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Breaking the Debt-Climate-Food Insecurity Cycle

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About Bread for the World Institute

Bread for the World's Policy and Research Institute (PRI) analyzes hunger and strategies to end it. PRI informs Bread's current policy change agenda and advocacy with clear, evidence-based policy solutions that include relevant context and thoughtful analysis. PRI also tracks emerging issues and trends.

Executive Summary

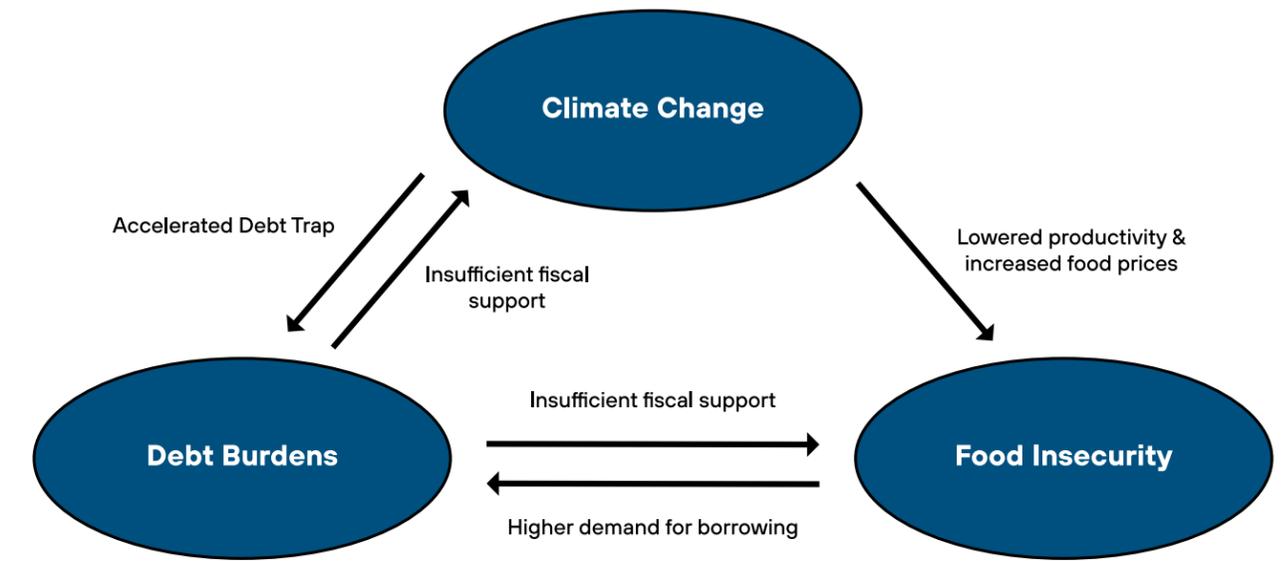
Every day, millions of families struggle to put food on the table. In 2024, it was estimated that globally between 638 and 720 million people faced hunger.¹ According to the United Nations, between 2000 and 2019, the world suffered at least \$2.8 trillion in loss and damage from climate change-related economic impacts.² At Bread for the World, we are deeply committed to ending hunger and food insecurity, identifying corresponding factors and root causes such as climate change and debt pressures, and advocating for meaningful policy changes at both the domestic and international levels.

This policy brief outlines how the agrifood systems, and in turn food security, in developing countries are increasingly challenged by two factors: sovereign debt distress and climate change. These factors interact to create a persistent cycle: **high debt burdens** constrain governments' ability to protect vulnerable households from climate and food crises; **climate shocks** disrupt food production and raise food prices; and a **loan-heavy climate finance system** deepens existing debt burdens, further constraining long-term resilience. Consequently, developing nations can become stuck in a destructive cycle in which each of these factors worsens the other, and diminishes human flourishing.

To address the interconnections among these challenges, we propose the following actions by the U.S. government and other donor countries:

- **Scale up** grant-based aid and highly concessional climate finance for developing countries;
- **Introduce automatic and timely debt standstills** following climate disasters for heavily indebted developing countries;
- **Undertake debt restructuring** with country creditors where needed;
- **Strengthen global lending norms** through responsible lending and borrowing principles between creditors and developing countries;
- **Better integrate climate risks** into the International Monetary Fund's Debt Sustainability Analysis (DSA) tools that determine when countries need debt cancellation;
- **Promote greater transparency** in the methodologies used by the three major private credit rating agencies (CRAs) regarding the bond ratings they give to developing countries.

The Debt-Climate-Food Insecurity Cycle



Debt burdens, climate change, and food insecurity are intertwined in many developing countries. Climate change reduces agricultural productivity and increases food prices. Agricultural producers are especially vulnerable to these impacts, which can also negatively impact their livelihoods. In response to these pressures, governments increasingly borrow from the international community to finance food security programs. The growing level of indebtedness in many countries limits the ability of their governments to invest in climate resiliency strategies for their agricultural systems.

According to World Food Program USA, extreme weather events can cause displacement, kill livestock, destroy homes, farms, and infrastructure, and worsen food insecurity³. Farmers, children and families, and local economies are especially vulnerable to this cycle.

In Ethiopia, where agriculture is heavily dependent upon annual rainfall, climate-induced reductions in crop output have contributed to an estimated 5-10 percent decline in annual agricultural production, which has resulted in food shortages and economic strain.⁴ Beyond Africa, regions dependent on monsoon systems for agricultural production, particularly in South Asia, are also experiencing declining crop productivity. Some climate scenarios forecast crop production in drought-prone areas are set to continue decreasing due to rising temperatures and altered rainfall.

Impacts of the International Debt Crisis

Global debt crises also impact the debt-climate-food insecurity cycle in developing nations. The current international debt crisis began in response to the COVID-19 pandemic, beginning in March 2020. Emergency responses to public health and economic shocks led to a sharp increase in public borrowing by developing countries. Globally, the pandemic is estimated to have added approximately \$19.5 trillion to public debt by 2021, significantly expanding budget deficits and debt burdens across many developing economies.⁵ Supply chain disruptions also caused international trade to slow down, leading to high consumer prices, inflation, and import costs across nations.

The current debt crisis has been sparked by three major factors in recent years:

- **Extra health spending** during the COVID-19 pandemic and related increases in the prices of food and fuel imports in developing countries;
- **The start of the Russia-Ukraine War**, which further disrupted global supply chains and raised prices of food and fuel imports; and
- **The increase in U.S. interest rates**, which made it harder for developing countries to service their dollar-denominated external debts.

According to the United Nations, developing countries' external debt hit a record level of \$11.4 trillion in 2024, and 3.3 billion people are now living in countries that are spending more on their external debt payments than on health or education.⁶

A driving issue is that most international financial assistance for developing countries comes in the form of loans rather than grants. This can deepen existing debt burdens. According to research by Oxfam and [CARE Climate Justice Center](#), developing countries are today paying more back to wealthy nations for climate finance loans than they receive in new loans.

For every 5 dollars developing nations receive, they are paying 7 dollars back, and in 2025, 65 percent of new funding was in the form of loans.⁷ Climate-vulnerable developing countries need access to greater levels of grants or concessional (low-interest) loans from multilateral and bilateral aid agencies.

In Kenya, external debt payments are diverting public resources away from the agriculture sector, the heart of any food system. Kenya's national government is spending more than 16 percent of total government expenditure on debt interest payments, versus 2.46 percent on agricultural investments.⁸ This debt servicing takes away from building more sustainable and innovative food systems that could help millions of smallholder farmers cope with climate-related events such as floods and droughts.

"The economic system prioritizes servicing debt over feeding people, while our governments are starved of cash to build the sustainable food systems we need to feed ourselves."⁹

-Million Belay, Coordinator, Alliance for Food Sovereignty in Africa

With international development assistance from high-income countries dwindling, access to concessional loans, grants, and other accessible financial tools is crucial for developing countries at risk of climate shocks and food insecurity. As debt burdens continue to rise, the ability of governments to fund essential programs like health, education, climate resilience, infrastructure, and food security programs will be further constrained, leaving food-insecure families even more vulnerable.

Impacts of Climate Shocks on Food Production and Prices

According to the Intergovernmental Panel on Climate Change (IPCC), climate change has already slowed the growth of agricultural productivity over the past several decades, accelerating food prices and government fiscal stress. Across Africa, agricultural productivity has declined by 34 percent since 1961 due to climate change, more than any other region.¹⁰

Sharp increases in food prices are associated with climate shocks, like drought, extreme heat, and heavy precipitation. A 10 percent increase in food prices can push millions more people into hunger.¹¹ From 2022 to 2024, at least 18 countries experienced climate shocks that led to higher food prices, which were closely correlated with extreme climate events.¹²

In Malawi, climate shocks have devastated the country's access to food and worsened debt burdens. Since 2023, Malawi has experienced 3 major cyclones, causing severe floods, damage to infrastructure, and loss of agricultural land. As a result, nearly 25 percent of Malawi's national budget is spent servicing external debts that were needed to recover from these disasters.¹³ Each cyclone flattened homes, washed away crops, and wrecked infrastructure.

"Cyclones have left us with destruction that we cannot repair without borrowing. And those loans come with high interest. It is a vicious cycle."

-Tusayiwe Sikwese, Policy Coordinator, ActionAid Malawi

Climate-vulnerable developing countries need access to much greater levels of international finance for climate mitigation and adaptation. There is also a need for a coordinated debt cancellation initiative, like the Heavily-Indebted Poor Countries (HIPC) initiative of 25 years ago from the World Bank and IMF.

Impacts of Climate Vulnerability on Country Credit Ratings

The high interest rates that developing countries typically pay for international development loans and when selling bonds to finance public spending also worsen the debt-climate-food insecurity cycle. The world's three major private credit rating agencies (CRAs) – S&P Global Ratings, Moody's Investors Service, and Fitch Ratings – have long considered developing economies to be of greater risk for investors and have rated their bonds accordingly. But the United Nations, some G20 governments, and others have questioned if the high-risk levels assigned to government bonds of developing countries by CRAs are unfair.¹⁴

The formation of the Vulnerable Twenty (V20) Group reflects unprecedented cooperation between nations that are most vulnerable to climate change. The V20 is now comprised of 70 climate-vulnerable developing countries that face average borrowing costs of about 1.2 percentage points higher than other countries due to their climate vulnerability. This reflects over \$62 billion in additional interest paid over a decade.¹⁵ While negative bond ratings for V20 Group nations persist, they have been challenged in other international forums. In 2025, when South Africa hosted the annual Group of Twenty (G20) Summit, its leaders prioritized raising awareness about the issue and proposed establishing regional public bond ratings agencies and calling on the private CRAs to disclose their methodologies.



Bread for the World Supports the Year of Jubilee

The Year of Jubilee is a biblical concept deeply rooted in Scripture and tradition, offering the faithful a time of renewal, debt forgiveness, and celebration. Because the major factors that contributed to generating the debt crisis in recent years were beyond the control of developing countries, many consider their mounting debt burdens to be unfair. In December 2024, the late Pope Francis launched the 2025 Jubilee Year, calling it a time for assisting the poorer countries burdened beneath unfair debts. Therefore, it's time for us to act in unison and advocate for policy changes that are needed to help the U.S. and the international community address this vicious cycle, which is today impacting food security and hunger for more than 3 billion people in the heavily-indebted developing countries.

Together, these challenges reinforce a destructive cycle in which growing debt burdens reduce countries' long-term public investments in resilience to climate shocks, leaving millions more vulnerable to worsening climate change, food insecurity, and hunger.

"Unified in our vulnerability, the economic threats and difficulties arising from climate change, and heightened sense of urgency on the issue, we stand together on the front lines of a battle we most certainly cannot afford to lose."¹⁶

–Philippines Finance Minister, Cesar Purisima, explaining why his country joined the V20 Group

Policy Recommendations

Many climate-vulnerable developing countries are faced with this deteriorating cycle of worsening debt, climate shocks, and food insecurity. This increases a country's vulnerability to loss of livelihoods, poverty, and hunger. Without access to more grants and concessional loans, improvements to bond ratings, and eventual debt relief by creditors, this destructive cycle is projected to continue in these countries. To address these interlinked factors, the U.S. should work with other donor countries to adopt the following reforms:

Scale up grant-based and low-interest climate finance

Scaling up grant-based and highly concessional (low-interest) climate finance for developing countries is essential to contribute to alleviating the debt crisis. Although the COP29 summit agreed to triple climate finance to developing countries to \$300 billion annually,¹⁷ it is imperative that grants and highly concessional loans become the norm alongside this. This is to allow deeper investment in climate-resilient agriculture without adding to already unsustainable debt burdens.

Establish automatic and timely debt standstills following climate disasters

There is a need to establish mechanisms for automatic and timely debt standstills for developing countries experiencing climate shocks and for creditors that make financing available. The Bridgetown Initiative, introduced by Barbados Prime Minister Mia Mottley and other V20 members, calls for urgent and decisive reforms to international financial architecture that is more responsive to climate shocks and other risks. Automatic pauses in debt payments after a major climate shock, combined with targeted debt restructuring and

tailored debt relief, would fall under this framework and could strengthen disaster response and recovery.

Strengthen responsible lending and borrowing practices

There is a need to strengthen responsible lending and borrowing practices among creditors to avoid excessive lending and to make borrowing more sustainable. The UN Conference on Trade and Development (UNCTAD) Principles on Promoting Responsible Sovereign Lending and Borrowing offers a valuable framework to improve accountability, transparency, and shared responsibility on this issue. In turn, this can help governments borrow more sustainably and channel resources toward climate resilience and food security.

Improve transparency of the methodologies used by the three major CRAs

Greater transparency in the major credit rating agencies' methodologies can help reduce bias against the creditworthiness of developing countries. The three main CRAs, S&P Global Ratings, Moody's, and Fitch Ratings, can be more transparent about their assumptions, data sources, and methodologies to ensure that developing countries are not unfairly penalized by bond ratings that subject developing nations to higher interest rates. Doing so would help ensure that climate-vulnerable countries are not unfairly penalized with higher borrowing costs solely due to their climate risks.

Further integrate climate risks into the IMF's Debt Sustainability Analysis (DSA) Tools

The International Monetary Fund (IMF) should further integrate climate risks into its Debt Sustainability Analysis (DSA) tools for determining if or when a country needs to restructure its debts with creditors. The IMF uses DSAs to assess the debt levels of developing countries to determine when a country must engage in debt restructuring negotiations with its creditors. Some institutions, like the Global Development Policy Center at Boston University, are concerned that DSAs under-project the ability of countries to service their debts. Consequently, the IMF may not be calling for deeper debt relief or cancellation for low- and middle-income countries when it is needed.¹⁸ The IMF can do more to better forecast macroeconomic risks presented by worsening climate change.

Closing

Efforts by the international community to address hunger and food insecurity around the world are challenged by both climate change and unsustainable debt held by developing countries. To make more progress, national governments must work together to provide climate-vulnerable nations with fair financing options and sustainable debt solutions that fully consider the complex interplay of debt, climate, and food insecurity.



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