Research Briefing

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By Philip Loft,
Philip Brien

Debt relief for low-income countries

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Glossary of key terms
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Summary

In December 2023, the World Bank warned that "record debt levels and high interest rates have set many countries on a path to crisis" and there is a need for "quick and coordinated action" to "avoid another lost decade".

The World Bank reports that 39 low-income countries are in debt distress, or at high risk of being so. These are mostly in Africa and Asia. Debt distress means they cannot meet their financial obligations or are already restructuring their debts.

This Commons Library research briefing describes the current level of indebtedness in countries with low or middle incomes, UK policy on debt relief, the increasing role of China and private creditors, and schemes to address debt distress, including by the G20 and 'debt for environment swaps.'

Who is the debt owed to?

In 2022 external debts (borrowed from foreign lenders) of countries with low and middle incomes stood at US$9 trillion, double the figure in 2010.

Seventy-five countries with a gross national income (GNI) per person of less than US$1,315 saw their external debts double from 2012 to 2022, to reach US$1.1 trillion.

In contrast to historic patterns in global debt, traditional creditors such as the World Bank, International Monetary Fund (IMF) and the Paris Club (which includes the United States, Japan, and European countries, including the UK), are owed a smaller proportion of this debt. More is now borrowed from commercial creditors, domestic creditors in lower-income states, and China. The range of creditors and their terms of lending have complicated negotiations to arrange relief.

What support is in place for debt relief?

In response to the Covid-19 pandemic, the G20, whose members include the United States, UK, China, and the European Union, launched the Debt Service Suspension Initiative (DSSI) in May 2020. This arranged for a pause in debt service payments from 48 economies to official creditors (only one private creditor participated). US$12.9 million in payments were suspended.

To conduct wider debt restructuring, which would mean external debts are reduced or written off, the G20 has launched a successor, the Common Framework beyond the DSSI. The UK Government, IMF and World Bank acknowledge the scheme has moved slowly to help countries address unsustainable debt burdens.

Four countries have applied since the Common Framework was established, of which two have reached an agreement (Zambia and Chad, while Ethiopia has agreed a debt service suspension with its bilateral creditors, talks with Ghana are ongoing). In contrast to the DSSI, countries with debt are required to seek comparable treatment from private creditors in any agreements.

These schemes build on the work of the Paris Group of creditors and initiatives such as the Heavily Indebted Poor Countries (HIPC) initiative established in 1996 (only two countries eligible for the HIPC have now not completed it).

The role of the UK and English law

The UK has written off a substantial amount of the debt owed by lower-income countries. From 2001 to 2010, at least 49 low-income countries owing debts to the UK had all or part of their debts forgiven. The total amount of debt owed to the UK is now US$1.8 billion (US$70 billion is owed to all Paris Club members).

In its 2023 report on debt relief in low income countries, the Commons International Development Committee acknowledged the "limited scope" for the UK to cancel or provide relief, as it cannot act unilaterally in many cases, being subject to comparable treatment clauses with the Paris Club.

The Committee argued the Government should consult on new legislation to either compel private creditors to participate in debt relief schemes if a majority of creditors agree, or to ensure private creditors cannot sue debtor countries for more money than they would have received if they had participated in the DSSI.

The Committee said the UK is "uniquely placed" to legislate because 45% of sovereign debts are governed under English law. Legislation may also prevent private creditor "holdouts" when creditors refuse to partake in debt reduction.

The Government has rejected the Committee's recommendation and instead backs "market-based solutions," citing work from the IMF that suggests collective action clauses in sovereign bonds are reducing creditor holdouts.

Climate change and debt restructuring

The Bridgetown Initiative, launched by the Barbadian Prime Minister, argues debt distress, climate change and the impact of the war in Ukraine on global prices must be dealt with together. Countries vulnerable to climate change are often also the most vulnerable to debt distress, a status which may worsen.

The UK Government has said it is "working closely" with Barbados on the initiative, which includes a call for a "far more ambitious debt suspension initiative" than the Common Framework. The Government's 2023 White Paper on international development also includes commitments to reform the international financial system and acknowledges that the Common Framework "has taken too long to deliver" debt restructuring.

'Debt for environment swaps,' where debts are forgiven in exchange for the debtor state investing in their environment, first took place in the 1980s.

Both the UK Government and International Development Committee have expressed caution about the impact of these initiatives, given the small value of the swaps to date and perceived loss of focus on debt sustainability. A recent debt for environment swap by Ecuador (valued at US$1.2 billion) is seen by some as representing a step-change in their scale.

Glossary of key terms

Type of creditors

Bilateral creditor

An external official creditor, such as a government.

Multilateral creditor

An international organisation, including the World Bank and International Monetary Fund (IMF).

Private creditor

A company, bank, hedge fund or other business.

International organisations/associations

Collective terms

International debt architecture

Collectively comprises institutions such as the IMF and Paris Club, the policy framework governing debt restructuring, and contracts for sovereign debt.

Organisations

International Development Association (IDA)

Part of the World Bank. It aims to reduce poverty by providing zero to low-interest loans. See World Bank, What is IDA?

International Monetary Fund (IMF)

Aims to support sustainable growth for its 190 member countries. Supports debt-relief schemes including the Heavily Indebted Poor Countries initiative and the Catastrophe Containment and Relief Trust. See IMF, Debt relief by the IMF.

Paris Club

An informal group of 22 creditor states including Japan, the United States, and many European states, including the UK. It has been active since the 1950s negotiating debt relief. China is not a member.

Terminology specific to debt-relief

Headline terms

Sovereign/public debt

That held by governments.

Debt stock

Formed of two parts: “principal” and “interest.” The principal is the original amount of loan outstanding. A country’s debt stock is this plus the interest accrued (as well as any penalties for failure to make payments).

Debt distress

When a country is unable to fulfil its financial obligations and debt restructuring has started, or is about to start.

Debt relief and restructuring terminology

Debt servicing

Refers to the money required to pay the principal and interest on a debt.

Debt restructuring

A creditor seeks to reduce the size of a debt and amend the terms on which it will be repaid (such as the interest rate).

Debt relief

This can take several forms, including:

- Debt cancellation: Partial or 100% relief on the principal and/or interest.
- Debt rescheduling: Payments (interest and/or principal) delayed or rearranged to a later date.
- Debt service suspension/Flow relief: Partial or 100% pausing of debt service payments.[1]

[1] UK Government, Annex 3-Debt relief (PDF), undated, pp1-2

Comparable treatment

The principle the debtor must seek comparable (similar) treatment from all its creditors and with respect to all types of debt. As a Paris Club member, the UK is often subject to “comparability of treatment clause” in its debts, meaning it must generally act in line with other creditors rather than making unilateral agreements.

Preferred creditors

This status means the repayment of sovereign debt due to such a creditor takes precedence over other creditors. Multilateral development banks (MDBs), the IMF and World Bank, have this status, to preserve their status as global lenders.

Financial terminology

General terms

Bridging loan

A sum lent to cover an interval between two transactions.

Collective action clauses

Provision in bond contracts which allow a majority of creditors to bind the minority to the terms of a restructuring.

Credit rating

An assessment of the credit risk of a debtor state, based on their ability to repay the debt and the chance of the debtor defaulting (being unable to pay). These are set by credit ratings agencies such as Moody’s, Standard & Poor, and Fitch. A poor credit rating will limit the availability of finance and increase the costs of borrowing.

Debt relief initiatives

Initiatives

Catastrophe containment and relief trust (CCRT)

An IMF programme that provides grants and debt relief for countries affected by natural or public health disasters. See IMF, What it the CCRT?

Debt-service suspension initiative (DSSI)

Established by the G20 and ran from May 2020 to December 2021. It suspended debt-payments from governments (only one private creditor participated). 73 low-income countries were eligible for support. See IMF, DSSI.

G20 Common framework beyond the DSSI

Successor to the DSSI. The same 73 countries are eligible, but its aim is to support deeper debt restructuring (where needed) rather than suspending interest payments. It requires supported countries to "seek comparable treatments from both private and bilateral creditors." See IMF, Common framework.

Heavily indebted poor countries initiative (HIPC)

Launched 1996 by the IMF and World Bank. It provides debt relief and low-income loans to reduce external debt repayments to sustainable levels for low-income countries. See World Bank, HIPC.

Multilateral debt relief initiative (MDRI)

Launched in 2005. Related to the HIPC, in that it will arrange for 100% relief on debts for the same HIPC-eligible countries that are owed to three multilateral institutions. The institutions are the IMF, the International Development Association (IDA) of the World Bank and the African Development Fund. See IMF, MDRI-Q&As.

Other related terms

Staff-level agreement

A staff-level agreement on debt relief is one that remains subject to approval by the IMF board but is an important stage in the negotiation process towards debt restructuring/relief.

Poverty reduction strategy papers (PRSP)

Part of the completion point of the HIPC. These are prepared by member countries and stakeholders including the World Bank and IMF. These set out a country's economic programmes for at least three years to promote growth and reduce poverty. See IMF, PRSP.

HIPC decision point

The IMF and World Bank formally decide on a country's eligibility for debt relief and the international community (which could be the Paris Club or G20) commits to reduce a debt to a level judged sustainable. A country reaching it gains interim debt relief. To receive a full reduction, further tests must be met: see below, HIPC completion point.

HIPC completion point

A country must achieve three things to receive full relief under the HIPC: 1) A track record of good performance on programs supported by loans from the IMF/World Bank 2) Successfully introduce reforms agreed to at the decision point 3) Implement its poverty reduction strategy for at least one year.

1 How much debt is owed, and to whom?

1.1 Global trends

Levels of debt have increased substantially from the late 2000s

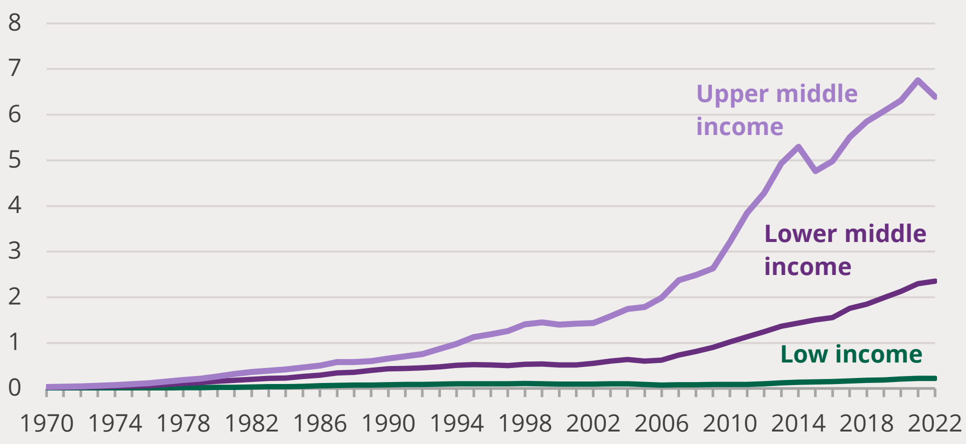
The World Bank produces an annual publication called the International Debt Report which gives information on debts owed by developing countries. The main trends found in the most recent publication are explained below.

Most of the figures presented here are aggregates that look at developing countries grouped into low, lower-middle and upper-middle income categories.[2] This gives an overall picture, but it is worth noting that individual countries may have experiences which are very different to the overall trend.

In monetary terms, countries with low and middle incomes now owe more than ever before. As the chart below shows, stocks of debt owed by these countries have increased from a total of US$64.6 billion in 1970 to US$8,965.9 billion in 2022, an increase of over 13,700%.

International debt has shot upwards in recent years

External debt stocks, US$, trillions



Source: World Bank, International Debt Report 2023, 13 December 2023

[2] See World Bank, Country and lending groups

Middle income countries, and particularly upper middle-income countries, have taken on particularly large amounts of debt. China accounts for much of this, making up 37% of all upper middle income countries' debt in 2022.

Almost two thirds of the debt of low-income and middle-income countries is owed to private creditors (see section 1.4, below). The remainder is owed to official creditors; of this total, just over a third is owed to other countries, with the rest owed to multilateral institutions such as the World Bank and the International Monetary Fund (IMF).

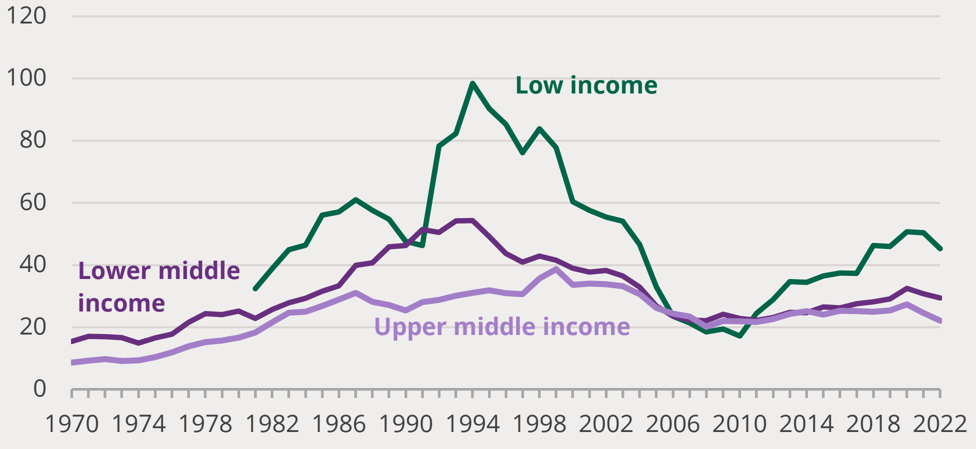
The level of debts countries is lower than the 1990s

Debt is not necessarily a bad thing. As the IMF explained in an article from 2002,[3] borrowing can increase productivity in developing countries and result in greater economic growth. It is only when levels of debt get too high that countries start to have difficulty with repaying these debts and end up suffering from reduced growth (see section 2 of this briefing for more on this).

It is important to look at debt levels alongside growth. Although debt levels have increased hugely, this has occurred alongside huge growth in developing countries' economies. As a result, debt as a proportion of national income decreased for most countries over the course of the 1990s and 2000s, as shown in the chart below.

Debt burdens fell until the early 2010s

External debt stocks, % of gross national income



Source: World Bank, International Debt Report 2023, 13 December 2023

Low-income countries have particularly benefited from this change, with their average stocks of debt falling from about 100% of national income in 1994 to about 18% in 2010. This is likely linked with the IMF and World Bank's Heavily Indebted Poor Countries (HIPC) debt cancellation initiative. The change for middle-income countries has been smaller, but the trends are similar.

3 IMF, External debt and growth, 2002

Debt burden rises in the 2010s and early 2020s

Since the early 2010s, the debt burden for most developing countries has started to increase again. A World Bank report in June 2023 says that government debt rose in 91% of low-income countries between 2011 and 2022, and that debt has increased faster than forecast. It described the countries whose debt rose the fastest as often fragile and "affected by a combination of conflict, weak governance, or commodity [raw materials/agriculture] dependence."[4]

Debt rose further in the Covid-19 pandemic in 2020, but not as sharply as it did in many developed economies: in low-income countries, the debt to national income ratio increased from about 50% in 2019 to 54% in 2020.

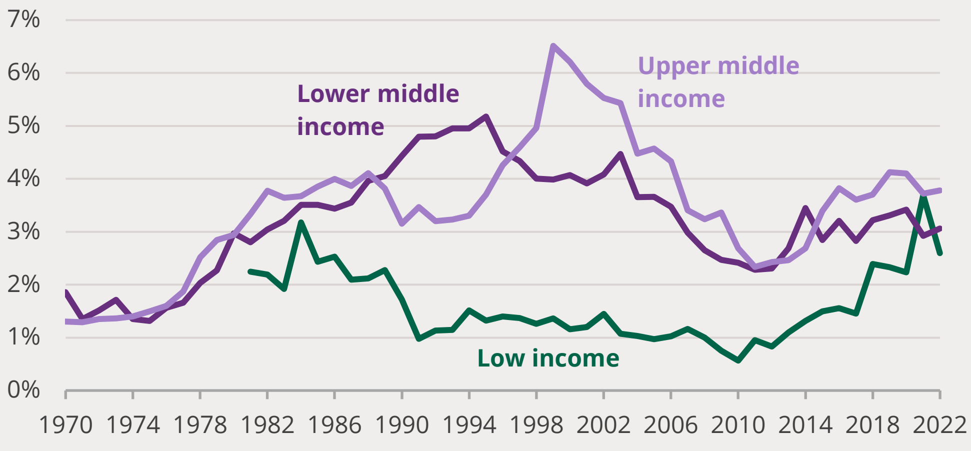
However, the Covid-19 pandemic and more recent developments such as the conflict in Ukraine are likely to have some impact on developing countries' debt. Both the World Bank and the IMF warning in 2022 that a large proportion of low income countries were either in "debt distress" (unable to fulfil their repayment requirements) or close to it.[5]

Debt servicing costs have fallen overall

The costs associated with servicing debts (meeting the interest on debts and debt repayments) fell between the 1990s and the early 2010s, as the chart below shows.

Debt servicing costs are lower than they were, but rising

External debt service, % of gross national income



Source: World Bank, International Debt Report 2023, 13 December 2023

Debt servicing costs were particularly low for low-income countries in the early 2010s, at less than 1% of national income on average (although circumstances may well have varied significantly in individual countries).

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4 World Bank, Global Economic Prospects, June 2023, ch4

5 World Bank, Are we ready for the coming spate of debt crises?, 28 March 2023; IMF warns of rising inflation and debt as it lowers global outlook, Devex, 25 January 2022

These costs have also been rising since that point as the overall levels of debt have increased.

As set out in the next section, debt servicing costs during the Covid-19 pandemic were reduced by the World Bank's Debt Service Suspension Initiative. As set out below, section 3.5, this allowed up to 73 countries (of which 48 participated) to suspend their debt service payments between May 2020 and December 2021. US$12.9 billion of payments were suspended.

1.2 Countries in debt distress

The World Bank and IMF produce regular debt sustainability analyses for 69 low-income countries based on their debt sustainability framework. The latest estimate (for the end of September 2023) state 39 are at high risk, or are already experiencing, debt distress.[6]

World Bank/IMF assessment of overall risk of debt distress	
No grade	2 countries: Eritrea and Yemen
Low	5 countries, including Bangladesh, Myanmar and Nepal
Moderate	23 countries, including Uganda, Rwanda, Mali, Democratic Republic of the Congo and Benin
High	28 countries, including South Sudan, Haiti, Kenya, Ethiopia, Chad, Central African Republic and Afghanistan
In distress/debt distress	11 countries, including Malawi, Mozambique, Somalia, Sudan, Zambia and Zimbabwe

Source: World Bank, Debt sustainability analysis, accessed 12 December 2023

1.3 China as a significant creditor state

China has held more of the debts of countries with low and middle incomes than any other individual country since 2015, when it overtook Japan.

As of 2021, it held a total of about US$183 billion in these countries' external debt, roughly 2% of the total for all the countries with low and middle incomes (up from around 1% in 2010).[7]

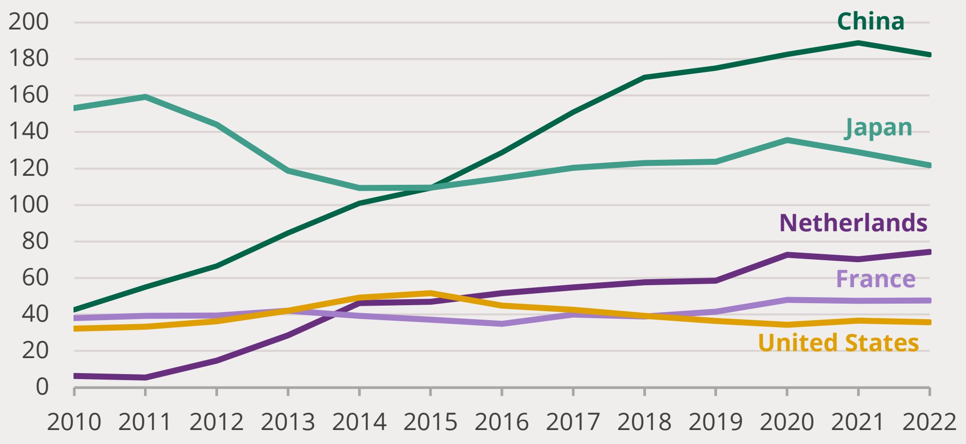
6 World Bank, Debt sustainability analysis, accessed 7 July 2023

7 Library calculations, based on World Bank, International Debt Report 2023, 13 December 2023

China's debtors were also much more likely to have low incomes than average: 10% of the low-income and middle-income country external debt that China held in 2022 was owed by low-income countries, well above the global average of 2%.[8]

China is the developing world's biggest national creditor

Debt stock owed to country, US$, billions, low and middle income debtors only



Note: Much larger amounts of debt are also held by groups of lenders, individual bondholders, and multilateral institutions, particularly the IMF and World Bank.

Source: World Bank, International Debt Report 2023, 13 December 2023

Chinese public and private lenders accounted for around 12% of Africa's total external debt in 2020. This was five times higher than 2000 and totalled around US$700 million. While overall this was lower than the amount owed to private sources, in six countries a third of repayments were to Chinese lenders in 2021 (these countries included Ethiopia and Zambia).[9]

Analysis published for Chatham House, a UK-based think tank, states that while China did not cause debt distress in most cases, "it is key to finding a solution."[10]

China and debt restructuring

While not a member of the Paris Club, China has engaged with the organisation on a case-by-case basis and is a member of the G20 which has established the Common Framework beyond the DSSI (see below, section 3.6). It has also made bilateral agreements with individual states.[11]

In early 2023, the Chinese Government reportedly sought for the debts owed to multilateral development banks (MDBs), including the World Bank and IMF,

8 Library calculations, based on World Bank, International Debt Report 2023, 13 December 2023

9 African states' private debts three times that owed to China, Reuters, 11 July 2022

10 Chatham House, The response to debt distress in Africa and the role of China, 15 December 2022

11 Stimson, Normalizing China's relations with the Paris Club, April 2021 "China's participation in the Paris Club"

to be included in debt restructuring (some African states have called for a similar approach).[12]

Including MDBs within these agreements is against the position of the Paris Club and would undermine the status of MDBs as “preferred creditors.” This status means the repayment of sovereign debt due to them takes precedence over other creditors. Credit ratings agencies such as Fitch argue preferred creditor status “is one of the main drivers underpinning their [MDBs] high ratings,” and their ability to borrow and lend to states.[13]

In April 2023, US Treasury Secretary Janet Yellen accused China of being a “roadblock” to “comprehensive and timely” participation in wider debt relief talks.[14] China has since reportedly abandoned its position on MDBs.[15]

China and “debt traps”

There are wider concerns Chinese lending creates “debt traps” for debtor countries.[16] Chinese lenders tend to provide credit at higher levels of interest and with shorter repayment periods. If the country then fails to meet the debt repayments, control of key assets, such as ports, are then ceded to China.

China’s Government has rejected such allegations, citing its participation in G20 initiatives and agreements to suspend debt repayments for some African countries.[17] Chatham House analysis also questions the practice of “debt traps,” arguing evidence for them is limited, and that since 2016 Chinese lending to Africa has reduced and African countries themselves are actively seeking to reduce their financial reliance on China.[18]

For debates on this issue and the response of the UK, see section 3.2 of the Commons Library research briefing on The UK’s 2022 aid strategy and section 4.1 of the research briefing on British International Investment.

12 China’s debt relief position is actually reasonable, The Diplomat, 22 February 2023
13 Fitch Ratings, China’s stance on multilateral debt relief could weaken MDBs’ preferred creditor status, 4 April 2023
14 US Department of the Treasury, Remarks by Secretary of Treasury Janet L. Yellen on the US-China economic relationship [...], 20 April 2023
15 China’s AIIB calls for multilateral lenders to keep prized preferred creditor status, Financial Times, 12 April 2023
16 China: Is it burdening poor countries with unsustainable debt?, BBC News, 6 January 2022
17 Foreign Ministry of the People’s Republic of China, Qin Gang: So-called China’s “Debt trap” in Africa is a narrative trap imposed on China and Africa, 12 January 2023
18 Chatham House, Debunking the myth of “debt trap diplomacy,” August 2020 and Climbing out of the Chinese debt trap, 3 August 2022

1.4 Debt owed to private creditors

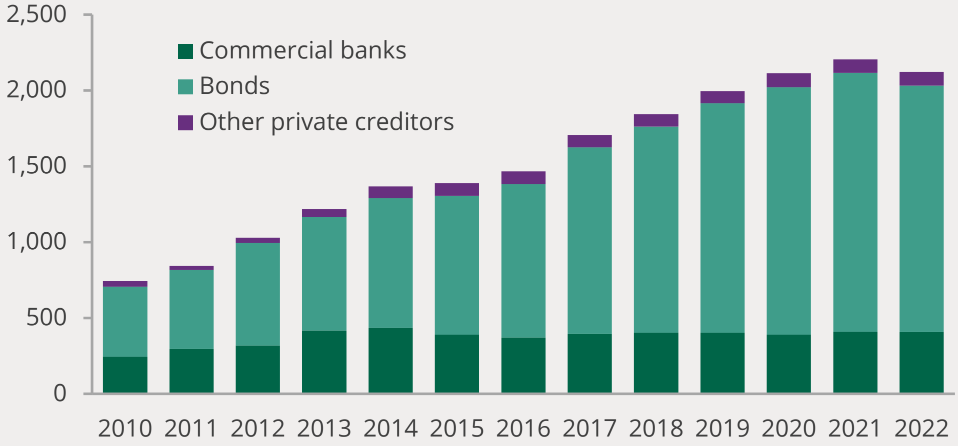
An increasingly large proportion of the debt of countries with low and middle incomes has been owed to bondholders and other private creditors over the past decade.

The World Bank estimates that in 2021, 62% of these countries' long-term public and publicly guaranteed external debt was held by private creditors rather than official creditors, up from 47% in 2010.[19]

As the chart below shows, bondholders account for almost all of the increase in privately held debt.

Bondholders account for the rise in privately-held debt

Public and publicly-guaranteed debt owed by all low and middle income countries, US$ billions



Source: World Bank, International Debt Report 2022, 6 December 2022

The World Bank describes the rise of developing countries issuing their own bonds as an "important alternate financing source" and says that the increased flow of information required to participate in markets and maintain credit ratings should help with debt management.[20]

19 World Bank, International Debt Report 2023, 13 December 2023
20 As above, p11

2 How does debt affect development?

2.1 Overview

Analysis published by the International Monetary Fund (IMF) emphasises that "debt is not good or bad on its own." [21] Whether it is good or bad depends on the uses it is put to, the underlying economic position of the borrower, and the global economic context in which the borrowing and repayment takes place.

Why do governments borrow?

Governments can finance their spending and development through borrowing, taxation, and printing money. Borrowing allows countries to:

- Exploit investment opportunities with long gestation periods and avoid taxing current generations for what will benefit richer future generations (assuming the investment is successful).
- Adopting counter-cyclical policies during economic downturns or meeting emergency spending needs. Changes in taxation, in contrast, may contribute to increased economic uncertainty at times of crisis.
- Support investments and infrastructure projects that local revenues cannot currently support to support long-term growth (known as growth "take-off").[22]

What risks do high levels of debt create?

Debt becomes an issue when debt service payments become unaffordable compared to state revenue and other spending requirements. Higher levels of debt repayments can result in:

- Damage to economic growth as other spending is crowded out,
- Constraints on the ability of governments to spend counter-cyclically,
- Reduced resources for current spending needs.[23]

[21] IMF, Making debt work for development and macroeconomic stability, April 2022, p6. Sources accessed July 2023

[22] World Bank, Public debt in developing countries: has the market-based model worked?, 2005, pp1-2

[23] IMF, Making debt work for development and macroeconomic stability, April 2022, p7

- "Debt overhang," whereby a country is discouraged from introducing wider reforms improving the country's fiscal or economic position as this will likely produce greater pressure to repay foreign creditors.[24]

Particularly high levels of debt repayments can lead to sovereign debt crises (when the country has been unable to meet its repayments) and debt restructuring.

On the "human cost of debt crises," 2022 World Bank analysis states these are "typically borne disproportionately by vulnerable populations, low-income households, and small businesses, and tend to worsen pre-existing poverty and inequality." The Bank's assessment sets out that:

- Debt crises rarely occur as an isolated event—they are often linked to economic downturns, a financial crisis, or high inflation.

- Shocks that significantly weaken a government's ability to provide public services (such as social security or health) typically result in a decline in human development in the emerging economy (higher-income states tend to have greater access to insurance systems or public provision).

- Debt crisis often go "hand in hand" with high inflation, which "disproportionality burden the poor" (who spend a greater proportion of income on basic goods).

- Sovereign debt crises in the 1980s in Latin America and Sub-Saharan Africa led to a "lost decade of development." The 41 countries that defaulted on their debts from 1980 to 1985 took an average of eight years to recover their pre-crisis GDP per person.[25]

The risks of a sovereign debt crisis in a lower-income country may be higher due to wider development issues. These include underdeveloped tax revenues, a narrow economic base vulnerable to external shocks (such as a natural disaster or rise in global interest rates), and a reliance on a limited number of commodity products vulnerable to changes in global demand.[26]

Other factors affect development

While suspending or reducing debt repayments or interest will free up spending and can support the long-term development of a country, including economic growth, the level of debt and debt repayments are far from the sole factors influencing development and economic growth.[27]

A 2022 IMF analysis on the relationship between debt and economic growth notes the academic literature on debt and the economy has found "significant uncertainty regarding the magnitude of the impact" of debt relief on

24 IMF, Can debt relief boost growth in poor countries?, 2005
25 World Bank, World development report: Finance for an equitable recovery, 2022, chapter 5
26 IMF, Making debt work for development and macroeconomic stability, April 2022, p7
27 IMF, Can debt relief boost growth in poor countries?, 2005

economic growth, and ultimately judges that the impact of taking on debts and securing relief will vary from country to country. IMF analysis finds that for countries that completed the HIPC initiative, they "benefit significantly from extra borrowings after recovering from unmanageable debt burden."[28]

A paper published by the Brookings Institute in 2019 argued that while many African states have seen some debt relief, their financial management, debt policy and domestic resource mobilisation often worsened between 2007 and 2017.[29] This is because development challenges remained in their education, electricity and revenue-raising sectors.[30]

Improved debt sustainability is also reliant on increased public debt management, including better financial transparency and fiscal rules.[31]

Further reading on development and debt relief

- D Dömeland and H Kharas, Debt relief and sustainable financing to meet the Millennium Development Goals, 2016. This article assesses effects of debt relief on economic growth, decline in other debts, investments and opportunity to access new financing options, institutional improvements, and achieving the Millennium Development Goals.

2.2 Debt and development goals

Debt repayments and funding for services

Analysis suggests that in many lower-income economies, spending on debt repayments can be higher than government spending on core services such as health and education. If interest rates rise, this can further reduce the ability of governments to fund these services (lower-income countries tend to pay higher interest rates than others).[32]

In July 2023, the UN Conference on Trade and Development (UNCTAD) estimated that 3.3 billion people live in 48 countries where debt interest payments are greater than government expenditure on health or education:

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[28] IMF, Public debt and real GDP: Revisiting the impact, 2022, pp6, 24, 36

[29] Brookings Institute, Escalations about public debt in Africa, 19 June 2019

[30] Brookings Institute, Africa's three deadly deficits: Education, electricity and taxes, 8 June 2018

[31] UN Inter-agency task force on financing for development, Addis Ababa action agenda, 2016, chapter II.E

[32] On the "African premium" see M Olabisi and H Stein, Sovereign bond issues: Do African countries pay more to borrow?, Journal of African Trade, vol 2, 2015, pp87-109

- Half of UN-defined developing countries devoted more than 1.5% of their gross domestic product (GDP) and 6.9% of government revenues for interest payments in 2022.

- The number of countries where interest payments represent 10% or more of public revenues increased from 29 in 2010 to 55 in 2020.

- While spending on interest repayments has increased by 60% from 2010 to 2012 to 2019 to 2021, spending on health, investment and education has increased less (55%, 41% and 41%, respectively).[33]

This echoes previous analysis by the UN children's fund, Unicef, that found 25 states spent more on debt than education, health and social protection combined in 2019.[34] The campaign group Debt Justice has also found that some countries were reducing spending during the Covid-19 pandemic to meet rising debt servicing costs,[35] and in many states more public spending is committed to meeting debt repayments than adapting to climate change.[36]

The Heavily Indebted Poor Countries initiative (see below, section 3.2) helped address this imbalance in many countries. 2021 analysis by the IMF states the HIPC allowed participants to reduce spending on debt servicing and increase their spending on social issues. This allowed them to spend "about five times more on health, education, and other social services than on debt service."[37]

Climate change

Risk of debt distress

Many of the countries most vulnerable to the effects of climate change are also at the highest risk of debt distress.

UNCTAD estimates 29 of the 69 countries eligible for concessional finance under the IMF's Poverty Reduction and Growth Trust are ranked as "highly vulnerable" to climate change and also at high risk of debt distress or are already experiencing it.[38]

Increase in borrowing costs in vulnerable countries

Analysis also suggests that the effects of climate change may negatively impact on the credit ratings of countries, raising the costs of borrowing and restricting their access to finance. This is due to risks including the increased

33 UNCTAD, A world of debt, 2022

34 Unicef, Pre-pandemic data show 1 in 8 countries spends more on debt than education, health and social protection combined, 1 April 2021

35 Debt Justice, Countries in debt crisis cut public spending in face of soaring prices, 12 June 2022

36 Debt Justice, Lower income countries spend five times more on debt than dealing with climate change, 27 October 2021

37 IMF, Debt relief under the HIPC initiative, 23 March 2021

38 UNCTAD, Global debt and climate crises are intertwined: Here's how to tackle both, 1 March 2023

frequency and damage caused by natural disasters and pressures on infrastructure.[39]

A 2018 report commissioned by UN Environment found that climate risks are already increasing the costs of borrowing for developing countries. Additional interest payments to both public and private creditors stood at US$62 billion over the previous ten years. The report projected this would rise to between US$146 billion and US$168 billion over the decade to 2028.[40]

Separate IMF analysis concludes the "financial risks created by climate change are felt more acutely by developing economies," partly due to the wider challenges they have in mobilising finance to adapt to climate change.[41]

The sustainable development goals

In 2015, the UN launched the Sustainable Development Goals (SDGs). The SDGs include promoting good health and wellbeing, eliminating hunger and poverty, and advancing gender equality. The aim is they are met by 2030.

SDG 17.4 is for all countries to achieve long term debt sustainability, and for the world to support this through "coordinated policies aimed fostering debt financing, debt relief and debt restructuring" and to "address the external debt of highly indebted poor countries to reduce debt distress."[42]

Speaking in April 2023, the UN Secretary General António Guterres warned that "we have stalled or gone into reverse on more than 30% of the SDGs" and called upon all states to "recommit to seven years of accelerated, sustained and transformative action."[43]

The Secretary General has called for an "SDG stimulus" to address the high costs of debt to "ensure that resources are invested in the areas needed to secure the SDGs and just transitions."[44]

39 University of East Anglia, Climate change and sovereign credit ratings, accessed 24 July 2023

40 UN Environment Programme, Climate change and the cost of capital in developing countries: Assessing the impact of climate risks on sovereign borrowing costs, 2018

41 IMF, Why climate change vulnerability is bad for sovereign credit ratings, 17 February 2021

42 UN, SDG 17.4

43 UN, UN chief calls for fundamental shift to put back on track to achieve the SDGs, April 2023

44 UN, Report of the Secretary-General: Progress towards the SDGs: Towards a rescue plan for people and planet, May 2023, p37

3 International initiatives

3.1 The Paris Club

What is the Paris Club?

Although not a formal initiative, the Paris Club plays a significant role in international debt relief. It is a group of 22 creditor states, including the United States, Japan, the UK and many other European countries, Brazil, and South Korea. Other creditors can participate by invitation.[45]

China is not a member but has participated on occasion.[46]

The Paris Club was established in 1956 and aims to coordinate sustainable solutions to payment difficulties of debtor countries.[47]

What relief does the Paris Club provide?

Debt treatment from the Paris Club takes two forms:

1. Rescheduling: Postponing debt service repayments
2. Reduction in debt service obligations: This occurs during a set period as flow treatment (debt service payments) or at a set date for stock treatment (treating the original loan and interest/arrears).[48]

Terms of treatment

The treatment given depends on the economic circumstances of the debtor country. In terms of their concessionally, the four treatments are:[49]

1. Classic: Debt is rescheduled at the market rate
2. Houston: Available to lower-income countries and provides longer grace and repayment periods that Classic terms.
3. Naples: Available to low-income countries that are eligible to receive loans from the World Bank's International Development Agency (having a

45 Paris Club, Paris Club meetings, Section 3.1 accessed 8 June 2023.
46 Stimson, Normalising China's relations with the Paris Club, 30 April 2021
47 Paris Club, Permanent members.
48 Paris Club, Homepage
49 Sourced from Paris Club, Classic terms, Houston terms, Naples terms, Cologne terms

per capita income of US$755 or less). The level of cancellation is at least 50%.

4. Cologne: For countries that are eligible for the Heavily Indebted Poor Countries Initiative (HIPC) (see below, section 3.2). Up to 90% of debts can be cancelled.

Debt relief is linked to participation in IMF programmes

A borrower country is invited to negotiate with its Paris Club creditors when it has concluded an International Moneary Fund (IMF) programme that demonstrates it is unable to meet its external debt obligations and needs a new repayment arrangement.

The Paris Club says it links debt restructuring to participation in an IMF programme to ensure wider reforms are undertaken:

> [IMF] economic policy reforms are intended to restore a sound macroeconomic framework that will lower the probability of future financial difficulties.[50]

Principles of Paris Club intervention

The Paris Club operates according to six principles.

These include: the group acting as one and reaching a consensus before acting, making decisions on a case-by-case basis, and only negotiating restructuring with debtor countries that meet the following conditions:

- Being in need of debt relief.
- Having implemented, and are committed to implementing, reforms to address their financial situation.
- Having a track record of implementing reforms. This means they have participated in certain IMF programmes.[51]

The Paris Club also has a “comparability of treatment” clause. This means debtor countries must seek from creditors additional to those in the Paris Club (such as private creditors) a similar treatment of its debts as agreed by the Paris Club. These do not have to be the same as those for Club members, and the Club can take decisions on a case-by-case basis on the clause’s application.[52]

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50 Paris Club, Paris Club meetings
51 Paris Club, The six principles
52 Paris Club, What does comparability of treatment mean?

Who has the Paris Club helped?

As of June 2022, US$70 billion is owed to the 22 members of the Paris Club.[53]

Since 1956, the Paris Club has reached 478 agreements with 102 different countries and treated US$614 billion of debt.[54]

61 countries have received relief under the Classic terms, 21 under Houston, 33 under Naples, and 38 under the Cologne terms.[55]

A list of UK debt relief treatments with the Paris Club is published online, with the first in 1956 with Argentina and most recent being in Sudan in 2021.[56]

When the DSSI was in place from May 2020 to December 2021, Paris Club members agreed to suspend US$4.6 billion in debt service for the 42 countries that requested support.[57]

3.2 Heavily Indebted Poor Countries Initiative (HIPC)

What is the initiative?

The Heavily Indebted Poor Countries (HIPC) initiative was launched by the World Bank and IMF in 1996. It coordinates relief on external debts by a range of creditors.

In 2005, it was supplemented by the Multilateral Debt Relief Initiative (MDRI), which allows for 100% debt relief for countries completing the HIPC process from three multilateral banks.[58] This is described below in section 3.3.

HIPC is seen as first significant international initiative to address global debt pressures.[59]

How does the HIPC work?

Eligible countries are subject to a two-step process. They must also meet certain conditions, including committing to reduce poverty and demonstrating a track record of debt relief and poverty reduction.

Eligibility has four conditions:

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53 See Club de Paris, About
54 Paris Club, Key numbers
55 Sourced from Paris Club, Classic terms, Houston terms, Naples terms, Cologne terms
56 Paris Club, UK
57 Paris Club, Publication of the annual report 2021, 14 June 2022
58 IMF, Debt relief under the HIPC Initiative, January 2023. Sources in 3.2 accessed June 2023.
59 Precursors included the US-led Brady Plan in the 1980s, centred on Latin America.

1. To be eligible to borrow from the World Bank's International Development Agency (IDA). The IDA provides interest-free loans and grants to low-income countries. Countries must also be eligible to receive support from the IMF's poverty reduction growth trust, which provides subsidized loans to similar countries. In effect, this means lower income states are eligible for support.[60]

2. Facing an unsustainable debt burden that cannot be addressed through other mechanisms.

3. Having a track record of reform, including work with the IMF and World Bank programmes

4. Having a poverty reduction strategy.[61]

Around 44% of the funding comes from the IMF and other multilateral institutions, with the remainder from bilateral creditors.[62]

Who has the HIPC helped?

Uganda was the first country to benefit from the HIPC in 1998.[63]

To March 2018, the HIPC had supported 37 countries with around US$100 billion in debt relief. 31 of these are in Africa.[64]

There are currently 39 countries eligible for HIPC assistance. Of these, 36 are receiving full debt relief from participating public creditors.[65] The two that have not received their HIPC settlement are Sudan, and Eritrea.[66]

3.3 Multilateral Debt Relief Initiative (MDRI)

What is the MRDI?

The MDRI was adopted by the IMF in 2005, following an initiative of G8 leaders in 2005, which called for the cancellation of 100% of the claims of the IMF, International Development Association (part of the World Bank) and the African Development Fund for countries that had reached, or were expected to reach, the completion point under the HIPC initiative.

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60 World Bank, Borrowing countries

61 IMF, Debt relief under the HIPC Initiative, January 2023

62 As above

63 World Bank, HIPC Initiative, 11 January 2018

64 As above

65 IMF, Debt relief under the HIPC Initiative, January 2023

66 As above. Somalia reached its completion point in December 2023

All three participants are multilateral institutions.[67]

How did it work, and who did it support?

The IMF scheme agreed that all countries with a per capita income of US$380 or below would be eligible for debt relief from the IMF's resources. It targeted just those countries already targeted by the HIPC to complete their process of debt relief.

Relief was provided to an initial group of 19 countries, with support totalling US$3.4 billion.[68]

The African Development Bank states that by 2011 all 26 regional member countries that had qualified for HIPC assistance had benefited from MDRI, with cancellations worth US$10.1 billion.[69]

3.4 Catastrophe Containment and Relief Trust (CCRT)

Creation and aims

In 2015, the IMF established the Catastrophe Containment and Relief Trust (CCRT) in response to the Ebola outbreak. It was adapted to respond to the Covid-19 pandemic in 2020.

It allows the IMF to provide grants to countries impacted by natural disasters or public health disasters, in the form of relief on debt service payments.[70]

Who is eligible?

CCRT support is available to low-income countries. They must:

- Be already receiving support from the IMF's Poverty Reduction and Growth Trust (seventy countries are eligible) and
- Be experiencing a natural disaster that affects at least one-third of their population, destroyed a least a quarter of the country's productive capacity, or caused damage estimated to exceed 100% of their gross domestic product, and

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67 IMF, MDRI—Questions and answers, 28 July 2017; IMF, Debt relief under the HIPC Initiative, 23 March 2021, provides information on completion points. Section 3.3 sources accessed June 2023.

68 IMF, MDRI—Questions and answers, 28 July 2017

69 African Development Bank Group, Debt relief initiatives, accessed 24 July 2023

70 IMF, CCRT, 9 April 2021. Sources in section 3.4 accessed 24 July 2023

- Have a per capita income below US$1,255.[71]

Alternatively, countries will qualify for CCRT relief if a life-threatening global pandemic has created a balance of payments crisis "on a scale to warrant a concerted effort to support the poorest and most vulnerable countries" through debt relief.[72]

What support is provided?

Eligible countries may receive grants for up to two years from the date of the disaster. In some cases, the entire stock of debt owed to the IMF may be cancelled if the disaster has created a long-lasting financial crisis.[73]

How many countries have been supported?

From April 2020 to April 2022, the IMF provided US$927 billion in debt relief for 31 eligible economies.

Three countries affected by Ebola (Guinea, Liberia, and Sierra Leone) received US$100 million in support in early 2015.[74] These did not reduce interest payments, as these were concessional loans carrying a zero-interest rate.

3.5 Debt-service suspension initiative (DSSI)

What was the DSSI?

In 2020, the Group of 20 ("G20"), constituted of the world's largest economies and including the United States, the UK, China, India and the European Union, established the Debt Suspension Service Initiative (DSSI). This followed calls from the World Bank and IMF to establish a scheme to support lower-income economies response to the Covid-19 pandemic.

The DSSI was not intended to address long-term debt sustainability issues, but rather to private immediate relief in the form of suspending debt service payments.

The DSSI ran from May 2020 to December 2021.[75]

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71 This is figure is called the International Development Association's operational cut off, and is regularly updated. IMF, CCRT, accessed 24 July 2023; IMF, list of least developed countries for debt sustainability analysis for PRGT-eligible countries (PDF), 30 June 2023.

72 IMF, CCRT, accessed 24 July 2023

73 As above

74 As above and CCRT: FAQs, accessed 24 July 2023

75 World Bank, DSSI, 10 March 2022. Sources in section 3.5 accessed July 2023

Which countries were eligible?

73 countries were eligible to participate. These included all:

- Least developed countries (as defined by the UN), with any debt service owed to the IMF and World Bank
- Countries eligible for support from the World Bank's International Development Association with any debt servicing owed to the IMF or World Bank. These countries have a GNI per capita of US$1,255 or less in 2023.[76]

Why did the DSSI only suspend debt repayments?

The IMF cited the emergency nature of the pandemic as a reason to act quickly to allow countries to free up public spending. It argued more comprehensive debt restructuring would have taken too much time.[77]

In 2021, then World Bank president, David Malpass, said the DSSI should only be seen as an "important stopgap" before more "urgent" work began on debt reduction.[78]

Who did the DSSI support?

48 out of 73 eligible economies participated and had US$12.9 billion in debt-service payments suspended from May 2020 to December 2021. Paris Group creditors accounted for US$4.6 billion of the total debts suspended.[79]

Only one private creditor participated in the DSSI

The IMF estimated the 73 eligible countries saw a rising share of external debt owed to the private sector from 2006 to 2020, from 10% of Gross Domestic Product (GDP) in 2006 to 19% in 2020.[80]

While private creditors could participate, only one did so. For more on the participation of private creditors in debt restructurings, see below, section 6.

76 World Bank, DSSI, updated 10 March 2022; UN, List of LDCs and World Bank, Borrowing countries, accessed 24 July 2023; G20 University of Toronto, 2020 Riyadh summit communiqué, 15 April 2020, Annex 2

77 IMF, Questions and answers on sovereign debt, updated 8 April 2021

78 World Bank, Reversing the inequality pandemic [...], 5 October 2020

79 World Bank, DSSI, 10 March 2022

80 PQ 98930 [Debts], 7 December 2022

3.6 G20 Common Framework for debt treatments beyond the DSSI

In November 2020, the G20 and the Paris Club endorsed the Common Framework for debt treatments beyond the DSSI.[81]

The same 73 countries eligible support under the DSSI can seek relief under the Common Framework.

This goes beyond the DSSI in that it provides relief and restructuring of external debts, rather than only suspending payments, and intends for private creditors to participate.[82]

How does the Common Framework work?

Debt treatment is initiated at the request of a debtor country and considered on a case-by-case basis. The Framework can both:

1. Help restructure and reduce the net value of debt to restore sustainability; and

2. Arrange the rescheduling or reprofiling of debt by deferring its repayment.[83]

Debtor countries must negotiate with private creditors

Unlike the DSSI, countries must secure the agreement of private sector creditors before an agreement can be reached with bilateral (government) creditors. The debtor country is required to seek a treatment from private creditors that is at least as favourable for that of bilateral creditors. [84]

Only four countries have applied (to December 2023)

Four countries have applied under the Common Framework: Chad, Ethiopia, Zambia, and Ghana. Only Chad and Zambia have made agreements to date, while Ethiopia is to have its debt servicing costs suspended for two years.

Chad: Talks began in 2021

Chad: Agreement reached 2022

Chad was the first country to apply in January 2021. However, first substantive meetings with creditors did not take place until the following year.

In November 2022 Chad's Government came to an agreement with its external creditors to secure the first Common Framework accord. This included private

81 IMF, Questions and answers on sovereign debt, updated 8 April 2021. Sources accessed July 2023.
82 As above
83 As above
84 As above

creditors such as commodities trader Glencore (which is owed around a third of Chad's external debts). Chad also made an agreement with China's Government (which is owed around 10% of Chad's external debts of US$3 billion).[85]

The accord will extend the period of Chad's debt payments and see IMF funding released.[86] Paris Club creditors have agreed to return to the accord if oil prices fall to such an extent as to make Chad's debt unmanageable.[87]

Zambia: Talks began in 2020

Zambia: Agreement reached 2023

Zambia has been in default on its debts since 2020 and is seeking to restructure US$15 billion of debt. Around US$6 billion of its total external debt of US$17 billion is owed to Chinese creditors.[88]

The Zambian Government have been critical of the slow pace of talks. The primary issue was reportedly the insistence of the Chinese Government that multilateral creditors (such as the World Bank or IMF) also accept a reduction in debt repayments from Zambia, as well as bilateral (country) creditors. Usually, multilateral banks do not offer debt relief.[89]

In 2020, private creditor BlackRock also reportedly refused a request to suspend debt repayments. Campaign groups such as Debt Justice accused it of profiteering on Zambia's crisis and called for it to suspend debt repayments.[90] In June 2022, BlackRock denied this narrative, stating it had not received any formal requests for restructuring. It says its clients are collectively owed US$220 million.[91]

In June 2023, official (country) creditors reached agreement with Zambia's Government under the Common Framework. According to reports, the country will have a three-year grace period when only payments on interest are due, that US$1.3 billion in arrears will be restructured, and private creditors are expected to restructure the US$6.8 billion owed to them.[92]

However, objections have since been raised by official creditors, including China, to the terms of the agreement and whether it offers comparable treatment for both official and commercial creditors.[93]

85 Chad agrees debt plan with creditors, including Glencore, Reuters, 11 November 2022
86 As above
87 IMF: Chad's bilateral creditors to improve debt relief offer if needed, Reuters, 13 January 2023
88 Zambia criticises debt restructuring delays- FT, Reuters, 13 February 2023
89 As above
90 BlackRock urged to delay debt repayments from crisis-torn Zambia, The Guardian, 11 April 2022
91 BlackRock submission to International Development Committee DEB0012, June 2022
92 Zambia seals $6.3 billion restructuring in breakthrough for indebted nations, Reuters, 23 June 2023
93 Zambia dealt major setback as official creditors object to bond deal, Reuters, 20 November 2023

Ethiopia: Talks delayed due to conflict from 2021

Ethiopia: Talks delayed due to Tigray conflict

A Paris Club creditor committee for Ethiopia was established in September 2021. However, attempts to restructure the country's debts have been delayed due to the conflict in Tigray.[94]

In January 2023, it was reported that China has announced a partial forgiveness of Ethiopia's external debts. The value has not been published.[95]

In November, an agreement was reached to provide Ethiopia with a debt standstill (meaning debt service payments will be suspended from 1 January 2023 to 31 December 2024).[96] However, in December Ethiopia defaulted on its debts.[97]

Ghana: Talks began in 2023

Ghana: Applied in May 2023

In May 2023, Ghana became the fourth county to apply. The Paris Club has established a committee to support the restructuring of the country's debt and set out an expectation for private creditors to participate.[98] China is Ghana's biggest bilateral creditor, with US$1.7 billion of debt, while the country owes US$1.9 billion to Paris Club members.[99] Talks are ongoing.[100]

Concerns about the Framework process and calls for reforms

Commons International Development Committee

In its March 2023 report on debt relief for low-income countries, the Commons International Development Committee argued that the Common Framework has failed to provide a "long-term solution to unsustainable debt levels," due to the low number of countries that have applied. It argued that the pace of progress was "disincentivising" for others to participate.[101]

UK Government position

In June 2023, the UK Government noted the "regrettable slow pace of cases" under the Common Framework. At the Global Sovereign Debt Roundtable, which is a group of stakeholders involve in debt relief, the UK has called for:

94 Ethiopia debt relief delay partly due to civil war, state finance minister says, Reuters, 15 October 2022
95 Debt write-off shows China means business in Africa, The Times, 11 January 2023
96 Paris Club, The Paris Club welcomes the agreement to provide Ethiopia with a debt standstill, 30 November 2023
97 Ethiopia becomes Africa's latest sovereign default, Reuters, 26 December 2023
98 Paris Club, Joint statement of the creditor committee for Ghana under the Common Framework, 12 May 2023
99 Ghana requests G20 Common Framework restructuring—source, Reuters, 10 January 2023
100 Ghana minister confined of official creditor debt deal [...], Reuters, 30 November 2023
101 International Development Committee, Debt relief in low-income countries, HC 146, 10 March 2023, para 25

1. Improved clarity on the timelines for delivering debt treatment under the framework; and

2. Debt service suspension for countries that have applied for the Common framework once a staff-level agreement has been reached between the IMF and requesting country.[102]

In its November 2023 White Paper on International Development, the Government acknowledged that the Framework has “taken too long to deliver the debt restructurings that countries have needed” and “must now be “strengthened to enhance its co-ordination, predictability and timeliness.”[103]

Section 5 provides more on the UK Government approach to debt relief.

IMF and World Bank assessments

In February 2023, IMF Managing Director Kristalina Georgieva argued efforts should be made to “strengthen the debt architecture” and the speed and effectiveness of debt resolution.

Georgieva argued work on Ethiopia and Ghana needed to speed up, and that a more “predictable, timely and orderly process” is needed for all countries, including those not covered by the Common Framework but vulnerable to debt distress (such as Sri Lanka).[104]

In March 2023, then World Bank President, David Malpass, also endorsed “a more predictable process that moves faster toward sustainability of the debt” and noted the slow pace of agreements under the Common Framework.[105]

G20 fails to come to an agreement on reform, July 2023

India currently holds the G20 presidency. At a summit in July 2023, G20 finance ministers discussed proposed reforms to the debt relief architecture.

However, no agreement was reached at the summit.[106]

Before the G20 summit, a group of experts was commissioned by the G20 presidency to assess possible reforms for international finance. They endorsed reforms to the Common framework:

> We join with other voices in commending the efforts to improve the working of the G20 Common Framework. We believe that introduction of climate and pandemic related clauses into debt contracts would be valuable and costless to developing countries and urge MDBs [Multilateral Development Banks] and

[102] Government response to the IDC report on debt relief in low income countries, 8 June 2023, Recommendation 2

[103] FCDO, International development in a contested world, CP 975, November 2023, paras 4.24, 4.31

[104] IMF, IMF managing director Kristalina Georgieva urges G20 leadership to strengthen the international financial architecture, 25 February 2023

[105] World Bank, The April 2023 global sovereign debt roundtable: Time for meaningful debt restructuring, 21 March 2023

[106] G20 meeting in India split on debt relief and Ukraine, DW, 18 July 2023

G20 countries to pilot such clauses to accelerate their acceptance in the market.[107]

Further reading on the Common Framework

- Center for Global Development, Fix the Common framework for debt before it is too late, January 2022. Argues the Framework was "struggling to maintain its credibility" in 2021, with a lack of outcomes and a "drawn out process" that was done on a case-by-case basis.
- Council on Foreign Relations, The Common framework and its discontents, 26 March 2023. Argues the Framework is not "common," with divergence among bilateral creditors, particularly China.

For the issue of credit ratings and participation in international debt relief initiatives, see below, page 50.

3.7 The Bridgetown initiative

What is the Bridgetown initiative?

Led by the Barbadian Prime Minister, Mia Mottley, the Bridgetown initiative is seeking reforms to the international system to address three related challenges of global food and energy supply in the wake of the Covid-19 pandemic and the conflict in Ukraine, debt distress, and climate change.

In 2022, Mia Mottley called for an increase in longer-term concessional financing for lower-income and climate-vulnerable countries, for a "far more ambitious debt suspension initiative," than the Common Framework and for natural disaster and pandemic clauses in sovereign debt issues. These would provide the borrower fiscal space to meet the cost of rebuilding in the event of a disaster.[108]

What has the international response been?

In April 2023, the UN Secretary General, António Guterres, called for countries to back the initiative and described "the international financial architecture [as] short-sighted, crisis-prone, and bear[ing] no relation to the economic reality of today."[109]

107 G20 Independent Experts Group, Strengthening MDBs: the triple agenda, 19 July 2023, p50

108 Kofi Annan Foundation, The inaugural Kofi Annan lecture delivered by Hon. Mia Amor Mottley, 23 September 2022, pp8, 10

109 UN, With clocking ticking for the SDGs, UN chief and Barbados Prime Minister call for urgent action to transform broken financial system, 26 April 2023

In June 2023, 32 country leaders and international organisations including the World Bank and IMF met in Paris in the summit for a "New Global Financing Pact." The meeting ended with a roadmap to assess the international debt architecture and mobilise support for developing and low-income countries.[110]

The World Bank also announced a toolkit which included Climate resilient debt clauses, which will allow for a pause in debt repayments in times of crisis or catastrophe.[111]

What has the UK response been?

The UK Government says it is "working closely" with Barbados on the initiative.[112] In a July 2023 statement, the International Development Minister, Andrew Mitchell, said the assets of international finance institutions must be "sweated" further, "as the Bridgetown Initiative has called on us to do."[113]

In a statement in November 2023 on the new White Paper on International Development, the Minister said the UK is working with Barbados and other supporters of the initiative to "driv[e] reforms of the multilateral development banks (MDBs) so that they can scale up financing for low and middle-income countries".[114] The White Paper sets out UK other actions, including:

> Champion[ing] a scale-up of the financing capacity of the MDBs by stretching their balance sheets and providing more capital where needed [...]
>
> Advocat[ing] that concessional MDB resources are prioritised for low-income and vulnerable countries to end extreme poverty [...]
>
> Support[ing] strong replenishments of the arms of MDBs that help the lowest income countries including the World Bank's IDA [International Development Association].[115]

Further resources on the Bridgetown iniaitive

- World Economic Forum, The Bridgetown initiative: Here's everything you need to know, January 2023
- Commonwealth Round Table, Climate finance summit: The Bridgetown's initiative time has come, 29 June 2023

110 Atlantic Council, Lessons from the Paris summit for a new global financing pact, 27 June 23
111 World Bank, World Bank Group announces comprehensive toolkit to support countries after natural disasters, 22 June 2023
112 HC Deb, 8 March 2023, c109WH
113 HCWS969 [International Development White Paper], 18 July 2023
114 HC Deb, 21 November 2023, c196
115 FCDO, International development in a contested world, CP 975, November 2023, para 3.11

4 Debt for environment swaps

What are debt for environment swaps?

Debt for environment swaps (also referred to as debt swaps for nature, climate change, or climate adaptation) see countries free up fiscal resource to support climate adaption or resilience projects, rather than meeting debt repayments.

How significant could the swaps be?

Many of the countries most vulnerable to the effects of climate change are also most vulnerable to debt distress (see above, section 2.2). Redirecting spending away from debt and debt interest could help address the substantial gap in finance need to adapt to and address climate change.

The World Bank estimates US$1.3 trillion each year will be needed by 2030 in capital investments in developing countries to address climate change (4.5% of their GDP on average),[116] while the Rockefeller Foundation provides estimates of US$1 trillion for emerging market and developing economies (excluding China).[117]

Analysis by the Paulson Institute, a US-based think tank, estimates the global biodiversity financing gap was US$700 million a year in 2020.[118]

Swaps have occurred since the 1980s

Debt for environment swaps are not new: the first occurred in Bolivia in 1987 between its government and the environmental non-profit Conservation International, and was followed by Costa Rica and Ecuador the same year. [119]

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116 World Bank, What you need to know about how country climate and development reports estimate climate finance needs, 13 March 2023

117 Rockefeller Foundation, What gets measured gets finance: Climate finance funding flows and opportunities, 2022, p31

118 Paulson Institute, Balancing nature: Closing the biodiversity financing gap, 2020

119 OECD, Lessons learnt from experience with debt for environment swaps in economies in transition (PDF), 2007

From the mid-1980s to 2003, around 30 counties have participated in debt for climate swaps, bringing around US$1 billion in funding for the environment, according to the Organisation for Economic Cooperation and Development (OECD).[120] Using a different measurement, the African Development Bank estimates that the value of the debt treated through climate swaps was around US$3.7 billion from 1987 to 2022. It estimated only eight swaps involved debt relief of over US$100million.[121]

Since 2016, the charity the Nature Conservancy (TNC) has organised debt for nature swaps in three countries. Analysts have noted the significance of the Belize agreement for its proportional impact on the country's debt and that for Barbados as the first time a multilateral development bank has partnered with a conservation organisation to co-guarantee a new issuance of debt.

Seychelles, 2015

TNC agreed to buy US$22 million of its national debt in exchange for the Seychelles creating 13 new marine protection areas (around 30% of its national waters).[122] This represented around 5% of the country's US$450 million of external debt.[123]

Belize, 2021

The charity and Government of Belize announced US$364 million debt conversion for marine conservation. This reduced Belize's debt by 12%. In return, the country committed US$4.2 million per year on marine conservation until 2041 and will protect 30% of its ocean.[124]

However, LSE analysis notes the swap was "not an unmitigated victory" for Belize, with a total transaction cost of US$85 million and the 12% reduction being a relatively small proportion of the 125% of GDP debt burden of Belize.[125]

Barbados, 2022

TNC, the Government of Barbados and the Inter-American Development Bank announced a US$150 million debt conversion for marine conservation. The country will commit to protect up to 30% of its exclusive economic zone and

120 OECD, Lessons learnt from experience with debt for environment swaps in economies in transition (PDF), 2007, p10

121 African Development Bank Group, Debt for nature swaps: Feasibility and policy significance in Africa's natural resource sector (PDF), October 2022, p26 and Appendix B

122 The deal that saved Seychelles' troubled waters, BBC Future, 3 August 2020

123 Government of Seychelles, Debt management strategy for the years 2016 to 2018 (PDF), 2015, chapter 8

124 The Nature Conservatory, Belize debt conversion case study, 17 May 2022

125 Alejandra Padín-Dujon for LSE Blogs, Do debt-for-nature swaps work? Learning from Belize, 28 February 2023

territorial sea. The sums are relatively small: Over 15 years Barbados will channel US$90 million into conservation funding.[126]

Agreements in 2023

The largest-value agreement was made by Ecuador in 2023: to 2040, it will save US$1.1 billion in debt service repayments and US$450 million will be invested in conservation, including in the Galapagos.[127]

In August 2023, a US$500 million agreement was reached to refinance Gabon's debts to free up to US$163 million to invest in marine conservation.[128]

The Commonwealth and debt swaps

Of the 56 members of the Commonwealth, 25 are considered small island developing states (SIDS).

SIDS are recognised by the UN as highly vulnerable to climate change and experiencing significant restraints on their development (such as their physical remoteness or challenges in accessing concessional finance). SIDS also have substantial levels of debt, with their collective external debt stocks rising 70% from 2009 to 2019, standing at US$50.4 billion.[129]

In November 2022, the Commonwealth Secretary General, Baroness Scotland said that "lots" of Commonwealth members were considering debt for climate swaps.[130]

While the Commonwealth has no formal position on such swaps, the Commonwealth Secretariat has provided some support through its Climate finance access hub, including with Belize.[131]

In 2015, the Commonwealth Secretariat published a paper discussing whether small states could conduct debt swaps for climate change mitigation and adaption, citing the substantial demands of debt repayments on many states and lack of climate finance committed to them.[132] This was followed a further paper in 2016 on multilateral debt swaps for climate change.[133]

126 Barbados to refinance debt, help protect ocean in rare deal, AP News, 21 September 2022; TNC, Case study: Barbados Blue Bonds for ocean conservation (PDF), 2022, p1
127 Ecuador seals record debt-for-nature swap with Galapagos Bond, Reuters, 9 May 2023
128 A $500 million deal to restore Gabon's coast reignites climate finance debate, AP, 15 August 2023
129 House of Commons Library, Commonwealth SIDS and climate change, 13 October 2021, p9
130 Insight: Bankers bet billions on new wave of debt-for-nature deals, Reuters, 17 November 2022
131 The Commonwealth, Belize explores debt-for-climate swaps with Commonwealth support, 2 July 2021
132 The Commonwealth, Debt swaps for climate change adaption and mitigation: A Commonwealth proposal , 2015
133 The Commonwealth, Commonwealth multilateral debt swap for climate change adaption and mitigation proposal, 2016

A short blog on the Commonwealth's potential role was published in advance of COP 26 in October 2021.[134]

Ongoing consideration by multilateral banks

In April 2021, the IMF Managing Director, Kristalina Georgieva, said that the IMF and World Bank were working to "advance that option" of climate swaps, arguing they have the "potential to contribute to climate finance" and "facilitate accelerated lending in developing countries."[135]

However, in November 2021 it was reported the plans were paused following concerns about the potential impact of such swaps, given the limited interest by creditors, relative lack of progress then seen on wider debt restructuring programmes by the G20, and preference for grants and other forms of climate finance.[136]

In 2022, the African Development Bank recommended African states to "look towards" debt swaps "on a case-by-case basis," in the context of the US$200 billion finance needed to implement the UN Global Biodiversity Framework and the US$243 billion African countries are expected to pay on debt servicing to 2028.[137]

In December 2023, the Inter-American Development Bank and the US International Development Finance Corporation, which have been involved in swaps in Barbados and Gabon, said they would establish a taskforce to increase the number and size of "debt for nature" swaps. Other MDBs, including the Asian Development Bank and European Investment Bank, are also members of the new group, though not the World Bank or IMF.[138]

How effective could swaps be?

The below provides a summary of analysis on debt swaps. Further reading can be found at the end of this section and in the footnotes.

134 The Commonwealth, Two challenges, one solution: Debt for climate swaps, an innovative instrument resolving a dual threat, 11 October 2021

135 IMF, World Bank to unveil "green debt swaps" option by November, Georgieva says, Reuters, 8 April 2021

136 IMF struggling over long-await "green debt swap" push as COP 26 nears, Reuters, 29 October 2021

137 African Development Bank Group, Debt for nature swaps: Feasibility and policy significance in Africa's natural resources sector (PDF), October 2022, p66

138 Top development banks, funds set out 'debt for nature' task force, Reuters, 5 December 2023

Small size of debt swaps

Prior to the Ecuador announcement in early 2023, analysts have noted the small-scale nature of many of the debt-swaps (see above, page 38) compared to the size of the debt many countries owe.

However, the International Institute for Environment and Development has noted the low number of swaps in the 2000s was related to the emergence of other debt relief schemes (such as the HIPC) and the general rise in the price of debt. However, it noted the increasing proportion of debt owed to private creditors may hinder further swaps as they may be less inclined to engage in such swaps.[139]

In 2023, there is speculation that the Ecuador decision offers a step-change from past scale and practice.[140]

Analysis by the IMF published in 2022 argued that swaps are "not substitutes" for broader debt restructuring and the restoring of a country to solvency. It argues "in most cases, it's more effective to address debt and climate or nature separately."[141]

Calls for grant-based finance, not loans

As part of global efforts to help countries adapt to, and mitigate the effects of, climate change, developed countries have resolved to provide US$100 billion in climate finance annually to developing countries.[142]

Climate finance comes from both public and private sources, including through loans, guarantees, export credits and grants. Globally, most public finance has been in the form of loans, with generally less than a third being in the form of grants (however, in the UK only 0.1% of climate finance was delivered through loans from 2014 to 2021).[143]

Some analysts have argued that debt for environment swaps could be an important form of grant-aid to fill the gap in climate finance (the US$100 billion goal has been missed each year) and to avoid further lending to already indebted-countries.[144]

139 International Institute for Environment and Development, Debt swaps for climate and nature (PDF), June 2022, section 2.1

140 Natural evolution: Record Galapagos deal speaks clamour for eco-friendly debt swaps, Reuters, 11 June 2023

141 IMF, Swapping debt for climate or nature pledges to help fund resilience, 14 December 2022

142 See Commons Library Insight, COP 26: Delivering on $100 billion climate finance, 3 November 2021

143 As above

144 Brookings Institute, Debt-for-adaption swaps: A financial tool to help climate vulnerable nations, 21 March 2023

Debt swaps may affect a country's credit rating

In line with other debt treatment schemes (such as those offered by the G20, described in section 3), resolving not to meet a debt may negatively affect a country's credit rating. This will make it harder for the country to borrow in the future.[145]

However, in the case of Belize's environment swap, its credit rating with some agencies improved (though it remained below investment grade) and the related blue bond received a strong investment grade (meaning it was assessed to carry less risk of a default on repayments for investors).[146]

Not all the released funds are spent on the environment

OECD analysis notes debt swaps can be an effective means to raise finance for environmental projects in countries "where such commitments are fragile and challenged by strong budgetary pressure."[147]

However, analysis for the think tank Center for Global Development notes that only around half the estimated US$3.7 billion of debt treated under these swaps from 1987 to 2022 was allocated to environmental projects. [148]

The Debt Justice campaign group has also said that if a country does not have the resources to pay the original loan, it is likely they will lack the resources to invest in the areas agreed in the debt swap. This could lead to increased budget deficits and the need for new loans. [149]

Conditionality of relief undermines local involvement

Debt swaps are also more conditional than other forms of debt relief, with creditors setting requirements on how the funds saved should be used. This poses a challenge to citizen participation in debt swaps and for those affected by any environmental projects.[150]

[145] OECD, Lessons learnt from experience with debt-for-climate swaps in economies in transition (PDF), 2007, p7
[146] Task Force on Climate, Development and the IMF, Meeting the moment: The IMF, debt for climate swaps and development (PDF), 2022, p9
[147] OECD, Lessons learnt from experience with debt-for-climate swaps in economies in transition (PDF), 2007, pp10-11
[148] Center for Global Development, Debt-for-climate swaps won't solve the climate debt crisis, but can they help?, 12 December 2022
[149] Debt Justice, Debt for climate swaps: Not a silver bullet, 12 October 2021
[150] Climate Action Network, Position on debt swaps, 9 June 2023

UK caution on environment swaps

In its March 2023 report on debt relief in low-income countries, the Commons International Development Committee noted there are few examples of such swaps occurring at scale. It was also concerned that the conditionality of such swaps can be at the cost of local communities in the debtor country who have little say over the nature of the swap while being most affected.[151]

The Committee concluded that such swaps "should be treated with sensitivity and caution," but that the UK Government "should seek to align nature and climate objectives with debt relief frameworks."[152]

In response to the Committee, the Government agreed debt for environment swaps should be treated with caution, and that while the "UK is open to debt swaps, […] we do not currently participate in them."

The Government cited the low level of developing country debt owed to the UK (see below, section 5), questioned the value for money and effectiveness of debt for environment swaps, and said they may undermine the central role of debt relief being to restore debt sustainability.[153]

Further analysis on enviroment swaps

- BBC Future, What if debt was written off to protect climate and nature?, 13 December 2023
- Center on Global Energy Policy at Columbia, Can debt or climate swaps help heavily indebted developing countries address climate priorities?, 14 September 2023
- Brookings Institute, Debt for adaption swaps: A financial tool to help climate-vulnerable nations, 21 March 2023
- Energy Monitor, Are debt-for-climate swaps finally taking off?, March 2023. Explores other issues, including the participation of private creditors.
- IMF, Swapping debt for climate or nature pledges can help fund residence, 14 December 2022. Summary of IMF report, Debt-for-climate swaps: Analysis, design and implementation, August 2022

151 International Development Committee, Debt relief in low-income countries, HC 146, March 2023, para 47-8

152 International Development Committee, Debt relief in low-income countries, HC 146, March 2023, para 49

153 UK Government response to the International Development Committee report Debt relief in low income countries, 8 June 2023

- International Institute for Environment and Development, Debt swaps for climate and nature (PDF), 2022, Examples of environment swaps and proposals for the UK (section 5 of the report).
- International Institute Environment and Development, Averting the crisis: How a new approach to debt could raise US$400 billion for climate in nature, 2022. Argues if swaps are scaled up, they could create US$107 billion in climate finance for 47 developing countries vulnerable to climate change and further funds for other countries.

5 The UK Government and debt relief

How much is owed to the UK?

Most debts to the UK from vulnerable countries have been written off

In 2020, the Government said that under the Heavily Indebted Poor Countries Initiative (HIPC), “the UK has written off most of its [debt] exposure to low-income developing countries.”[154]

From 2001 to 2010, at least 49 countries with debts to the UK had all or part of their debts written off.[155] Collectively, the UK provided £1.4 billion of relief through the multilateral debt relief initiative, £150 million through the IMF’s catastrophe containment and relief trust, and £600 million bilaterally as part of the HIPC initiative. [156]

A total of US$1.8 billion is now owed by 73 lower-income countries.[157] This compares to the US$70 billion owed to the 22 members of the Paris Club.[158]

The Government argues that because of its relatively small debt portfolio, the UK can only play a “limited role” in debt restructuring in lower-income countries. Instead, it seeks to enhance global coordination on debt relief.[159]

The International Development Committee, in its 2023 report on debt relief in low-income countries, acknowledged that the “scope for the UK to cancel or provide relief on further debt is limited,” noting also that the UK cannot act unilaterally in many cases, as it is party to comparable treatment agreements with other creditors.

The Committee instead endorsed greater use of UK expertise to aid wider debt relief efforts.[160]

154 HC Deb, 10 June 2020, c1734. Sources in this section accessed 7 and 8 June 2023.
155 PQ 13672 [Developing countries: Debts], 8 September 2010
156 FCDO written evidence to IDC inquiry on debt relief in low income countries, June 2022, para 73; HC Deb, 21 November 2023, c60WH
157 As above, para 4. These countries are the 73 countries eligible for the G20’s Debt Service Suspension Initiative (DSSI), which ran from 2020 to 2021
158 See Club de Paris, About
159 FCDO, Debt relief in low income countries: Written evidence, June 2022, para 4
160 International Development Committee, Debt relief in low-income countries, HC 146, 10 March 2023, paras 65 to 66

The amount of the aid budget spent on debt relief has been low in last decade

Reflecting the falling levels of debt owed to the UK, debt-related aid spending fell over the 2010s, with no debt-related spending at all in 2015 or 2019. This fall was in the context of a rising aid budget.[161]

Debt forgiveness has not featured in UK aid statistics since 2009, and relief of multilateral debt (grants to cover debts owed to multilateral institutions, such as the World Bank) fell to zero by 2013.[162]

From 2009 to 2021, £576 million in aid was related to debt or relief of multilateral debt. The highest spending years were 2010 (£105 million), 2011 (£113 million) and 2020 (£194 million).[163]

Spending in 2020 was related to the UK's £44 million for Somalia under the HIPC and £150 million for the IMF's Catastrophe Containment and Relief Trust (CCRT).[164]

Compensating funding for the World Bank and African Development Bank

The UK has agreed to compensate the concessional arms of the World Bank and African Development Bank for the debt repayments they forgo under the MDRI for their full repayment periods, which run to 2044 and 2054, respectively. The Government estimates the UK contributes around £190 million each year to both.[165]

As of May 2022, the UK has paid £1.26 billion to the World Bank, and £179 million to the African Development Bank.[166]

UK policy, 2010 to present

Commitment to provide support for debt relief

The Government will continue to provide 100% debt relief under the HIPC initiative and the MDRI, and through case-by-case funding.[167]

It also provides 100% relief on debts to British International Investment (BII) (the UK's development finance institution, previously known as the CDC) and

161 House of Commons Library, The 0.7% aid target, section 4
162 FCDO, Statistics on International Development, multiple editions
163 As above
164 FCDO, Statistics on international development: Final UK aid spend 2021, March 2023, SID tables
165 FCDO, Debt relief in low income countries: Written evidence, June 2022, June 2022, para 74
166 As above
167 PQ 217963 [Overseas aid], 15 December 2014

Export Credit Guarantee Department (a government department that provides insurance for exports on the risk of selling overseas, among other roles).[168]

The UK is also a permanent member of the Paris Club, and from 2021, has participated in the Debt Service Suspension Initiative (DSSI) and Common Framework (see above, section 3).

Other commitments on debt relief

In the November 2023 White Paper on International Development and Westminster Hall debate on debt in Africa, held the same month, Government commitments on debt relief included:

- Ensuring the IMF's debt sustainability framework takes account of the effects of climate change.
- "Push[ing] for" for the Common Framework to be "improved and expanded," including to more lower-middle income countries.
- "Push[ing] for" timelier conclusion of debt treatments, while protecting the UK taxpayer.
- Engaging with the private sector to facilitate sustainable lending and debt restricting where required.
- "Push[ing] for" the broad adoption of majority voting provisions in lending (see below, section 6.2).
- Supporting the debt management capacity of debtor countries, including on debt transparency and accountability, through the UK's Centre of Expertise on Public Finance.
- Encouraging the private sector to include climate resilient debt clauses, to enhance the ability of debtor countries to respond to external shocks.[169]

However, the Government argues that as the G20 works by consensus, "delays by some members, including China, make the pace [of debt treatments] all the more challenging to achieve".[170]

168 For a summary of the export credit guarantee department, see page 6 of the FCDO's, Annex 1: Understanding aid statistics (PDF), 2021

169 FCDO, International development in a contested world, CP 975, November 2023, paras 4.31-4.38; HC Deb, 21 November 2023, c60WH

170 HC Deb, 21 November 2023, c60WH

Examples of UK funding to support debt relief agreements

Somalia

In 2020, Somalia began to receive debt relief under the HIPC, which would see its external debts fall from US$5.2 billion to around US$557 million.[171] The country's debt burden is expected to fall from 95% to 42% of GDP, before falling to 6% by the HIPC completion point.[172]

The UK facilitated the decision through helping to clear Somalia's debts with the African Development Bank.[173] In 2020, the UK provided £44 million to cancel around two-thirds of the debt outstanding with Somalia.[174]

The Government said it will provide further relief when the HIPC completion point is reached.[175] In December 2023, the IMF and World Bank approved the HIPC completion point for Somalia, with its debts falling from 64% of GDP in 2018 to 6% in 2023.[176]

Sudan

In 2019, Sudan's debts stood at US$56 billion, or 199% of its GDP. Sudan was confirmed by the World Bank and IMF to be in debt distress. In June, it was approved for debt relief under the HIPC.[177]

In 2021, the UK supported Sudan to clear its debts with the IMF (providing £36 million) and African Development Bank (issuing a £148 million bridging loan).

A total of US$2.9 billion of Sudan's arrears were cleared in total, and their clearing allowed Sudan access to a wider range of multilateral assistance.[178]

The Government is due to cancel around £861 million of the debt Sudan owes to the UK, with £580 million cancelled in 2022 and the remainder later. The majority is interest payments owed on the original debt. The Government has confirmed this will be counted towards the aid budget.[179]

171 IMF, World Bank clear Somalia for debt relief, normal ties to the world, Reuters, 26 March 2020
172 PQ 125299 [Somalia: debts], 24 January 2023
173 IMF, Somalia to receive debt relief under the enhanced HIPC initiative, 25 March 2020
174 FCDO, Statistics on international development: Final UK aid spend 2021, March 2023, SID tables
175 PQ 195884 [Somalia: Debts written off], 8 September 2023
176 IMF, IMF and World Bank announce US$4.5 billion in debt relief for Somalia, 13 December 2023
177 World Bank, Sudan: Joint World Bank-IMF debt sustainability analysis, 2020, p1 and paras 5 and 6
178 FCDO, UK helps to clear Sudan's debt and support its economic recovery, 1 July 2021 and UK to provide bridging loan to help clear Sudan's arrears at the African Development Bank, 12 May 2021
179 UK aid budget gets de facto $800 million cut for 2022, Devex, 21 October 2021 and Debt Justice, UK to cut £861 million from aid budget using fictious debt, 21 October 2021

The October 2021 coup in Sudan has paused the process. The UK Government says a credible civilian-led government must first be restored before support resumes.[180]

Ukraine

Following Russia's invasion of Ukraine in February 2022, the UK Government and other bilateral creditors committed to suspend debt servicing payments for Ukraine until at least 2027. The group, which includes Germany, Japan, Canada, Japan, France, and the United States, will also carry out a debt restructuring to restore Ukraine's debt sustainability.[181]

Concerns have been expressed that the number of loans provided to Ukraine during the current conflict risks a debt crisis for the country, which saw its gross domestic product fall nearly 30% in 2022.[182]

Competing with China as a source of development finance

The Government's ten-year strategy for international development, published in May 2022, states it will "help countries get the investment they need" to avoid "loading their balance sheets with unsustainable debt, and mortgaging their future economies against bad loans."[183]

The November 2023 White Paper on international development restates this commitment as necessary to help the world achieve the 17 sustainable development goals (SDGs) by 2030:

> A quantum leap is urgently needed in the volume of international finance and private sector capital that flows to low- and middle-income countries. An estimated additional $3.9 trillion is required annually to deliver the SDGs.[184]

The White Paper states the Government will support increased concessional lending by multilateral development banks such as the World Bank and IMF and additional private capital, to help the achievement of the SDGs.[185]

The Government also intends to mobilise up to £8 billion of UK-backed financing a year by 2025, part of which will be mobilised by the UK's development finance institution, the BII. It will target Asia, Africa, and the

180 House of Commons Library, UK response to unrest in Sudan, section 2.2
181 German Finance Ministry, Debt service suspension for Ukraine extended until 2027, 27 March 2023; PQ 54460 [Debts: Ukraine], 11 October 2022
182 Eoin Drea, The EU is leading Ukraine into a sovereign debt crisis, Politico, 23 January 2023 and World Bank, Ukraine at a glance
183 House of Commons Library, The UK's 2022 aid strategy, section 4.1
184 FCDO, International development in a contested world, CP 975, November 2023, para 3.4
185 As above, paras 3.5, 3.12

Caribbean.[186] The BII aims make half of its investments in the poorest and most fragile countries by 2030.[187]

This strategy is a likely rejoinder to China's Belt and Road Initiative.[188]

For more on the BII and investment in the international development strategy, see section 4 of the Commons Library research briefing on the 2022 aid strategy and on British international investment.

Further reading on the UK Government position

- Department for International Development and Foreign & Commonwealth Office, Letter to the supporters of debt relief campaigns (PDF), July 2020. Actions in response to the Covid-19 pandemic.
- Commons International Development Committee, Debt relief in low-income countries, March 2023
- UK Government response to the International Development Committee report, Debt relief in low-income countries, June 2023
- FCDO, Written evidence to the International Development Committee on debt relief in low income countries, June 2022. Description of international debt architecture and UK role and approach on debt relief.
- FCDO, International development in a contested world, CP 975, November 2023

186 House of Commons Library, The UK's 2022 aid strategy, section 4.1

187 FCDO, International development in a contested world, CP 975, November 2023, para 3.21. The "poorest and most fragile countries" are those listed in IDA eligibility IDA 17 (PDF) and the World Bank list of fragile states (PDF, 2023).

188 House of Commons Library, British international investment, pp15-16 and FCDO, Truss revamps British development institution to deliver jobs and clean growth, 24 November 2021

6 Participation of private creditors

As set out in section 1.4, the proportion of public external debt owed by countries to private creditors, including banks, hedge funds and other companies, has increased over the last decade. The World Bank estimates 61% of the external debts of low- and middle-income countries were owed to private creditors in 2021, up from 46% in 2010.[189]

According to the campaign group Debt Justice, private lenders account for 42% of external debt payments by lower-income countries. This compares to 33% to multilateral institutions (such as the World Bank) and 25% to other governments.[190]

6.1 Do private creditors support debt relief?

Lack of participation in the DSSI

Only one private creditor participated in the Debt Service Suspension Initiative (DSSI), despite calls for their participation and the high level of debt repayments owed to them.[191]

The Common Framework beyond the DSSI, however, explicitly states it expects indebted countries to make agreements with private creditors on the same terms as bilateral (government) ones (see above, section 3.6).

Debt Justice's How the G20 debt suspension initiative benefits private lenders (PDF, 2021) said that because payments to private creditors were not suspended, the majority of debt repayments continued during this time.[192]

The campaign group reported private creditors received US$14.9 billion in debt payments from the 46 participating countries from April 2020 to June 2021. Only 0.2% of payments due to private creditors were suspended.[193]

In December 2020, the UK Government expressed disappointment that private creditors were not participating, but said its assessment, shared with the International Monetary Fund (IMF) and World Bank, was that this was

189 World Bank, International Debt Report 2022, 6 December 2022. Sources accessed 7 and 8 June 2023.

190 Debt Justice DEB0001 (PDF), para 2.

191 World Bank, DSSI, 10 March 2022

192 Jubilee Debt Campaign, How the G20's DSSI benefits private lenders (PDF), October 2021, p1. The campaign group has subsequently been renamed Debt Justice.

193 As above, p1

"primarily [...] driven by a lack of willingness from borrowing countries to request suspensions due to risks to their sovereign credit ratings."[194]

Credit ratings and debt restructuring

The role of credit ratings agencies has been criticised by the campaign group Debt Justice as disincentivising countries from arranging for the forgiveness of their debts. This is because any negative impact on their credit ratings would impede their access to external finance.[195]

Multilateral organisations such as the International Monetary Fund and World Bank have also expressed concern that any debt forgiveness on their part may impede the ability of these countries to borrow, and therefore undermine the ability of multilateral institutions to lend to them.[196]

Participating in the G20 Common framework was reportedly limited by fears that participating indebted countries would face credit downgrades because of the potential for private creditors to make losses.[197]

In February 2021 Fitch Ratings downgraded Ethiopia from B to CCC because it was considering applying to the Common framework.[198] In May 2021, Moody's also downgraded the country.[199] Fitch has said that participating in the scheme means that a country is "unlikely to be compatible with a credit rating higher than CCC."[200]

While the World Bank has described how seeking relief from private debt under the Debt Service Suspension Initiative opens countries up to the potential for a downgrade in their credit ratings, in March 2022 it said there was "limited evidence that DSSI participation affected credit ratings."[201]

Private-creditor hold-outs

Analysts have noted that for creditors there is often an incentive to hold out after the initial debt restructuring, as once the country's payment capacity has been restored the debt they are owed may be paid in full.[202]

194 PQ HL 10947 [Debt: Coronavirus], 15 December 2020
195 Jubilee Debt Campaign and others, Passing the buck on debt relief (PDF), July 2020
196 As World Bank pushes others on relief, it doesn't participate, Devex, 19 October 2020
197 Credit downgrade buffer proposed for those seeking debt help—study, Reuters, 4 June 2021
198 Fitch Ratings, Fitch downgrades Ethiopia to "CCC," 9 February 2021
199 Moody's downgrade over G20 Common Framework hits Ethiopian bonds, Reuters, 18 May 2021
200 Fitch Ratings, Common Framework access could lead to sovereign debt default, 16 February 2021
201 World Bank, DSSI: Q&As, 10 March 2022
202 B Ellmers, The new debt crisis and what to do about it (PDF), June 2021, p6

One means to address this is collective action clauses (CAC). These are when a majority of bondholders can bind the minority to a certain agreement when restructuring a debt.

The IMF estimates that 95% of international sovereign bonds now include some form of CAC, but older stocks may not have these and in many low-income countries "there is a significant stock of non-bonded privately held debt, which does not have majority restructuring provisions for payment terms."[203]

6.2 Incentivising participation in debt relief

Many private credit agreements are arranged under English law

In 2020, the Government estimated that around 45% of the total outstanding stock of international sovereign bonds was governed by English law.[204] Debt Justice estimate that 90% of bonds the G20 called for a debt suspension on under its DSSI were governed by English law.[205]

One reason for the high number of debts arranged under English law is the dominance of the City of London and reputation of English courts as neutral venues.[206] Other reasons include the risk that domestic-law bonds can have weaker legal protection because the contract terms can be altered by changes in the law of debtor countries.[207]

This means that litigation to recover debts takes place in English courts.

Calls for legislation to incentivise or compel private creditors to participate in debt relief agreements

In March 2023, the Commons International Development Committee published its report on debt relief in low-income countries.

The Committee argued the high proportion of debt owed to private creditors requires a "level playing field" to be created for all private creditors, being one where all must be incentivised or compelled to participate in debt relief. It cited evidence from the World Bank, debt campaigners and civil society

203 IMF, The international architecture for resolving sovereign private-sector creditors: Recent developments, challenges and reform options, October 2020, p7
204 PQ 45237 [Debts: Developing countries], 18 May 2020
205 Debt Justice, G20 debt suspension request: 90% of bonds governed by English law, 4 May 2020
206 Investors sweat the small print as Brexit fragments bond laws, Reuters, 8 March 2019
207 M. Chamon and others, Foreign law bonds: Can they reduce sovereign borrowing costs?, Journal of international Economics, 114, 2018, pp164-79

organisations on statutory approaches that could be taken to encourage private sector participation.[208]

The Committee recommended the Government consult on legislation to either:

> (a) prevent low-income countries facing debt distress from being sued by private creditors for a sum greater than that those creditors would have received had they participated in the Common Framework; or
>
> (b) make debt restructuring agreements binding for all private creditors, if the agreement is supported by at least two-thirds of private creditors.[209]

This would build on The Debt Relief (Developing Countries) Act 2010 (see box below). This does not currently cover countries participating in the Common framework but did limit the number of court-enforced recoveries by private creditors.[210]

Speaking in December 2022, the then Shadow International Development Secretary, Preet Kaur Gill, also called upon the Government to "bring forward incentives, regulation and education [...] to force private creditors" to participate in debt relief.[211]

The campaign group Debt Justice also backs legislation to compel private creditor participation.[212]

The Debt Relief (Developing Countries) Act 2010

The 2010 Act introduces a mandatory element to debt relief arranged for the 40 countries under the Heavily Indebted Poor Countries Initiative (HIPC) initiative by limiting the proportion of debts a private creditor can claim through UK courts. The level of recovery is proportional to that agreed by the International Monetary Fund (IMF) and World Bank at the HIPC decision point.[213]

In 2014, the Government estimated the Act saved HIPC initiative countries between zero and £26 million a year.[214]

The World Bank and IMF has reported litigation by creditors in other jurisdiction for HIPC initiative countries remains an "ongoing issue."[215]

208 International Development Committee, Debt relief in low-income countries, HC 146, 10 March 2023, paras 54 to 62
209 As above, para 62
210 As above, paras 59 and 60
211 HC Deb, 13 December 2022, c877
212 Debt Justice, UK MPs call for law to make private creditors deliver debt relief, 10 March 2023
213 Debt Relief (Developing Countries) Act 2010
214 PQ 198104 [Debts: Developing countries], 13 May 2014
215 PQ 7665 [Debt Relief (Developing Countries) Act 2010], 11 September 2017

The UK Government has said it does not intend to legislate

In June 2023, the Government rejected the Committee's recommendation to consult on legislation to compel or incentivise private creditor participation.

It said that while it was committed to working with private creditors to ensure their participation in debt restructuring on comparable terms to other creditors, legislation would "be complex and could have unintended consequences in terms of access to finance for developing countries."[216]

Alternative actions by government

In an evidence session with the International Development Committee in November 2022, Treasury officials said "at the moment, we are very keen to work on market-based solutions."[217] In its response to the Committee's report, the Government cited the following efforts:

- Ongoing engagement between the Treasury and the private sector.
- As a Paris Club member, working with countries to negotiate with the private sector. It notes private creditors agreed to the debt treatment for Chad under the Common Framework.
- Establishing the Private Sector Working Group under the UK's G7 presidency in 2021. This explores sovereign debt issues and brings together private sector creditors.

  The group has considered reforms including Majority Voting Provisions (MVPs) for syndicated lending contracts (lending from multiple sources). MVPs allow a majority of creditors to bind a minority to the terms of a restructuring, reducing the power of holdout creditors. The UK is now working with the IMF to promote these clauses.[218]

Committee calls for a consultation on legislation

In June 2023, the International Development Committee said it was "dismayed" at the Government's refusal to even consult on legislation, and cited proposed legislation in New York state amending sovereign debt laws.[219]

216 Government response to the IDC report on debt relief in low income countries, 8 June 2023, Recommendation 5

217 International Development Committee, Oral evidence: Debt relief in low-income countries, 1 November 2022, Q122

218 Government response to the IDC report on debt relief in low income countries, 8 June 2023, Recommendation 5

219 Clifford Chance, Sovereign debt restructuring—Three New York Assembly active bills, 8 June 2023

The Committee's Chair, Sarah Champion, argues that a consultation would help address the "complex" and "unintended consequences" that the Government cites in opposition to legislation.[220]

In July, the Government confirmed its position was unchanged.[221]

[220] International Development Committee, Debt relief in low-income countries: UK Government must bring the fight to the global stage, 8 June 2023

[221] PQ 193406 [Developing countries: Debts], 17 July 2023