental Issue

*The Jubilee Report*⁴² and Caritas advocacy in both regions argue that debt crises are not simply financial events but moral failures that undermine human dignity and integral human development. They represent a default on humanity and creation. When governments must choose between repaying creditors or protecting their citizens from floods, hunger, and disease, the system itself has failed. The Commission calls for alignment of global finance with integral human development. In the Pacific and Latin America, debt has become a barrier to climate action.

8.2 Recognition of Ecological Debt and Historical Responsibility

A central theme emerging from both Caritas regions is the concept of “ecological debt” – the environmental cost owed by historically high-emitting countries to those most affected by environmental impacts such as climate change. The Jubilee Commission insists that climate finance must reflect this moral accounting. In practice, this means converting parts of public and private debt into grants for adaptation or reparation funds for loss-and-damage initiatives.

In recognition of their ecological debt, the more prosperous countries ought to feel called to do everything possible to forgive the debts of those countries that are in no condition to repay the amount they owe. ...a new financial framework must be devised, leading to the creation of a global financial Charter based on solidarity and harmony between peoples.

Pope Francis, *Spes non confudit*, #11.

8.3 Role of UNFCCC and SDG Frameworks

The UNFCCC and 2030 Agenda provide a basis for integrating climate justice into financial reform. However, both Caritas regions argue that implementation remains weak. Pacific Island leaders and Caritas have repeatedly called for the reform of global climate funds to ensure direct access and simplified procedures.⁴³ Latin American civil society says achievement of the SDGs relies on debt sustainability and ecological repair as integral to climate goals. These calls converge on a shared demand for democratisation of global decision-making – restructuring not only finance but governance itself.

8.4 Civil Society and Faith-Based Advocacy

Faith-based organisations, such as Caritas and other Catholic social justice agencies around the world, have emerged as key advocates for a new paradigm grounded in solidarity. Their approach bridges the technical and the moral, amplifying the voices of local communities through global



forums such as COP30. Caritas Oceania's advocacy stresses that climate resilience cannot be built on the foundations of debt. Caritas Latin America adds that development cannot be measured solely by GDP growth but by ecological balance, participation, and dignity.

8.5 Toward a New Global Financial Architecture

A genuine reform agenda must include mechanisms that prevent the recurrence of debt crises while ensuring climate justice. CEPR⁴⁴ and LATINDADD⁴⁵ propose (1) automatic debt service suspension for countries facing climate disasters, (2) establishment of a multilateral debt workout mechanism under UN auspices, and (3) scaling up grant-based finance through rechannelled Special Drawing Rights (SDRs). Caritas and the Jubilee Commission also call for ethics-based financial governance. "That means ... reimagining the structure, incentives, and governance of multilateral finance to ensure it truly serves people and the planet."⁴⁶

8.6 Conclusion

The pathway towards financial reform that can support ecological, social and economic justice demands courage, creativity, and compassion. Both the Pacific and Latin America show that resilience is not only about surviving shocks but transforming the systems that create them, addressing the ecological debt owed by the rich to the poor, and not making the poor pay twice.

From the community level to the Vatican, the message is clear: debt must serve life, not the other way around. As COP30 approaches, the Caritas network stands united in urging global leaders to replace debt dependence with solidarity, and financial domination with justice.

This report and associated webinar is a contribution by Caritas Oceania and Caritas Latin America & the Caribbean to the Turn Debt into Hope Campaign, which seeks to:

1. Stop the debt crisis by cancelling and remedying unjust and unsustainable debts, without policy conditions.
2. Prevent debt crises from happening again by addressing their root causes, reforming the global financial system to prioritise people and the planet.
3. Establish a permanent, transparent, binding and comprehensive debt framework within the United Nations.



For more information and to sign the petition,
visit: www.turndebtintohope.caritas.org



Abbreviations

COP Conference of Parties (in this context – COP to the United Nations Framework Convention on Climate Change)

CAF Corporación Andina de Fomento – Development Bank of Latin America and the Caribbean

CEPR-UK Centre for Economic Policy Research (London, UK)

CEPR-USA Center for Economic and Policy Research (Washington DC)

ECLAC Economic Commission for Latin America and the Caribbean

IDB Inter-American Development Bank

IFIs International Financial Institutions

IMF International Monetary Fund

GDP Gross Domestic Product

LAC Latin America & the Caribbean

LATINDADD Latin American Network on Debt, Development and Rights

PICs Pacific Island Countries

PRF Pacific Resilience Facility

SIDS Small Island Developing States

SDRs Special Drawing Rights

SDGs Sustainable Development Goals

UNFCCC United Nations Framework Convention on Climate Change



Glossary

Blue bonds – a fixed-income debt security used to fund marine and ocean-based projects that have positive environmental, economic, and climate benefits (see also green bonds)

Climate mitigation – action taken to limit climate change, such as reducing greenhouse gas emissions or removing emissions from the atmosphere

Climate adaptation – action taken to respond to, prepare for or build resilience to the impact of climate change

Common Framework for Debt Treatment – a multilateral mechanism established in 2020 by the G20 and the Paris Club to address unsustainable sovereign debt by providing debt restructuring for low-income countries

Concessional finance – loans provided below market rates, usually by international financial institutions to developing countries

Debt distress – a situation in which a country or business is struggling to meet its debt obligations, facing a significant risk of default

Debt-for-climate/debt-for-nature swaps – an agreement where creditors provide debt relief in exchange for a commitment by debtor countries to spend the money they save in debt servicing on climate action or nature conservation

Debt-to-GDP – the standard measure of the size of a country's debt, given as a proportion of the size of its economy (GDP)

Debt service – the amount of money paid by a country in a given year to its creditors

Debt-service-to-revenue ratio – the level of annual debt service relative to revenue the government makes

Domestic debt – the value of government bonds or securities held by residents of the country

External debt – debt owed by a country to other countries and multilateral development institutions

Fiscal space – room in a government's budget that allows it to provide resources for a desired purpose without jeopardising the sustainability of its financial position or the stability of the economy

G20 – grouping of the world's largest economies, comprising 19 countries and two regional unions: the European Union and the African Union

Government revenue – the total amount of income that a government collects in a year

Green bonds – a fixed-income debt security used to fund projects with environmental or climate-related benefits (see also blue bonds)

Loss and damage – unavoidable and irreversible negative impacts of climate change, both economic and non-economic losses, such as loss of lives, land, species and ecosystems

Loss and damage finance – payments to countries for climate impacts that communities are unable to adapt to

Public debt – the total amount of money owed by a government to individuals, businesses, other governments, and foreign countries

Remittances – Personal income transfers between family members or friends from one country to another

Sovereign fund – a state-owned investment fund, primarily from government-generated capital

Special Drawing Rights (SDRs) – an interest-bearing international reserve asset that supplements other reserve assets of member countries. It is a claim on the freely useable currencies of IMF members, with a value based on a basket of five currencies: the US dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound

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