HOUSE OF COMMONS

International Development Committee

Oral evidence: Debt relief in low-income countries, HC 146

Tuesday 14 June 2022

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Watch the meeting

Members present: Sarah Champion (Chair); Mr Richard Bacon; Chris Law; Nigel Mills; Kate Osamor; Mr Virendra Sharma.

Questions 1 - 53

Witnesses

I: Tim Jones, Head of Policy, Debt Justice; Dr Stephanie Blankenburg, Head of the Debt and Development Finance Branch, United Nations Conference on Trade and Development; Sonja Gibbs, Managing Director and Head of Sustainable Finance, Institute of International Finance.

II: Jason Braganza, Executive Director, African Forum and Network on Debt and Development; Mae Buenaventura, Debt Justice Programme Manager, Asian Peoples' Movement on Debt and Development; Paul Steele, Chief Economist, International Institute for Environment and Development.

Examination of Witnesses

Witnesses: Tim Jones, Dr Stephanie Blankenburg and Sonja Gibbs.

Q1 **Chair:** We are starting the International Development Select Committee's inquiry into debt relief in low-income countries. We have two panels today and our objective is to consider and reflect on the very serious global debt crisis. It is, of course, linked to Covid, the war in Ukraine and rising inflation, but it is more fundamental than that and I hope that that is what we are able to pick away at.

The UK is active in global debt relief initiatives, but we have to be honest—there has been insufficient progress on this. The lack of participation by the private sector in debt relief schemes is frequently cited as an issue and is the major focus of this inquiry. The purpose of this session is to understand the scale of the global debt crisis and the impact that debt can have on low-income countries, and to look at lessons learned and current debt relief initiatives, with a view, hopefully, to solutions.

The first panel is made up of three people and their organisations—Tim Jones, Dr Stephanie Blankenburg and Sonja Gibbs. I will ask Tim and Stephanie to introduce themselves and their organisations to begin with.

Tim Jones: Thank you very much for the invitation. My name is Tim Jones. I am head of policy at Debt Justice in the UK. We are a UK organisation that works with allies around the world to campaign for changes to help countries get out of debt crisis and reduce poverty and inequality.

Dr Blankenburg: Thank you also from my side for the invitation on this important topic. I lead a branch at UNCTAD, the United Nations Conference on Trade and Development, which looks in particular at debt and development finance issues. I have led this branch for the past seven years.

We do regular policy analysis on developing country positions and problems. We also provide technical co-operation to debt management offices in, in particular, low-income developing countries, and we are actively involved in what we call intergovernmental work that guides and assists negotiations between UN member states.

We also engage regularly with civil society organisations. Just as an example, this branch prepares the reports by the United Nations Secretary-General on external debt sustainability and development, which, in turn, form the principal basis for negotiations about the United Nations General Assembly resolutions.

Q2 **Chair:** Thank you very much. We are also joined remotely by Sonja Gibbs. Sonja, we are very grateful that you have adopted the House of Commons' colour scheme to the room that you are calling us from. I wonder if you could tell us a little bit about your organisation and the work you do within it, please.

Sonja Gibbs: It is my pleasure and it is a great honour to be here. Thank you very much. Hello to Tim and Stephanie. It is great to see you guys. I am Sonja Gibbs. I am with the Institute for International Finance, which is a think tank and global association of financial firms, with 450 members in 70 countries. Half of those are from emerging markets, so we have a very big stake in the sanctity of debt markets and how efficiently and well they are run.

I would also note that many of our members are from the public sector—for example, multilateral development banks, central banks, finance ministries and so on—so we have a unique public/private sector space to occupy. The perspectives that I am going to share with you today are from the point of view of private sector creditors, since that is what I think you are looking for from me.

Q3 **Chair:** We are really grateful that you are joining us. I know that, throughout the sector, there is a lot of gratitude that you are able to join us today, so thank you for that.

We are struggling to hear you. It might well be your internal microphone, if you are able to turn that up. To all panel members, we are pushed for time today, because we are expecting a vote, so, if I could ask you to be brief but informative in your answers, I would be very grateful. We may well ask you to follow up in writing if we do not have time to hear your full evidence.

If I could start with the first question, which is directed to Dr Stephanie, the International Monetary Fund and World Bank have issued stark warnings about the number of countries facing debt distress. How serious is this problem in low-income countries at the moment?

Dr Blankenburg: To be brief, so has UNCTAD for a number of years now. We are very concerned about the seriousness of this debt crisis and the evolution of financial and debt distress in low-income countries, but also in lower middle and, to some extent, even upper middle-income countries in the developing world.

From our indicators—I will not go into the numbers; they will be included in our written evidence—we can see upward trends and quite steep increases, at least since the global financial crisis, in the stocks of total external debt and, very importantly, in the relationship between total external debt and export revenue. Particularly in low-income countries, export is not the only way but the main way in which they can earn foreign exchange.

In low-income countries, we are now looking at, on average over the past decade and with an upward trend, debt stocks making up double their export earnings. That is not as high as it was at the height of the debt crisis at the end of the 1990s and in the 2000s for low-income countries, but we are also seeing increases in lower middle and upper middle-income countries, where their debt obligations in one year absorb all the export earnings in principle, and that is not a sustainable situation.

Q4 **Chair:** Does that surprise you in terms of middle-income countries?

Dr Blankenburg: The brief answer is no. The reasons are different from these developments in low-income countries.

Q5 **Chair:** What are the reasons?

Dr Blankenburg: It is not surprising. I will come to the causes in a second. I just wanted to add that a big element of concern here is also the very high servicing costs on external debts relative to exports, and particularly relative to Government revenues. Again, this has been an upward trend from before the pandemic, with the situation that arises now with the Russia-Ukraine war, but these are really unsustainable, on average, debt-servicing burdens.

Just to give you an idea of how important exports are, as I already said, we are looking at both low-income and primarily lower middle and also some upper middle-income countries in terms of the share of Government revenue that they have to use just to service their public external debt or Government external debt. In 2020, in Somalia, the share of Government revenue that went towards this was no less than 98.9%. In Sri Lanka, we are looking at almost 60%. In Angola, we are looking at around 56%. We have a whole raft of countries where we are looking at between 20% and 40%, and then another raft where we are looking at between 10% and 20%, which is still too high.

Q6 **Chair:** In your opinion, were countries ill-advised when they took on these debts or were they just desperate and needing to take it on regardless?

Dr Blankenburg: This was desperately needed debt, but the way in which it was taken on—in particular with a shift towards private creditors, which was not quite as extreme in low-income countries since private creditors are less interested, simply, but particularly in middle-income countries—has meant that the debt taken on, which was needed, was taken on in ways that are not affordable, to be brief.

As for the reason that this debt is needed, there are two very short perspectives. First of all, it is important to understand that external debt is an important financing instrument for development. There is no country in history that has developed or transformed fundamentally without mobilising external finance, including debt. The issue is not so much the debt per se, but how this debt is managed. By this, I mean not only domestically, which is, of course, an issue, but how it is managed in the global economic system and how affordable it is.

Chair: Let me pause you there, because we want to come to that with our questions.

Kate Osamor: I have a question for both of you, but I will start with Tim. Welcome, Tim. It is good to see you again. A recent UNICEF report shows that, in 2019, 25 countries spent more on debt servicing than on education, health and social protection. How is the progress of low-income countries towards achieving the SDGs affected by having to service debt?

Tim Jones: The progress is being halted or potentially put into reverse. We have just put out research showing that public spending by countries with the highest debt is due to fall between 2019 and 2023. It is absolutely catastrophic that, at a time of trying to recover from a global pandemic and with the energy and food price crisis, Governments are having to cut back on spending in order to pay debts.

In contrast, countries with the lowest debt payments are increasing public spending, so we have evidence of the impacts of the crisis, and this replicates research that we have done before, where similar figures were seen between 2015 and 2019. There are some countries like Sierra Leone and Chad that, so far over the course of the SDGs, have far lower public spending now and in 2023 than they did in 2015.

Q7 **Kate Osamor:** Would you be able to provide the Committee with that evidence?

Tim Jones: Yes, we have all those figures. We have submitted our written evidence, so they are all in that.

Dr Blankenburg: In total support of what Tim has just said, we are also very concerned. We have very briefly looked at the ongoing debt crisis, but, of course, this has been hugely exacerbated by the pandemic and now by the Russia-Ukraine war, which also has very considerable impacts on developing countries.

Maybe we can come back to this at a later stage, but from the UN perspective and, therefore, also from our work on meeting the 2030 agenda or the SDGs, we recently calculated the financing gap that arises from shifts in Government expenditure away from social and other expenditures to cover expenditure that arises from trade deficits, on the one hand. On the other hand, the investment requirements for at least the core SDGs for climate change are not included yet, because it was slightly before the impact of the Russia-Ukraine war.

Just to put the debt figures that you might see in perspective, only until 2025, in low-income countries, we are looking at a financing gap, if we take account of what Government revenue will be available and what we can broadly project will be private capital inflows. We have accounted for these.

The gap measures the investment and expenditure requirements arising from the issues I have mentioned until 2025. That is just short of $1 trillion—$832 billion—in LICs, $7.4 trillion in lower middle-income countries and $9.6 trillion in UMICs, and this is an optimistic estimate. I can provide this also in the written evidence for you. We have produced that analysis, which we think is quite interesting. We also got interest from the OECD, which does similar calculations. That just puts into perspective quite how catastrophic it is, as Tim pointed out, unless things change pretty profoundly, including debt relief.

Q8 **Kate Osamor:** I just wanted to pick up on some of the things that you said. The debt service suspension initiative, which I am sure you know about, was introduced during the pandemic as a stopgap measure, and the common framework was brought in shortly after the DSSI ended. Have these been effective, would you say, at tackling the current crisis?

Tim Jones: No, but, to start with a positive on the DSSI, what was good about it was that the world acted quickly to agree it in April 2020. At the start, the G20's ambition, in its first statement about it, was that Governments would suspend debt payments owed to them, but also the private sector would be called upon to do so, as would multilateral institutions. The problem is that Governments did suspend debt payments, but the private sector and multilateral institutions did not, and so, over the course of the suspension initiative, only 23% of external debt payments from countries that applied for the suspension were suspended, because all the private and multilateral debts continued to be paid.

The G20 has set up the common framework as this new way to do debt restructuring. Three countries have applied. None has had any debt restructured yet, 18 months after applying. In a case like Chad, Glencore refused, for many months, to take part in negotiations and has been holding up progress there. The Zambian Government directly appealed for a suspension of debt payments, which companies like BlackRock refused to do, and now the negotiations are dragging on.

We have a problematic dynamic that these have not gone anywhere, but also that the people who have been active are Government lenders like China, and the private sector has been left out, which has created bad feeling, such that China now does not trust the West, because western private creditors did not take part in the suspension initiative.

Q9 **Mr Bacon:** This is probably for Sonja as much as for you two. One thing that I am trying to get my head around is the extent to which this external debt burden that is not sustainable, to use your words, Dr Blankenburg, could have been known at the time by the people who were doing the lending and by the people who were doing the receiving. It is quite possible that many of these loans started when we did not have a global pandemic.

What I am trying to distil in my head is the extent to which it is because of the pandemic and the extent to which it should have been known anyway, in which case—and this is perhaps for Sonja Gibbs—should your member firms not have thought about this before they lent the money?

One of the risks of a private sector loan is that you might not get it back.

It is commonly the case that banks lend money in the expectation that they will get it back; otherwise they would start quite rapidly being ex-banks. People go on about banks, but, if you asked most people whether they would put their money in an unprofitable bank or a profitable bank, most people would say the latter, because they hope that their savings will be safe.

I would like to know, first of all, why the companies lending the private sector money did not think about it harder before they lent the money. Why did the borrowers—in most cases, middle-income countries—not think harder and have independent advice as to whether this was sensible to take on?

Sonja Gibbs: That is a really good question and I would put it first in the context of distinguishing between low-income and middle-income countries.

Mr Bacon: That is why I specifically said "middle income".

Sonja Gibbs: Among the poorest of the poor—the very lowest-income countries—close to 80% of that debt is held by official bilateral and multilateral creditors, so the private sector does much less in this space, as you might imagine. Only about 15% or 20% of the debt is held by the private sector, which complicates its participation in the debt service suspension initiative, as we have just discussed. For middle-income countries, however, the proportion of debt held by the private sector is much higher.

As to the question of whether they should have known, it is very hard for one individual private creditor to get a sense of the whole system and how changes are happening.

Q10 **Mr Bacon:** Can you say what you mean by "the system"? I do not understand that sentence.

Sonja Gibbs: If you are one bank and you are lending to one country, you probably have a good sense of that country's debt levels and credit risk. That is your business. What you have less sense of is the fast-changing environment for all global debt for all these countries. With over a decade of low interest rates, debt shot up, but that is very hard to see.

Q11 **Mr Bacon:** I would have thought that you would have been highly aware of both the individual circumstances of the entity to which you were lending and the wider picture in which you were lending. When I worked in a bank, which was, admittedly, many years ago, I was introduced early on to an entity called counterparty risk. The purpose of it was to look specifically at the risk that we were exposed to as a bank because of the entity that we were lending to, and its other risks, but we were also aware of the broader economic picture—what the Bank of England was saying about interest rates, what the Government were saying about borrowing and so on. Why would you not be as aware of those broader issues in relation to, say, if you were lending in Asia, the whole situation in south or east Asia as you were about the specific client to whom you are lending? That is part of your job as well, is it not?

Sonja Gibbs: The awareness of the overall picture was there, but not when the music would stop.

Q12 **Mr Bacon:** The music has not stopped. We are still printing money hand over fist. I did look through your membership, which includes Goldman Sachs and BlackRock. Let us not go into the business of Goldman Sachs inventing and selling products so that it could bet against its own clients. That is probably not going to help, but the fact is that the banking industry helped crash the world, as a result of which we then had an enormous amount of printing money. The number I used to carry around in my head in terms of QE was about £425 billion before the music stopped, but then it started again, so £425 billion is not the half of it. It is literally now well over £1 trillion of QE that we have done just in this country, so the music has not stopped, has it?

Sonja Gibbs: Interest rates are rising.

Q13 **Mr Bacon:** Yes, they are now, eventually, but they have been at ludicrously and artificially low levels for a very long time and, after 10 years of printing money, we have inflation, surprise, surprise. What I want to know is why all your members went into this and created situations where their clients had, collectively, so much debt that it was, to use Dr Blankenburg's phrase, not sustainable externally.

Sonja Gibbs: You go back to the question that debt has a reason. Debt is for development. At the same time that we have had these low interest rates, and particularly in the past couple of years when the impact of the pandemic has become so clear, there is also pressure on the private sector to step up for the provision of what is, essentially, development finance—ESG investing, financing for development, climate finance and all of these things. That is also important, and debt is also part of development. You go from an economy that cannot manage debt and has very little debt to an economy that has a reasonable amount of debt—40%, 50% or 60% of GDP—and needs to be able to manage that well.

It is a collective enterprise and I will say that private creditors have done a lot on capacity building and helping borrowers be able to manage this debt responsibly. With the COP process in Glasgow and the one that we have coming up in Egypt, a lot of this is going to crystallise this thinking of how you can get sustainable private finance to help these climate and development goals, because it is really important.

Q14 **Mr Bacon:** I am going to stop you there, because you use the word "sustainable". Dr Blankenburg, in your first answer, you talked about the external burden not being sustainable. Would you like to comment on what you have heard and on my earlier question?

Dr Blankenburg: Yes. We share many of your concerns. As Sonja Gibbs knows, UNCTAD has developed soft law principles over many years, in consultation with the IMF, the World Bank and over 70 countries, which lay out both borrower and lender responsibilities. Those have met with a lot of interest. Soft law, of course, has its own limitations in that it is not binding et cetera, but it is meant to be a first step towards harder law in this regard.

A lot of focus, certainly in the international community, has been on borrower responsibilities and borrower debtor transparency, for example. Much less has been on lender responsibilities and, in particular, on lender transparency. Progress is being made, and the IIF has been actively involved with this, but there is a reasonably long way to go.

Part of the problem, fundamentally, is that, of course, from a development perspective, when I said that debt should be affordable, it also means that it needs certain maturities and low interest costs et cetera. A lot of developing country debt has been very attractive for short-term private investors, which, by their very nature, are profit-oriented in a more or less speculative manner. It has been very attractive because of the situation in advanced countries, with quantitative easing and low interest rates. That made this debt more attractive, but from the point of view of development they mean higher exposure to market risks and shorter maturities et cetera.

There are certainly cases where you can question borrower responsibilities. For all sorts of reasons in developing countries, lending that was too easily available was also taken up in cases when it should not have been, and we all know the cases. That is very easy to say when, at the same time, your access to international, more affordable concessional finance gets less and less, and there is also a responsibility for Governments here.

Q15 **Mr Bacon:** Other people want to come in, but, very briefly, I remember that, in 2010, the Government legislated to prevent people in low-income, highly indebted and poor countries being sued. That is not necessarily the same for middle-income countries. To what extent is it now a case of making legal changes that require private creditors to take steps that they would rather not take? Is that a path that can be gone down? Is it practical? Is it what you would like to see?

Tim Jones: Yes, legislation is needed to require private creditors to take part in debt restructuring. The 2010 Act applied just to heavily indebted poor countries and only to their old loans up to 2004, so it now does not help. At the moment, Mozambique is being sued in UK courts for private sector loans. I would challenge the view that low-income countries do not owe debt to the private sector. Countries like Chad and Mozambique are heavily indebted to the private sector.

Q16 **Mr Bacon:** Most of these contracts are construed in English law, and I wanted to ask you to what extent that might help, but when these cases go through—and, in many cases, presumably, the country loses and the bank wins—what happens? Is there a vulture fund that ends up just owning assets in Chad or Mozambique that previously it did not? How does it work?

Tim Jones: If a company sues and wins, it then gets a judgment and tries to seize the assets. This was most recently done for Argentina and caused a whole other round of defaults, which is a very long story. Also, just the fact that the pressure exists that countries can be sued in the UK—and 90% of bonds that are owed by countries that are eligible for the common framework are governed by English law—is an impediment to countries seeking a debt restructuring in the first place, because that is one of the potential consequences.

Mr Bacon: They think it will affect their credit rating.

Tim Jones: Credit ratings are an issue that is not really that important, but there is a big problem in the system that Governments do not seek to restructure their debts when they need to.

Q17 **Mr Bacon:** Is there another problem in that banks will turn around and say, "Well, hang on a minute. I had terms. They were clear. We both signed it. Now you are legislating to change it", and that you would de-incentivise future lending?

Tim Jones: Going back to your original question, when the banks lent to Zambia, it was at an 8% interest rate at a time when they were lending to the UK at 0%. The supposed reason for that is that it is a high-risk loan, and that risk has materialised with the crises that we now face, so they should accept that they are not going to be repaid. BlackRock could make 110% profit out of its Zambian debt, if it is paid in full, because the bonds have been trading cheaply and because of the high interest rates, so it could cancel half the debts and still break even.

Q18 **Chair:** This Committee did ask BlackRock to attend, but it declined. Could we have a similar question around whether private creditors should be compelled and whether we should legislate, to both Sonja and Dr Stephanie, please?

Dr Blankenburg: We certainly think so. Just to briefly come back to this, it is a matter of the access that developing countries have to roll over the external debt and to contract new debt under reasonable conditions. That, in turn, requires that we have a framework in place that obliges all creditors—bilateral, multilateral and private—to sit around the table when it comes to having to face up to risk. A certain loss or implicit, at least partial, debt cancellation or debt relief in various forms is then very important.

This can be effectively reached only if all these creditors sit around the table, which is why we have advocated for a long time, going back to the 1970s, an internationally binding framework for sovereign debt restructuring. As you probably know, little progress has been made on all of this. Let me put it this way: both Governments and their lobbyists that profit from the currently fragmented system are, of course, not necessarily very much inclined to support this effort.

This has happened in the United Nations General Assembly, when what really were broad soft law principles were adopted, but they were adopted exclusively by developing countries. There were then a number of abstentions, including two small developing countries and a number of advanced economies, and six of the most powerful advanced economies, including the UK, objected.

Sonja Gibbs: I wanted to make two points. One is that, when you are thinking about dealing with debt relief or debt restructuring, it is really important to think of this on a case-by-case approach rather than as a top-down, one-size-fits-all solution. When you think about it, the creditors for every single one of these countries are different. In the types of instruments that they hold, the types of borrowers that they are and the depth of their domestic markets, each case is different. For that reason, there is a system in place that works very well to look at these problems when they arise.

For example, our principles for stable capital flows and fair debt restructuring were supported by the G20 in 2004. To summarise them very quickly, you need good faith negotiations between borrowers and their private creditors. You need enhanced debt transparency and a timely flow of information. All of this contributes to market access—debtor-creditor dialogue, co-operation and creditor committees.

When restructuring becomes inevitable, good investor relations supports capital flows to emerging markets, which is critical. There are not enough tax dollars in the world to do all public sector financing for all of the sustainable development goals needs of low-income, let alone middle-income countries, so you need the private creditors at the table and the system has to work for everybody. A key component of this is fair treatment for all stakeholders. When you have a diversity of creditors, it is important that they all be at the table and all receive fair treatment.

In that context, I would mention here the role of de-risking and of blended finance. If you want to incentivise private sector flows of what is, essentially, lower-cost finance—bringing down the cost of private sector finance so that it is affordable for these countries—techniques like blended finance should really be scaled up. That is an important body of work, for example, in the Glasgow Financial Alliance for Net Zero and with the multilateral development banks, including the World Bank. It is a promising area to help.

As for the question on legislation and whether that is desirable, you have to look at the balance of pros and cons. On the one hand, if a top-down legislative approach can be internationally co-ordinated, which is challenging at the best of times, let alone now, when we are dealing with Russia's war in Ukraine, it can accomplish a short-term goal, for example, of debt relief. Maybe that could be accomplished, but at what cost to the longer term and the effective functioning of private capital markets?

Mr Bacon: That was my question.

Chair: Let me pause you and bring in Chris.

Q19 **Chris Law:** Sonja, I was just about to ask you some questions as well. I am just going to pick up on two points. First, you said that your own think tank, the Institute for International Finance, argues for a case-by-case approach, and that is what we should be considering. How will private creditors—and, in particular, asset managers such as BlackRock, which we will touch on shortly—cope with multiple defaults?

Sonja Gibbs: Bonded debt is fairly straightforward to reprofile and restructure. There are well-established processes for doing these creditor committees and so on. BlackRock, or any other large international asset manager, has a clear, well-established process. Bonds have collective action clauses. There are bondholder committees that are rapidly established with the borrowers to work all of this out, again on a case-by-case basis, because they are all different. Argentina and Zambia are very different circumstances.

How would they cope with multiple defaults? I would say sequentially. You just have to break it down one bit at a time. It is very difficult to contemplate a solution that is going to work in all circumstances and can be applied across the board. That is the challenge for dealing with these very different types of creditors—official, multilateral and private. All have a role to play, along with the borrowers, in managing their debt responsibly.

Q20 **Chris Law:** You have also contended that private sector participation in global debt relief schemes should be voluntary. What incentives does the private sector have to volunteer? Is it not the case that private sector organisations can just have a free ride on debt relief provided by multilateral and bilateral creditors, allowing them still to be paid regardless?

Sonja Gibbs: There are two things here. First, with regards to the debt service suspension initiative, my organisation and many others, and private sector creditors, spent a great deal of time and effort to set up a framework for private sector participation in the DSSI at the request of the borrower. It cannot be done unilaterally. The borrower needs to step up to the plate and ask for it. As Tim mentioned, and as is pretty well known, the implications of the DSSI for credit ratings were such that countries became very worried about their ability to access markets on an ongoing basis, because it is just not the way that private markets work to do things on a one-size-fits-all basis.

Despite the lack of private sector participation, the structure was and still is there, should such a debt service suspension again become an issue. It is not a lack of willingness of private creditors, because we spent many weeks and months thinking about how to make this possible for private creditors to participate.

Q21 **Chris Law:** I am going to challenge you on this. One of your members is the world's largest asset manager and, in fact, money manager, BlackRock, whose holdings, if I am not mistaken, run into trillions. In fact, it is bigger than the GDP of any country other than China and the US.

Zambia is currently on the brink of default. BlackRock, as we have heard today, has refused to negotiate with Zambia, but also to come to this Committee. I make this plea on behalf of everybody on the Committee that BlackRock comes to speak for itself, but I am asking you, Sonja, why BlackRock is refusing to engage in negotiations. Perhaps you can give us some light on why BlackRock is not participating here today, while we are at it.

Sonja Gibbs: I cannot speak for BlackRock. That is simply not possible.

Q22 **Chris Law:** It is one of your members, though, is it not?

Sonja Gibbs: Yes.

Chris Law: So you represent it to some degree.

Sonja Gibbs: What I can do is give you some broader perspectives from private bondholders.

Q23 **Chris Law:** I want to speak specifically about Zambia. I am asking you a question about whether or not voluntary is good enough. Many of us on this Committee are making that question quite pertinent. Zambia, which is on the brink of default and really does want to restructure its debt, cannot get BlackRock to the table to renegotiate. Do we need to take further steps, including legislation, in order for this to happen, or what needs to happen to incentivise private companies to get round that table and negotiate?

Sonja Gibbs: The specifics of each case are going to be different. In the case of Zambia, there is a range of private creditors. Discussions between Governments and individual creditors are private to them. It is not for us to know exactly the specifics of which private creditors are and are not coming to the table.

I will say that bondholder committees are rapidly and actively formed and negotiate in good faith with borrowers, but private creditors are not without fault. Individual private creditors can have their own specific reasons for engaging or not, but it is also the case that you have multilateral creditors and official bilateral creditors, including non-Paris Club creditors, at all of these tables, and all parties need to be appropriately represented in order for this to work. The borrower needs to play its part in communications and good investor relations as well.

Tim Jones: Just on the suspension, the framework was never created to enable the private sector from the Government's side. Legislation could have been introduced in the UK and New York to enable it to happen, and it was not. Countries like Zambia and Chad did specifically request a suspension from the private sector, and that was refused. I just want to counter this idea that, somehow, the private sector was willing to do the suspension, because, in the cases where Governments directly asked, it did not happen.

Q24 **Chris Law:** Sonja, if I just move this on a bit, because we are short of time, I will ask you a little bit more. Given your role in the IIF, what discussions and meetings have you had with Government officials in the Treasury or other Departments on this issue of debt in the global south? Also, can you disclose what conversations you have had with the UK Government and officials, and what impact this has had on debt relief?

Sonja Gibbs: Our conversations with multilaterals and specific Governments, including the UK, which is extremely proactive on these issues, as well as the French Treasury, the US Treasury, other G20 Governments and the G20 international financial architecture working group, have been ongoing over the years.

I would make a couple of points, one being on debt transparency, where we have worked, indeed with the strong support of the UK Government, for which we are very grateful, on establishing a repository for debt disclosures from private sector lenders to a specific group of low-income countries, and that is proceeding very well. We are building support for that initiative.

The UK, under a G7 mandate, has a private sector debt working group, which is looking at two things—one being majority voting provisions for loans, which would be like collective action clauses for bonds to help speed up and make things more efficient, and the other being climate resilient debt instruments.

With that and with the update of our principles for stable capital flows and fair debt restructuring for ESG considerations specifically, we are trying to improve the overall investment framework so that ESG flows can be attracted to these vulnerable countries. It is really important that we continue to consult with the IMF, the World Bank and the UK Treasury to make these principles as effective as possible and to give our active support to groups like the G7 and the Paris Club.

Q25 **Mr Sharma:** Some low-income countries seem to be unwilling to apply for debt relief under the common framework for fear that it will affect their credit rating. How can we get around this issue?

Tim Jones: There is a genuine problem that countries are not willing to renegotiate their debts soon enough, and the IMF has said consistently that debt restructuring happens too late. I do not think it is to do with credit rating agencies, because I do not think that the private sector listens to them.

For example, in the case of Ghana, its bonds crashed in value from the autumn of 2021 and were then downgraded by the credit rating agencies in February this year. The reason that they gave for that was that Ghana cannot now borrow in international markets, because the value of its bonds has crashed. The credit rating agencies follow what the private lenders do, not vice versa.

The problem with them is that Governments listen to them too much, but the private sector does not, so we should all just stop listening to credit rating agencies. The real problem, though, is that Governments think, because the financial lobby has created this idea, "If I apply for debt restructuring, I will never be able to borrow again", and that is just not true. If you apply for debt restructuring, at that point in time you will not be able to borrow from those creditors again. You will continue to be able to borrow from your domestic banks—the day-to-day borrowing that you need to do—but that is already the case.

Across the board, countries in debt crisis like Ukraine, Ghana, Sri Lanka or Zambia are not able to borrow from private financial markets at the moment anyway at anything like a reasonable interest rate, so you are not losing anything by applying for the debt restructuring. Having done a debt restructuring and made the debt sustainable, that is how you are able to borrow again. The credit rating agency Scope Ratings has made the point very clearly that debt relief leads to being able to borrow again, so we need to counter that myth.

There are other reasons why countries are not applying for restructuring. First, countries that do have not got anywhere. The three countries that have applied for the common framework 18 months in have not had any debt restructured.

Secondly, you open yourself up to legal challenges and to the whole power of the private sector. That is why you need things like legislation to make debt restructuring easier, to increase the power of debtors in negotiations and to make it easier for them to apply for the process. It is not a top-down blanket that applies to everyone. It is about creating a way for a country whose debt needs to be reduced in order to be sustainable to apply for a debt restructuring on a case-by-case basis.

Sonja Gibbs: May I first respectfully disagree with Tim on the point about credit rating agencies? Credit ratings are a fundamental part of pricing credit and without them—

Chris Law: It did not work in the crash.

Mr Bacon: It did not work in the crash.

Chris Law: Waste of time.

Mr Bacon: They conned the whole world, did they not?

Sonja Gibbs: I would not argue that they are in any way perfect. It is a flawed system. However, credit ratings enable markets to be deep and liquid. You have to have some degree of standardisation of credit assessment in order for markets to be able to function. On that, what happens to a country's credit rating is incredibly important in its ability to access markets.

Just on the common framework, there are efforts underway to improve this, and that could play an important role, in part by ensuring broad participation of creditors with good burden sharing, if there could be greater clarity on restructuring steps and earlier engagement of official creditors with debtors and with private creditors. In other words, you do not have one set of negotiations that are just official creditors, and another that are private sector. There needs to be more co-ordination between the two.

There is this concept of a standstill in debt service payments during negotiations, so that is another idea under consideration that you could get the common framework to work better by implementing that and specifying the mechanics around comparability of treatment.

Q26 **Nigel Mills:** Stephanie, starting with you, we are in the slightly paradoxical situation of the UK not holding much bilateral debt, and yet around half of it is governed under our law. What can or should the UK Government be doing? Is it just a case of lobbying multinational organisations to do something, or is there a role that we can play here?

Dr Blankenburg: Yes, there certainly is. That paradox is correct. When we speak about immediate debt relief that the UK could give, its current lending to low and middle-income countries is quite low compared to other European countries, or the G7 overall, not to mention China. Of course, most of its lending comes from commercial banks and from bondholders That is one side of the paradox.

It also has this extraordinary influence through English law governing a large part of developing country bond debt. Tim already mentioned that that concerns about 90% of bond debt in DSSI participating countries. There are really two avenues that one could think of.

One is to take the UK Debt Relief Act of a decade ago and to broaden it, so that it is not linked to meeting certain conditions that had to be met under the HIPC and MDRI initiatives. It could be broadened to creditors not being allowed to behave as noncorporate creditors or vulture funds, so to speak, unless, for example, what they would have had to write off or participate in under a common framework is met. That would be one way of going ahead.

Another way, which has been an issue for some time, but, under the current US Government, is becoming of more interest, is a long-suggested model of New York district legislation on bond funds to ensure that, in terms of private creditors—two-thirds is normally what people talk about—a majority agreeing to a particular debt restructuring would be binding for a creditor. There have been many variations on these so-called collective action clauses, but this would be a way to go forward in terms of UK national legislation.

In terms of multilateral processes, the UK has, in the past, played a quite important role and has a voice in the United Nations context to support and convince other, more hesitant advanced countries to consider a sovereign debt restructuring framework. Again, I entirely agree with Tim and disagree with Sonja that this is not a top-down approach. This is a framework. It does not exclude applying this framework on a case-by-case basis, but it would introduce certain binding rules about private creditor participation, not about restructuring outcomes.

Mr Bacon: Legal minima, so to speak.

Dr Blankenburg: Yes, legal minima. We saw in the pandemic how difficult it is to get debt standstills and certain emergency measures off the ground at a sufficient scale in times of global crisis, and we have three of them. We still have an ongoing pandemic in developing countries, we have the impacts on developing countries from the Russia-Ukraine war, and we have the climate crisis. That means that the idea is unrefuted that one wants, and that it is necessary, to have private sector participation in developmental processes. That cannot, however, be defended—and fairly dogmatically—as only a carrot approach, which has to be carrot, with no sticks attached to it. That is the current situation.

That has never been successful in history. It is not going to be successful here. According to UNCTAD, but above all, in this case, according to the OECD, it has not been successful in terms of blended finance relative to the objectives. There were big promises attached to this and a fraction of this has been met, and even then under very problematic conditions in terms of cost sharing between the debtor and the creditor, for example, in public-private partnerships.

I can't go into the detail here, but the idea that the way forward is to simply ignore it has been proven wrong, insufficient and ineffective for too many years and in too many cases. "Legislation" is a difficult word, because that is automatically national, but a binding framework on how debt standstills can be put into place, what areas debt standstills should cover, the obligation of private creditors to participate, and rules for this participation, does not prevent adjustability and flexibility in individual cases. This opposition to having this international framework and looking on a case-by-case basis is spurious in many cases.

Chair: We have a vote coming shortly. We still have some more things to say and I want to get on to the second panel, if we can. Nigel, can I take it back to you?

Q27 **Nigel Mills:** Sonja, a lot of your members will be making very worthy statements about ESG investing and lending, but it seems to stick in the throat a bit when they are trying to milk as much money out of countries that they know cannot repay at the expense of vital public services. Is there not a moral duty on your members to make some progress here when they can see that countries are really going to struggle to pay this?

Sonja Gibbs: In that sense, it is very heartening to see these two agendas coming together—the debt and the ESG. One of the questions that were discussed for this session was the interaction between global debt and climate. The realisation that you cannot have a good climate environment and address climate vulnerabilities without sustainable debt is very important in terms of seeing these two things come together.

I would push back a little bit on "make as much money" out of the borrowing countries as possible, simply because it is not in a creditor's interest to have a country with unsustainable debt. There is a great deal of work there, remembering that lenders and creditors have always engaged directly, bilaterally, with their borrowers to have the right environment for lending and to be able to lend on a sustainable basis.

That is a slightly distorted impression of the overall picture, and the work of groups like the Net Zero Banking Alliance, the Net Zero Investment Alliance and all of these groups that make up GFANZ is going to be incredibly important in helping us progress on both these agendas—on sustainability and on debt sustainability.

Q28 **Chris Law:** Sonja, coming back to my last question, I was not sure that I was going to have the time, but I want to ask whether you agree, along with the members of your think tank, that the time has come for the UK Government, in coordination with other Governments, as you have talked about, for example the US Government, to introduce legislation that compels private creditors to come to the negotiation table. At the moment, you can sit on your hands, even when borrowers have come to ask to do debt restructuring. Do you not think that it is time that we should be leading in this, both in the UK and in the US, through legislation?

Sonja Gibbs: I would say that the UK is certainly leading on this.

Chris Law: But it is still voluntary at the moment.

Chair: Let her answer.

Sonja Gibbs: When you look across, for example, major G7 or G20 Governments, the UK is far and away the most proactive on debt relief issues, informed by your very well-respected and well-informed NGO community, so the work that Tim and his peers are doing, the work that Stephanie is doing, and the work that the UK G7 working group is doing.

Chair: That is good to hear. Thank you all very much. I am now going to close this first session. Thank you very much, Sonja, Stephanie and Tim.

HOUSE OF COMMONS

Examination of Witnesses

Witnesses: Jason Braganza, Mae Buenaventura and Paul Steele.

Q29 **Chair:** We are joined by Jason Braganza, Mae Buenaventura—a great name, Mae—and Paul Steele, equally great as I come from a steel town. Can I apologise to panellists? We are expecting a vote very shortly, so when that vote happens I will pause the session, Members will go and vote, and we will come back, reopen the session and run until 4.30, so please bear with us while that happens.

Can you tell us a little bit about yourselves and your organisations?

Jason Braganza: My name is Jason Braganza and I am the executive director of a pan-African civil society organisation called the African Forum and Network on Debt and Development. For the past 25 years, our work has been to advocate and influence policy on responsible borrowing and lending, as well as to promote public participation and citizen engagement on issues of public debt.

Mae Buenaventura: I hope that you can hear me well. There is a thunderstorm right now in my country. I am Mae Buenaventura, based here in the Philippines and working with an alliance called the Asian Peoples' Movement on Debt and Development. We were founded on the very issue of debt, when the first waves of the crisis in the 1980s began. We continue to work in the areas of climate justice and climate finance, on debt justice and, of course, on development finance and tax justice. We have a presence in about 10 Asian countries, and we are mainly using advocacy and campaigning as our means to educate and mobilise people.

Paul Steele: Thanks for the invitation by the Committee. I am Paul Steele, chief economist at the International Institute for Environment and Development, which is a think tank based here in the UK.

Q30 **Chair:** My first question goes to Mae and Jason. How concerned are you about debt levels in the regions covered by your organisation? How does the situation that we are in now compare with previous debt crises?

Jason Braganza: The concern is a very real one, especially given that there is a different type of integration of the African economy into global trade, economics and commerce. When you look into the way the African economies have integrated into trade and finance, we are, as a region, the world's source of raw materials and the engine of many industries that are fuelled by the raw materials that we provide to trade and commerce. When we have shocks like the ones we have experienced through the pandemic, and now with the Ukraine and Russia conflict, it is no surprise that these crises have a very deep effect on the economies.

As a result of that integration into global trade, you have not seen the global system, whether it is trade, finance or commerce, evolve to accommodate an African continent that is this deeply integrated into the global economy, and so the revenues that are supposed to be generated from these industries and sectors have not been developed sufficiently to result in a type of model that has been pursued in terms of debt. This vicious cycle, as it were, has led to a spiral where many African economies are now facing a very serious debt situation.

Mae Buenaventura: We need to recognise that we entered the pandemic with already elevated levels of debt from a decade or so ago. We also came from a decade of austerity, so the pandemic really hit hard and led to a massive accumulation of debt levels. For example, in Asia, debt to GDP surged to nearly 300% from 266% in late 2019. For some regions like south-east Asia-Pacific and south Asia, this constituted their entire export earnings for the whole year.

There are fears that, with interest rates rising, we are looking at more debt vulnerabilities that forebode a possible repeat of the 1997 Asian financial crisis, which we know was also caused by excessive borrowings. If that put 65 million Asians into absolute poverty, that was already surpassed in 2020, and the reports say that there are 80 million additional poor in 2020 alone, so it is very concerning.

Sitting suspended for a Division in the House.

On resuming—

Q31 **Nigel Mills:** Mae, some middle-income countries in Asia have high levels of inequality and poverty. Is there a case for extending debt relief to countries in that situation? If we do not, is there a risk that a debt crisis might arise in Asia again and spiral out of control?

Mae Buenaventura: That is one of the issues that we have been raising vis-à-vis the debt relief solutions on the table, in that they ignore the situation of middle-income countries, many of which are situated similarly to low-income countries. There is a problem there that we see middle-income countries as better off because of their national income, but inequalities are so deep. For example, India has one of the largest numbers of millionaires, and yet there are millions in poverty. There is a problem that middle-income countries are excluded. MICs are also heavily exposed to private lenders and have a huge domestic debt. These do not come into the picture, so that is a problem for us.

Paul Steele: You were talking about the debt issues. We also see the link with climate, as the previous speaker, Sonja, was referring to. We have been talking about what we call the triple crisis of debt, climate and nature, all of which are putting a lot of pressure on low and middle-income countries. Some of the small island developing states that are middle-income countries also face a lot of climate vulnerability because of climate-related disasters and yet are very much facing debt burdens at the moment.

Q32 **Chair:** Mae, could I ask you a follow-up on that? Sri Lanka has, effectively, defaulted on its debt. Are you concerned that this may lead to a wider destabilisation in south Asia?

Mae Buenaventura: There are a lot of fears already that this might have a domino effect on the countries of south Asia. Next to Sri Lanka, we also have a very tense situation in Pakistan, which is already exhibiting double-digit inflation and entering into its 22nd IMF lending programme. It is facing a lot of austerity conditions. Bangladesh is also coming up in the list as possibly threatened.

Sri Lanka is really instructive, because it has continued to keep its debt serviced religiously, and we look at this now and we ask why. Why is it that, despite all these lending programmes and conditions being put in place, it has reached this situation? It is something that we need to reflect on.

Chair: Jason, I know that you have a lot going on. Do you need to go or can we ask a few more questions of you?

Jason Braganza: I do have to go, but I am happy to respond to one question if there is a specific one for Africa.

Q33 **Chair:** We have been hearing about figures and percentages. Does this debt crisis have any real impact on the people on the ground?

Jason Braganza: Yes, it does. The difference with previous debt crises is that we are beginning to see an even deeper effect on policymaking. When you look at how Governments are then making decisions on how to allocate resources in sub-Saharan Africa, for almost every dollar that is being invested through the budget system, between 50 cents and 60 cents are being allocated to debt servicing. This means that key services such as health, education, water and sanitation are being traded off in favour of debt servicing.

When you look at it in the current context of this triple crisis of Covid-19, the climate emergency and the Ukraine-Russia conflict, we are beginning to see the cost of living increasing significantly. We are looking at countries, particularly in sub-Saharan Africa, that do not necessarily have the social protection buffers or systems to support citizens.

Certainly, the sentiment among the general public is that life is getting very difficult. Money being diverted towards debt servicing and, in particular, in some cases, private credit at the expense of health and education, as well as water, does leave a bit of a bitter taste in the mouth of the general public.

Chair: Jason, thank you very much for joining this session, and good luck with the rest of your afternoon. If there is anything you want to submit in writing, we would be very grateful for it.

Jason Braganza: Thank you very much.

Q34 **Chris Law:** Only three countries—Zambia, Chad and Ethiopia—have sought debt relief through the common framework. I wanted to know what you know about the experience of these countries and your views on why so few countries have applied.

Paul Steele: As I said, we are trying to make the link between climate, nature and debt, and to say that, in order to make debt relief attractive, you need to have some incentive both for borrowers and for creditors. For borrowers, we see that by linking climate investments so that you reduce your debt servicing and invest some in climate change is good for the borrower. It is also good for the creditor, because climate change is what economists call a public good.

Companies that we heard about in the previous session, many of which have these grand ESG commitments to climate, nature and the environment, are achieving their public relations and shareholder commitments by taking a haircut but also managing to make a link with climate improvements in some of the countries that they have lent to. The specifics depend on the country, but that is what I would say to that question.

Q35 **Chris Law:** The question I was really asking was why there are so few countries applying for this. What do you think the cause is for that?

Mae Buenaventura: The obvious and immediate answer is that many Asian countries are middle-income countries, so we are immediately not eligible. We are considered ineligible for the DSSI and its extension, the common framework. Only four countries applied for the DSSI—Afghanistan, Myanmar, Nepal and Pakistan.

There is also the way that Governments hold precious their credit rating. The Finance Secretary of the Philippines, for example, has said that it will never ever seek debt relief, because it wants to protect its BB credit rating. That is because, once you cut off the access to debt of a country that is already so dependent on debt, it becomes a huge problem.

Also, the debt relief offered concerns only bilateral lenders, and we are more heavily exposed now to private lenders and to domestic debt. Those are some of the reasons.

Q36 **Chris Law:** How important is it that private sector creditors get involved in negotiations under the DSSI and the common framework? Have they acted in good faith?

Mae Buenaventura: Even with past debt relief measures, we have seen that voluntary does not work. I very much appreciate the earlier inputs on seeking the participation of the private sector, because it opens up all sorts of problems as compared to the loans from multilateral creditors. Bonded debts are exchanged over and over again, and you no longer know who to seek accountability from.

With multilateral lenders, we can raise the case, even of illegitimate and odious debts, that "your funding led to this and that environmental destruction and human rights violations", but how do we do that with private lenders? It has become very difficult and fragmented.

Q37 **Chris Law:** Jason is not here to ask this question of. I was hoping to ask him this, because it was particularly about Zambia, but I want to hear your thoughts. We have heard today already about the case of Zambia and that organisations such as BlackRock, which is the world's largest asset manager, have declined to be here before this Committee. They have also refused to take part in the debt negotiations with Zambia. Can you give your own thoughts on the extent of Zambia's ability to bring its debt down to more sustainable levels and how it may have impacted its citizens? Just for this Committee, do you have any ideas about what kind of minimum legislation is required in order to bring private creditors to the negotiation table?

Mae Buenaventura: It is really appalling that BlackRock can get away with this. Here in our region, we also have other asset managers like HSBC, and these firms are also in the business of funding fossil fuel projects, so there is a double or triple whammy there that they are not open to negotiation. They are not compelled to negotiate in any way.

As you mentioned, there is also a cost to the funds raised from debt relief by bilateral lenders going into bailing out the private lenders. The UK is a G7 member and it is very important that we find more ambitious ways, such as through national legislation—and you are sitting in a very powerful position to take this on—to bring the private lenders to the table, because that is what we need now. Everybody is saying that this is an unprecedented crisis and, for that, we also need bolder, unprecedented solutions.

Paul Steele: We have heard mention of previous debt relief efforts, like the highly indebted poor country initiative. You mentioned it. The initiative was linked to poverty reduction, so the creditors, particularly the multilaterals like the World Bank and the IMF, were willing to join the initiative on condition that a share of the money was spent on welfare and poverty.

The case we are making is that, in the current context, where climate change is such a global crisis, this global initiative, as we have been hearing about from colleagues at UNCTAD and so on, should be linked to spending on climate change, just like the HPIC initiative was linked to spending on poverty reduction.

Chair: BlackRock is being mentioned a lot. There are other organisations that we would also like to hear from, which are not engaging fully with the sector or with this Committee. I am quite sure that BlackRock has media monitoring, so it is very welcome to come before this Committee, to have a private session with this Committee or to answer questions. I put that offer to them again, as it rejected our original offer.

Q38 **Kate Osamor:** The Committee is aware that the UN Environment Programme estimates that developing countries will need $300 billion for climate adaptation by 2030, yet, in 2016, only $10 billion was committed.

We have heard—and you have spoken about this—that the high debt burdens in lower-income countries impact their ability to counter or manage the effects of climate change, which can happen at any time with the shocks to the system. How linked would you say are debt and the climate crisis?

Mae Buenaventura: We see those crises as mutually reinforcing. The deeper the debt crises, the harder it is to move forward with addressing the climate crisis. We are really concerned right now about a lot of talk of debt for climate swaps, because that *inaudible*[16.11.03] form of debt relief or debt cancellation. We also want to raise concerns that there is a big possibility that it could fail, because of the magnitude of the debt problem. Even with the largest debt swaps, as in the past, in Chile, it can only do so much before it can really get *inaudible*[16.11.33].

Chair: Mae, we are starting to get the consequences of your thunderstorm. Your signal is looking a bit dodgy. It might be better if you switch the video off from this point and we will have you as voice only. We can still hear you.

Mae Buenaventura: Thank you.

Paul Steele: As a number of us have been saying, the two are very much linked. We heard in the first session that countries cannot afford to spend on health and education, least of all on adapting and mitigating climate change. I already referred to some of the small island developing states in the Caribbean, the Pacific and so on, which are hugely debt distressed as well as being very climate vulnerable and impacted by climate disasters. We see them as very much linked and want to make this explicit link between debt relief and climate spending.

I would slightly challenge Mae's comments about swaps being relatively small scale. They were in the past, and that was one of the challenges with them. They had relatively high administrative costs or what are known as transaction costs. There are now moves to make them much bigger and to upscale them. Recently, Belize has had a $550 million debt swap. There is one possibly going ahead in Cabo Verde, which would also be multimillion. Also, possibly of particular interest to this Committee is that the UK Government are in discussions to provide possibly up to $1 billion of guarantees for debts to the South African utility company Eskom to help it transition to being a low-carbon energy company.

Q39 **Kate Osamor:** In your experience, Paul, what would you say are the advantages and disadvantages of this approach of these swaps?

Paul Steele: In terms of advantages, it allows you, hopefully, to increase fiscal space or to reduce your debt burden, as well as spending some of that money, although not all of it. You only need to achieve what are called key performance indicators to achieve the debt relief, and then you can spend that money on climate and nature indicators. Those are the advantages.

In terms of disadvantages, as I have said, they have been challenged in the past as having relatively small impacts, because of this high transaction cost. At the moment, we are looking at ways to upscale and make them much larger and more significant, so that the administrative costs relative to the total share of the fiscal improvement would be reduced.

Q40 **Kate Osamor:** As you have said, Paul, there will be high transaction costs that involve the negotiating, monitoring and enforcing of the debt for nature swaps. At what sort of financial scale do you think it will begin to make some kind of sense?

Paul Steele: The early ones in the 1990s and 2000s were about $20 million to $30 million. At that stage, it is too small. It is when we get to the Belize example of $500 million, or the possible guarantees by the UK Government for Eskom of $1 billion, where we start to see a real impact.

Q41 **Kate Osamor:** I want to move on now to my last question. With COP 27 approaching later this year in Egypt, is this a chance for the UK to champion debt for nature or debt for climate swaps?

Paul Steele: It is a huge opportunity. The Egyptian Government are quite excited about this approach. The focus of the COP, even at Glasgow, was on climate finance. To some extent, Glasgow succeeded in many areas, but its one big failing was on climate finance. This explicit linking of debt to climate might be a way to unblock this tension about climate finance that has bedevilled the climate negotiations for many years. It is a huge opportunity for the UK.

Q42 **Kate Osamor:** In regard to COP 26, why do you think there was no traction?

Paul Steele: There are a number of reasons. Traditionally, the UK, particularly the current Administration, has sided with private creditors, and the Treasury was a bit reluctant, so that did not get traction there. As I say, the Egyptians are pursuing a very different line, so it remains to be seen whether the UK will go along with that.

Mae Buenaventura: In terms of the climate and debt nexus, it is really problematic that a lot of the climate finance coming in is in the form of loans, so that is not a commitment from the advanced economies. The $100 billion pledge has remained unmet since 2009, and there is a commitment also to additional and non-debt-creating finance for adaptation, mitigation, and loss and damage.

Looking at debt swaps over a 30-year period, a study by Bread for the World and Erlassjahr shows that only $6 billion of debt was reduced via debt swaps. This number is so small when you see that developing countries spent more than $370 billion on debt repayments in 2020 alone. We may not be totally against debt swaps, but there are conditions that must be met—for example, human rights and consultation with countries—with an option to question loans that we consider illegitimate and odious due to all sorts of damage and human rights violations.

Q43 **Mr Bacon:** I was thinking about the $370 billion on debt repayments from all those countries. We are spending £70 billion on our own debt repayments, and the assumption is that we will have to pay them.

I would like to ask a question about special drawing rights, because it has been suggested that our unused SDRs could be channelled to other countries to enable them to help solve some of their problems. Paul, is there mileage in that?

Paul Steele: As I am sure you know, some countries have come forward to give their special drawing rights to developing countries. France has, China has, interestingly, and some other countries have, so it would be important that the UK follows this trend and gives them to developing countries. There are a number of options that are being looked at. Some have given it to the IMF's recently created resilience and sustainability trust fund, which is to support low-income countries with crises such as the pandemic but also climate change explicitly.

Q44 **Mr Bacon:** That was my next question. Could it be a debt platform for addressing climate change as well?

Paul Steele: Yes, very much so. We have been advocating in our organisation that this is something that the SDRs and the IMF's resilience and sustainability trust could be used for.

Q45 **Mr Bacon:** Have you worked out, if all countries that had headroom used their SDRs, how much it would create in total?

Paul Steele: The estimate that the IMF is aiming for is $30 billion that it wants for the resilience and sustainability trust.

Mr Bacon: Dr Blankenburg is shaking her head.

Kate Osamor: She is not part of this but, yes, she is shaking her head.

Dr Blankenburg: Sorry, I am breaking protocol.

Q46 **Mr Bacon:** No, I would rather hear the right number. You can shout loudly and the record will record it. What do you think the number is?

Dr Blankenburg: Paul is absolutely right on the resilience and sustainability fund and some of the rechannelled SDRs—the SDRs from the original allocation that are not needed in advanced countries. The G20 has aimed at $100 billion to be reallocated, including through this fund, but also through the poverty reduction fund and through other means, for example to development banks in advanced countries. It has reached about $69 billion.

Q47 **Mr Bacon:** That would pay all of our debt.

Dr Blankenburg: That is off the top of my head. In terms of reallocated SDRs from the UK, we are looking at $1 billion.

Chair: For those of you watching this on broadcast, I am sorry that everything has gone slightly AWOL. It is one of those days.

Mr Bacon: This is what happens when I get involved, to be fair.

Chair: What was said is not on the record, but we will ask for written evidence on that, so that it remains on the record, because they were very interesting points that were made. If I could suggest that Members focus on the panel in front of us, that would be appreciated.

Mr Bacon: I did not want the previous one to end, it was so interesting.

Mae, did you have anything to add on the question of special drawing rights?

Mae Buenaventura: Yes. The IMF's quota system is so undemocratic that advanced economies also have the biggest shares. The resilience and sustainability trust will always be hampered by that unequal quota allocation. Those countries that need the most receive only small shares of issued SDRs. If it is going to be used just for on-lending, even with very concessional rates, those are still loans, no matter how concessional they are.

Q48 **Mr Bacon:** I would like to ask about the difference between multilateral and bilateral. As you will know, the UK's present position is to shift away from multilateral and more towards bilateral. Do you think that debt relief is really an issue that can be tackled only at a multilateral level or can bilateral or, indeed, one-to-one, unilateral moves make a significant difference? There is a plain shift, is there not, in the Government's attitude? What impact do you think that will have on the debt relief agenda?

Paul Steele: As we were talking about earlier, the UK is looking at the possibility of making this £1 billion commitment to provide guarantees to Eskom in South Africa to help with its debt and to shift to low carbon. That could be expanded under the bilateral aid programme, so that could be an example of the advantages of going through bilateral.

At the same time, we were hearing in the earlier session that the debt of low-income countries is primarily with the multilaterals, so this is where the multilateral role comes in. The IMF and the World Bank, as well as China, are some of the main creditors for low-income countries.

Mae Buenaventura: There is more room with the multilaterals for negotiations, because they have development mandates that we can claim. With bilateral loans, that space narrows down.

Q49 **Mr Bacon:** I spent some time in Kenya looking at microfinance. I know that, in recent years, microfinance has sometimes ended up with a bad reputation. The stuff that I saw was remarkable and very successful. People were going back, in some cases—and disproportionately women—for their third and fourth loans, running very successful small businesses in urban Kenya, in Kibera, which is the largest slum in Africa, and doing very successfully. There is an extraordinary entrepreneurial spirit there.

I am sometimes led to wonder whether half the problem is that, to go back to the point we were making earlier with the IIF, there are too many loans sloshing around. There are too many people who are willing to sell loans but do not give enough thought to whether they are going to get the money back. Too much of it goes to Governments or to quasi-Government institutions, rather than to small, private entrepreneurs who know that they have to pay back the loan in order to get the next one, and do so very successfully. If that is true—and I think it is—what could we do to inculcate that and make it a more normal and larger part of the equation?

Paul Steele: Maybe I will kick off. I am sure that Mae has something to add on this. At IIED, my organisation, we have been doing a lot of research and work on what we call money where it matters, where we try to make sure that the money that is lent, whether it is private or public, international or domestic, reaches people at the bottom—very much these female-headed households that you are describing. Too much of it is creamed off at all the different levels going down and does not reach the people who can really make something of it to improve their lives and those of their children and so on. We would fully agree with that.

Q50 **Mr Bacon:** What do you do about it? I remember working in Tanzania for VSO, and I had not really understood the extent to which there was a big NGO industry. It will correct me if I am wrong, but there was a point where Oxfam, I think, had three country offices in Tanzania. It finally got to the point where it was a good idea to have only one, but there is a whole NGO community. They have country directors and budgets. They have good relations with big donor countries, whether Germany, Switzerland, the UK, Ireland or Canada, and there is an industry that goes on. A great deal of the money goes into the sustaining of the industry in country rather than getting to the end user.

I do not pretend to have the answers to how you shift that across to get far more of it to somebody local, who is going to build a second storey on their restaurant and then employ an extra 15 people, which was one of the examples I saw in Kibera. That woman was so successful that she was on her fifth or sixth loan. That is where we need to get to, but how do we do it? What does your research suggest?

Paul Steele: On climate finance, for example, we have discovered that less than 10% of the money pledged internationally gets down to the local level. It is all creamed off, not illegally, but just used on administration and other things, as you were describing, in between. You need to have things like targets. Some countries have pledged that 80% of the finance should get down to the local level and really benefit the people on the frontline.

Q51 **Mr Bacon:** What I am asking is how you do it. I worked in Tanzania, as I said. I was working for an NGO so small that it could not afford the rent, so it piggybacked on another NGO. I am pretty sure that any money it got went to the right place, because there was so little of it. If you went to the Ministry of Agriculture, there was a row as far as the eye could see of brand-new four-wheel drives, and every one of them had a white leather trim. How do you do it? How do you make that happen?

Chair: Maybe that is a subject for another inquiry, unless you are able to answer, Paul.

Paul Steele: I was wondering whether Mae wanted to come in.

Chair: Were you, now?

Mr Bacon: You are right that more of it needs to get down to the bottom. What I am asking is how, mechanically, you make that happen.

Chair: Mae, are you able to comment on how investment to a country gets to the people at a local level, rather than being filtered off on its way down to them?

Mae Buenaventura: Yes. I also wanted to comment on the microfinance issue, because we have also had a lot of that, but it has somehow changed. It used to be that there were many NGOs there, but now big private firms have also entered. For example, Western Union is also getting into that game. You cannot ignore the gender dimensions of microfinance now, with women becoming more and more indebted over time. That is another issue with microfinance.

One way forward would be to ensure representation in Governments and to look at the political economy. If the spaces there are so constricted that only the rich and powerful can get into public office and not the ordinary working woman or man, it will be hard to ensure that the funds are used for what they really need and what their long-term interests are.

Chair: That is a problem around the world, Mae.

Q52 **Kate Osamor:** I just have one more question for Mae. You have kind of answered it already. When I was asking questions about green debt swaps, I got the impression that you were not a fan of this scheme. I just wanted to ask you for your thoughts on debt itself and whether you think that it should be cancelled.

Mae Buenaventura: You may have seen some of our material containing a major call for debt cancellation. It is a very concrete and clear step in offering genuine recovery, because it can free up funds that we will use for urgent social needs and really transformative recovery from this pandemic. We also argue that a lot of those loans have to be examined through debt audits, which is key to weeding out the loans that we do not think we ought to pay, because they also contributed to the climate crisis and made us more vulnerable to Covid due to our collapsing public health systems, for one. That is a strategic goal and one that we think is urgently and immediately needed as a way forward.

Q53 **Chair:** Paul, do you have a concrete action that you would like the UK Government to deliver on?

Paul Steele: Yes. One goes back to your colleague's comment about COP 27. This is a real chance for the UK to take an initiative.

Chair: I have made a note of that one.

Paul Steele: Great. The second one goes back to the previous session, linking it to UK legislation and—I am not party to the exact details of the legislation—somehow having some link there.

The other thing is being involved in some of these transactions. I gave the example of the UK guarantees for Eskom, so using part of the UK's aid budget or using FCDO guarantees to support some of these transactions. Those would be the three recommendations.

Chair: Witnesses, thank you very much. Committee Members, thank you very much. I am assuming that no one in the audience wants to add anything, has their mother on the phone or anything like that. In that case, this session is now closed. Thank you very much.