HOUSE OF COMMONS

International Development Committee

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

Tuesday 1 November 2022

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Watch the meeting

Members present: Sarah Champion (Chair); Mrs Pauline Latham; Mr Ian Liddell-Grainger; Nigel Mills, Navendu Mishra.

Treasury Committee Member also present: Harriett Baldwin.

Questions 54 - 126

Witnesses

I: Veda Poon, Director of International Finance, HM Treasury; Edward Wilson, Head of the International Debt and Development Finance Unit, HM Treasury. Rachel Turner, Director for International Finance, Foreign, Commonwealth and Development Office.

Examination of witnesses

Witnesses: Veda Poon, Rachel Turner and Edward Wilson.

Q54 **Chair:** I would like to start this session of the International Development Select Committee. It is our inquiry into debt relief in low-income countries. To give a little bit of context, according to the IMF, close to 60% of the world's poorest countries, many of which are in sub-Saharan Africa, are in or near debt distress; they are unable to service their debts. In 2013, that number was just over 20%, so there has been a marked increase.

Understandably, Covid-19 triggered a massive increase in global debt levels, as Governments needed to finance the necessary spending to keep economies afloat. The current global debt and the cost of living crisis are directly linked. Global supply pressures and Russia's invasion of Ukraine have led to high inflation. Many central banks are responding by increasing interest rates. Higher interest rates will increase the debt burden and, by luring investment away from poorer countries, push down the currencies of low-income countries, forcing them to pay more for imported food and other goods.

As debt has increased, low-income countries are spending more on servicing this debt. This is money that they cannot, therefore, use to cover the cost of living or to help the health infrastructure for their citizens.

Today, we want to look specifically at what the UK is doing to try to help and alleviate the burden, and what more potential there is to help and support.

We are very fortunate to be joined by Harriet Baldwin, who is from the Treasury Committee, because today we have Veda Poon, who is the director of international finance in the Treasury, as well as guests from FCDO. Veda, could I ask you to introduce yourself and your role, and then I will move on to Edward and Rachel to introduce themselves, please?

Veda Poon: My name is Veda Poon. I am director for international finance at the Treasury. I look after a range of issues, including debt and IMF policy, but also our relationships with emerging markets, including China.

Edward Wilson: I am Edd Wilson. I head up the international debt and development finance unit in the Treasury.

Rachel Turner: I am Rachel Turner. I am the director for international finance in the FCDO, so my role includes our relationships with the multilateral development banks, but also some of our work with the private sector, and also, of course, our engagement on debt with Treasury.

Chair: Edd, apologies for moving your Department. I am always leaning to FCDO as opposed to any other Government Department, so apologies.

Q55 **Navendu Mishra:** I am grateful to all witnesses for making time this afternoon. If I could go to Rachel first, there have been a number of debt relief initiatives over the last few decades, the most recent one being the Common Framework, which was introduced in the context of the Covid-19 pandemic. How did we get into a position where low-income countries are facing such an enormous debt burden?

Rachel Turner: The Chair has already started to take us through exactly how countries got into that situation. It is clear that the effect of the pandemic worsened the debt situation for countries, and the statistics that you cited at the beginning are ones that we are very familiar with.

However, it is also clear that, prior to the pandemic, countries' debt positions were worsening. After the financial crisis, countries sought to borrow more to fund their development. They did that in an environment of low interest rates. As countries moved into the crisis, we saw, exactly as the Chair said, a drop in their overall economic capacity of countries, but also sharp drops in tax revenue.

We also saw countries increase their own spending in order to deal with the effects of the crisis. Veda might want to say a little bit more about what was happening at the same time to the underlying composition of that borrowing, and that might be a helpful additional piece of information. We are very aware that, during that time, the overall environment became more complex for countries.

You asked how countries got into that situation. I have spoken about the effect of the pandemic. Clearly, there are also concerns, and we are concerned, about how well borrowing was being used, both before and after the pandemic. Before the pandemic, it appears that countries were increasing their debt burden, both for productive investment but also, in some cases, for less productive investment, and we know that countries were using borrowing to fund significant recurrent costs that were not necessarily generating the returns to their economies that allowed them to sustain that level of borrowing.

Veda Poon: Just to build on what Rachel said, throughout that period, it is really worth emphasising that the creditor landscape has become more complex and more difficult. One thing worth noting as well, which was also cited in our written evidence, is that there has been a real overall shift away from Paris Club lending to big non-Paris Club creditors doing lending, China being a very notable non-traditional creditor, but there are also other ones such as India and Saudi Arabia.

To cite an example, back in March 2022, the IMF estimated that the Paris Club share of loans to low-income countries as a bloc was 28% in 2006, but it is 10% now, which is quite a big drop. At the same time, China was 2% in 2006 and has now increased to 18%.

You mentioned the Common Framework. We can go into that in a lot more detail, but it is worth noting that it was set up in November 2020, at the height of the pandemic. International policymakers were really trying to think through what the best way was of bringing together traditional and non-traditional creditors for the first time in a multilateral format to do debt treatments.

We are coming up to two years in terms of how long the Common Framework has been running for, and we can go into some of the cases, if that is of use, but it is fair to say that the progress on the Common Framework continues to be a work in progress.

Q56 **Navendu Mishra:** Just on that point on the Common Framework, we have heard in this inquiry that the Common Framework has, basically, stalled. Is that a fair assessment?

Veda Poon: From a UK perspective, there are many reasons why the Common Framework is not delivering as quickly as it should be. We have expressed disappointment, including in our written evidence but also through the G7 Finance Ministers' statement that we made over the summer. We are expressing disappointment in the shortcomings but also the pace of delivery.

As you know, there are three countries undertaking debt treatments within the Common Framework at the moment. Some of them applied fairly early, but, for all sorts of reasons, whether it is the security situation on the ground, the time taken to negotiate an IMF programme or the time taken to convene a creditor committee, it has really taken time to come together.

Without wishing to paraphrase another Government, this is the first time that China has participated in this sort of debt treatment and debt restructuring. My guess is that, because the authorities in China have so many different agencies and Government Departments that look after debt policy, there is a fair bit of co-ordination that is required internally to come up with decisions and positions within the creditor committees.

Q57 **Navendu Mishra:** It is fair to say that it has basically stalled. It is not a ringing endorsement.

Veda Poon: We are disappointed that it has not progressed at the pace that we would like it to. There are a lot of countries that really need support through this process. I have a concern that the pace of progress through the Common Framework is potentially putting off eligible countries from coming forward for treatment in the Common Framework, which they really need.

Q58 **Navendu Mishra:** Could I ask you about a couple of key points? You can always write to the Committee as well, but what are the main points that have contributed to the lack of progress? You have mentioned a couple of them in your previous answer. You mentioned the bureaucracy.

Veda Poon: The Common Framework had terms of reference that we can come back to the Committee on, but it is in the public domain. It was attached to the Finance Ministers and Central Bank Governors' statement of November 2020. We specifically convened an ad hoc meeting at that level to agree the Common Framework, because we felt it was so important. The terms of the Common Framework were attached to that document.

In terms of the reasons for the delay, there are many. To cite one example, we are not a creditor in Ethiopia. China and France are co-chairs of the creditor committee, but the conflict and the security situation has paused progress there. Discussions resumed in May, but progress has been really slow.

In other circumstances, on Zambia, it took China quite a long time to come to the table to agree to co-chair the creditor committee. South Africa is now a deputy chair of the committee and, in that case, I should say that the UK is a creditor. The Fund programme was finally approved in August, but these things take time, and I have no doubt that, in looking at the debt sustainability that is required as part of the IMF programme, China may be looking at the numbers within that envelope, so it is thinking about its own views on debt sustainability.

For Chad, which is the other case, this was one of the first cases in the Common Framework. As a reminder, the UK is not a creditor, but Saudi Arabia and France are co-chairs of the creditor committee. It took a long time for this to get going. The Fund programme was agreed in 2021, but there has been a spike in global oil prices, which has thrown a bit of a question around the extent to which Chad needs the debt treatment, so there is a discussion going on at the moment to establish an MoU to allow that process to reconvene, as and when the creditors decide that it is the right time.

I would say that a combination of current events, the time taken to negotiate a programme, different countries wanting to perhaps question some of the debt sustainability assumptions but also the time taken to form the creditor committees are probably the main things that I would draw your attention to.

Q59 **Navendu Mishra:** Rachel, would you like to add anything to the factors regarding the lack of progress?

Rachel Turner: No, I do not think so. Veda has given a very comprehensive argument. I would assure the Committee that we do work very closely together and, of course, Veda and the Treasury team also work very closely with the FCDO teams in post and in our network of embassies and high commissions, who remain very engaged with tracking the process.

Q60 **Navendu Mishra:** What more needs to be done to support countries through the Common Framework process, and how can the UK help?

Veda Poon: I am glad that you asked the question. It is one that has been on our mind since the inception of the Common Framework, but clearly, with it having operated for two years and we are still looking at three cases, we have been talking a lot this year in terms of improvements to the Common Framework.

One thing that we have been talking about a lot to G20 members and the Indonesian presidency of the G20, but also to the IMF and the World Bank, is how we can have clearer guidelines on how the Common Framework functions. Although, in the debt world, there are many people who understand the Common Framework, it is important to recognise that, when you are a vulnerable country, you have many things on your mind and it is not always clear how the Common Framework expects you to apply, what information you need to provide and the process that you need to go through.

We are working very concertedly within the G20 to try to see whether we can get some guidelines published on what the Common Framework requires of borrower countries and debtor countries. We have also been very mindful of the fact that the Common Framework has a specific eligibility perimeter, so the original countries that were eligible for the Debt Service Suspension Initiative are also eligible to apply for the Common Framework.

Starting last summer, although I suspect that the problems cropped up well before then, there was a lot of discussion about vulnerable middle-income countries and how to best support them. We, alongside some other G20 countries, have been fairly consistent in saying that we need to find a way to support vulnerable middle-income countries, and one of those ways would be to consider perhaps expanding the scope of the Common Framework to cover those.

As you know, decision-making in the G20 is by consensus and, given some of the challenges that I have just described in terms of Paris Club creditors working with non-Paris Club creditors, it is going to take quite a long time before we get there, but we continue to want to talk about how we support not just low-income countries but also vulnerable middle-income countries.

I would draw the Committee’s attention to the recent Chair’s statement that we discussed at the Annual Meetings that came out of the G20, which explicitly pointed to our concerns around debt distress in vulnerable middle-income countries.

Q61 **Chair:** Veda, I listened to that intently. There are only three countries that are in the programme now, so I wonder if you are surprised by the low uptake. I am surprised that the guidelines are being drawn up to give further clarity only now, and so it makes me think whether it was just the G20 countries that made the decision or whether the countries likely to be involved in the scheme were also involved in the design and development of the programme itself. Is this something that we are just giving to countries with an expectation, or were they involved in it?

Veda Poon: That is a very good challenge. The one thing that I would just want to correct for the record, if that is the right way of putting it, is that there were attempts to produce the guidelines that I mentioned. There is a working group sitting under the G20 called the International Financial Architecture working group, which my team sits on. There was an attempt to produce a document to say, "This is how it works and this is what the process is", but I would say that there are some G20 members around the table who did not want that to be published, because there are some members who quite possibly think that that would encourage many members to come forward to apply.

Chair: I thought that that was the point.

Veda Poon: We have been very keen to ensure that those guidelines are produced and published, but we have not been able to do that.

On your question on the involvement of borrower countries, I need to reflect on how it all unfolded during the course of 2020. When the pandemic first hit, we started off with the Debt Service Suspension Initiative and extended that twice. There was just a lot of discussion around how we best support poorer countries, and engagement with the African Union and with the UN. The Paris Club Secretariat and the G20 Presidency, which was Saudi Arabia at the time, definitely would have spoken to debtor countries and borrower countries to really understand what they needed.

Ultimately, there was the high politics of trying to get this agreed at Finance Ministers' level, and it took us two or three months to get there, if I were to be honest, which, to some ears, is probably not even fast enough, but we tried to do what we could. It is a very good point that, in terms of things that we do in the future to support vulnerable countries or low-income countries, the earlier we can take the views of borrower countries, the better.

This is something that we can perhaps come on to when we talk about, for example, things like climate and debt issues, because, clearly, that is a hot topic for the upcoming COP. Edd and the team have been doing a lot in this area to really understand, for example, if you had a country hit by increasing frequency and severity of climate shocks, what they need to free up their fiscal space. We are trying to frontload a lot of that engagement.

Chair: This Committee finds that asking people is usually the quickest and most effective route.

Veda Poon: Yes, exactly.

Q62 **Nigel Mills:** Rachel, the International Development Strategy makes a very passing mention of debt relief. Is it part of our strategy or have we abandoned this as a plan?

Rachel Turner: I can absolutely assure you that the debt situation was very much there in our building block analytical work and the context that we had in front of us when we were developing the strategy. There are two parts of the International Development Strategy that are very strongly focused on trying to support the most vulnerable countries through the difficult economic situation.

The first is the focus under the pillar that is known as British Investment Partnerships—BIP—and this Committee has spoken about that part of the IDS before. I hope you would agree that the strategy is very clear that we will focus on providing developing countries, including the most vulnerable, with access to more choices and more tools for how they finance their growth and their fiscal positions. The strategy sets out what we call a toolkit to help do that, and I can say a bit more about some aspects of that which are particularly relevant to debt positions, if that would be helpful.

Before I do that, the second building block of the strategy is the focus on expertise. We have been clear in the strategy that, in the UK, we will focus on providing developing countries with the expertise and the access to expertise partnerships that they need to build the institutions for sound economic management. Indeed, the framing objective of the strategy is to support countries to plan for their own sustained long-term progress and resilience.

In terms of the tools, this Committee has spoken about BII before, so I was just going to emphasise two particular parts of the International Development Strategy. One is the work that we are doing on local currency financing and, as part of that, the work to build local capital markets. We speak a lot about the foreign exchange debt burden that countries face, and one of the tools that provides at least an alternative menu for the most vulnerable countries is to improve the offer of local currency financing.

In the strategy, we mention the Private Infrastructure Development Group that we fund. It is a UK-based organisation that is now offering guarantees to local financial institutions in some of these poorer countries, which allows us to credit-enhance local institutions, including local pools of savings like local pension funds that allow them to invest in infrastructure, because, of course, those funds have their own prudential requirements that determine the credit ratings that they can invest in. That work of the private infrastructure group and local currency financing is very important to us.

In our negotiations with the concessional arm of the World Bank, IDA20, we have also provided a new policy that allows countries to choose to take their IDA financing in local currency. That will be piloted during IDA20 and we pushed very hard for that. That is a very important development.

I can say more. Just very quickly, we also remain committed under the strategy to help countries build out their local capital markets. The debt figures that the Chair used at the beginning of the session include domestic debt, and it is important that we work to support countries in deepening their domestic debt markets as well, as an alternative to more expensive short-term foreign currency borrowing from the markets.

On the expertise commitment, maybe I have said enough now, but I could come back and say a bit more about what we have been doing to support developing countries in building out their expertise to manage debt particularly, but also to manage their tax, their public finances and their wider economic policy, which we have continued to do during this year.

Q63 **Nigel Mills:** That was very comprehensive, but I did not hear many mentions of debt relief in that. Helping countries develop their own capital markets is slightly different, is it not, to whether we are prepared to reduce or write loans off?

Rachel Turner: That is true. The focus of the strategy is very much forward-leaning, building up alternative routes for countries to access sustainable development finance. The strategy mentions the difficult debt positions, but you are right that the strategy does not make a specific commitment to or statement on debt relief.

Q64 **Nigel Mills:** You told us that we hold about $1.79 billion of low-income country debt. That is what was in your submission. Do we know how many of those countries are in debt distress at the moment and probably struggling to pay us back?

Rachel Turner: Yes, we do. Of that amount, we estimate that about a third is debt held by countries that are defined by the IMF as being in debt distress.

Q65 **Nigel Mills:** Are we open or amenable to writing off some or all of that debt, either as a loan or as part of a consortium?

Rachel Turner: I might ask Veda, who leads on our overall debt policy, to answer that, because it goes to the issue of commonality of treatment and fair burden sharing between creditors. From the point of view of trying to support countries to build a sustainable debt position that gives them a robust framework to move forward, we feel that it is very important to act in concert with all creditors. That is why we remain quite strongly focused on routes to debt restructuring that help countries to do that. The Common Framework is particularly there to seek to help countries that want to do that, but, of course, it is just a tool, and countries still have the option to go to separate creditors to negotiate agreements.

Veda Poon: Just stepping back a little bit, we have talked about the Common Framework, and there are challenges there. One thing that is important, and certainly the way I approach it, is that we want to avoid debt relief in the first place and to help developing countries proactively manage their debt. The way that we would look at this is through debt relief and debt cancellation. "Debt relief" is quite a loaded term, because that can mean restructuring or reprofiling, but it is important to think about debt issues as one tool of an overall set of policies.

Building on what Rachel said, there are a lot of examples that we can give on this to help countries proactively manage their debt positions. We have often done a lot with them to increase what we call their domestic resource mobilisation, which is about how you increase their ability to take tax or to do their public debt management, or how you ensure that they have a good sense of how to ensure debt sustainability, where the IMF and the World Bank provide them with advice.

On your question of relief and why we cannot do something now, it is worth noting—and Rachel may have referred to this previously—that, in terms of previous schemes to reduce unmanageable debt burdens amongst the world's poorest countries, that was a particular situation in the 1990s and 2000s when the debt levels were absolutely through the roof. That was a very specific situation and we had the HIPC Initiative as well as the MDRI, which we still continue to pay into annually. This is about £200 million annually, which would stretch us into 2044.

That was an initiative that was generated at a time when the creditor landscape but also the debt burdens were perhaps less complicated, whereas, if you scroll forward to now, as I have just described, the creditor landscape is quite complicated. The types of debt that countries hold is much more diverse. My own sense is that there is not really an appetite to go back to what we did in the 2000s, but really to think about what the best tools are at this point in time to support countries in need.

Rachel, you might want to comment on the World Bank—

Chair: We are now on question 2. We are half an hour in and we can ask each of you to come in for additional things if we want to, if that is okay. I am going to ask you that, going forward, we need tighter answers. We know it is fascinating and you can tell us that you will write to us if there is more background information.

Q66 **Nigel Mills:** A third of the £1.8 billion that we are owed is from countries in distress. Do we have to devalue that in our own accounts? Do we have to make a provision for how much which we think we will get back, or is that not an exercise that we need to do?

Edward Wilson: UK Export Finance is the primary holder of this debt, and it will be looking carefully at the situation in terms of whether that debt is being repaid or has gone into arrears. We would probably have to write to you if you wanted more explicit details on specific loans and the status of that, to the extent that that is possible to provide. We will not be writing down unless the debtor had not been paying back, which would have to go on for some time before we took that step.

Q67 **Nigel Mills:** If we did, would that count as ODA spend or is that too difficult to understand?

Edward Wilson: The OECD has clear rules on when and how debt relief counts as ODA spend. Where the UK writes off debt relief as part of a multilateral negotiation, that can, in some circumstances, score as ODA. It depends on the terms of the debt relief provided.

Q68 **Chair:** Could I just ask for a little bit more clarity on that last answer? That sounds like double-counting—we count the money as it goes out and then we count it as it comes back in again against the ODA allocation. Is that right?

Edward Wilson: When it is lent out, it is non-ODA expenditure by UK Export Finance, so that does not count to the ODA target. It is not double-counting.

Q69 **Chair:** But you are using it when it comes back in, in some circumstances, as ODA.

Rachel Turner: Yes, when it is written off. When there is a debt treatment and the full amount is written off to the benefit of the developing country, the OECD DAC counts that as ODA.

Q70 **Mr Liddell-Grainger:** Just listening to what you have been saying, debt relief comes under the Treasury, yet it all then works through the FCDO. How do you work together on making the decisions that you need to?

Veda Poon: The Treasury leads on international debt policy, but we work very closely with the FCDO. For example, there are Paris Club meetings every month that cover strategic issues, but also specifically country cases, and our teams work together to look at the analysis and to work together with our posts overseas, as well as gathering any information as necessary from our delegations at the World Bank and IMF in order to formulate a position.

Q71 **Mr Liddell-Grainger:** Who takes the lead on this? Is it the Treasury or the FCDO?

Veda Poon: The Treasury is our representative in the Paris Club, and we have UKEF as well, but we and FCDO work very closely together to formulate the positions.

Q72 **Mr Liddell-Grainger:** I read that one of you was part of the Paris Club. Is that you, Edward?

Edward Wilson: The Treasury is the representative to the Paris Club.

Q73 **Mr Liddell-Grainger:** Were you involved in these sorts of negotiations when you were there?

Edward Wilson: I am sometimes involved. My colleague, Karis Alpcan, is currently the Head of the UK Delegation. Some time ago, I was also the UK representative to the Paris Club and I was involved in these negotiations.

Q74 **Mr Liddell-Grainger:** Did you find it easy to work between the Treasury and the FCDO when you had to make decisions on relief?

Edward Wilson: Yes. We have a seamless relationship. We are speaking on a daily basis to FCDO's debt team. We have regular weekly, more formal catch-ups. Yes, we have a good, very strong working relationship.

Q75 **Mr Liddell-Grainger:** Whose final decision is it? Is it Treasury? Is it you? I am talking about with your old hat on, not your now hat. Who makes that final decision? Does it go up to a Minister in the Treasury or a Minister in the FCDO?

Edward Wilson: It is a combination. The Chancellor would be the responsible Minister, but the debt is typically held by UKEF, which would also have to be content with the cancellation or whatever the outcome of the negotiation was.

Q76 **Mr Liddell-Grainger:** What I am getting to is that it seems a little iniquitous that there are two massive Departments of state dealing with this. Would it not be better to have it in one Department or the other, so that only one Department is dealing with this? I am not suggesting that it should be either Treasury or FCDO, but surely it would be easier to have it in just one place.

Rachel Turner: We find that this works well. I would say two things about our role. Our network of embassies and high commissions on the ground does not work just for FCDO, but for the whole of Government. It is a one-team approach.

To the extent that there are key issues that we need to thrash out with our teams on the ground, who are very close to the economic situation of countries, who will have views from understanding the economic opportunities going forward for countries and who will understand what any adjustment associated with debt treatment means, those teams will engage very carefully in advising Veda and Edd as they go into the Paris Club negotiations, and we will always be part of the lines that are taken. We find that it works well.

Your question went to the point particularly about, if there is a debt write-off, that being a hit to the budget. One thing that I wanted to stress is that, in advance of UKEF making new lending, FCDO scrutinises all UKEF lending to low-income countries and to previous heavily indebted poor countries, so we do have, hardwired into our system, a way in which we can scrutinise those decisions with a particular focus on whether we think that they are good development impact.

There is a set of principles that have been agreed by the OECD, which all OECD export credit agencies have signed up to. In the UK system, the FCDO does that scrutiny and we give that advice to Treasury.

Q77 **Chair:** Has your advice ever led to changes in programmes, or programmes being stopped?

Rachel Turner: My personal measure of success is that we are working upstream, including with our posts, so that we are engaging very carefully with UKEF and its partner firms early on in pipeline development, to make sure that pipeline, as it moves through, is pipeline that makes most sense from a development point of view.

I can tell the Committee that, from time to time, but rarely, we have provided advice to say that we think that the overall debt-bearing and development capacity of the country would not be supported by a loan.

Chair: So the brakes work.

Rachel Turner: We think they work, yes.

Q78 **Mr Liddell-Grainger:** Turf wars in Whitehall are legendary. I find this slightly interesting. Let us just follow your point. Who makes the final decision on a write-off? Is it Treasury or is it FCDO?

Veda Poon: The Treasury takes decisions.

Q79 **Mr Liddell-Grainger:** You take the decision, so is it the Financial Secretary to the Treasury who would sign it off?

Veda Poon: It is the Chancellor.

Q80 **Mr Liddell-Grainger:** It would go right to the top. It would be his decision on advice from you and from the FCDO to say, "We are going to write this off", or is it really that you feed in and you make the decision?

Rachel Turner: It would be advice from Veda, but, in providing that advice, Veda and I would have consulted and would also have involved our Ministers to make sure that they were aware of the decision.

Veda Poon: I am conscious of where your question came from. I would say that the way we work together draws on our strengths. The way it works is that the Chancellor and senior officials sit in a particular circuit in the international system, and we talk with other finance ministries about very specific country cases. I do not want to name countries here, but we do talk about them a lot. On Rachel's net, you have Development Ministers who approach it as well, maybe from a slightly different angle, but we are then able to put two and two together and say, "In aggregate terms, this is probably the best way to proceed", in terms of a specific country.

There is definitely merit in having two Departments looking out into slightly different networks across the international system. In the G7 and G20, we talk very frequently on debt issues and, in the G7 and G20, there is a finance track as well as a development track.

Q81 **Mr Liddell-Grainger:** Given that the country is a bit strapped for money, what you make and what you do is crucial, dare I say, to UK plc and also to how we are perceived in the world, so it is a double whammy. It is writing off money on one side and the perception of us in the world as people who are trying to do our best. It is a very important legacy that you are dealing with.

Rachel Turner: We and all the team take that seriously. Somalia is perhaps a very important example for us, where the UK has championed debt relief for Somalia over several years. This descriptor of "champion" is something that lives in the debt system, and the UK champions Somalia. Somalia met the first stage of debt relief under HIPC and is now, we hope, on track to meet the final stage completion point.

What has been particularly important in the example of Somalia has been that, having met the first stage of debt relief, it has been able to access grant financing from the multilateral development banks that it was not able to access before. We are very pleased that we have been able to be part of that.

I am giving you an example, because it is an example of how we have worked together. What it means for Somalia right now is extremely important, in that it is able to access financing from the World Bank on grant terms. That is very important, given the current very difficult drought and near famine situation that Somalia is facing.

Q82 **Chair:** Edward, the then Chancellor, now Prime Minister, cut about a third from our foreign aid. Did that have any impact on our ability to roll forward the programme of debt relief?

Edward Wilson: No, I do not believe so. We have been committed to past debt relief initiatives. Those commitments remain. In the example of Somalia, we are committed to write further debt off when it reaches the completion point, hopefully next year, if it remains on track. Our debt relief is built into our estimates of how much ODA is needed to meet the target.

Q83 **Mrs Latham:** Veda, the UK has not supported proposals for a permanent debt resolution mechanism at the UN. Why?

Veda Poon: Are you referring to the initiative in 2015 on the UN debt resolution framework?

Mrs Latham: It is the permanent debt resolution mechanism.

Veda Poon: This was before my time. There are a lot of ideas out there on how we can support sovereign debt resolution, and I can come on to those, but, on that specific one, there were concerns, if I recall correctly, about the implications for international law, but also the risk that it could increase the cost of financing for low-income countries. The UN is a very important voice in this area. Rachel and I meet with it very regularly on ideas to help with sovereign debt restructuring, but, in that particular case, that was probably why.

Q84 **Mrs Latham:** There has also been difficulty in forming a consensus on debt issues at UN level, so does that have much impact on our decision-making?

Veda Poon: On debt issues generally, forming consensus is a challenge. Back in the days when the Paris Club was formed in 1956, those were probably easier times, and we are now, as I say, faced with a very fragmented creditor picture, not just on the official side but also on the private sector side.

For example, in the past a lot of developing countries sought to raise financing through bonds, but, recently, as you mentioned, Chair, in your opening remarks, because of the rise in interest rates, a lot of countries are having to look at other ways of raising financing, including through loans, because bond yields have gone into high double-digits, effectively.

Consensus-building is always a challenge, but where we can find a practical way to move forward, particularly with the private sector, we will definitely do that. One of the things that we tried to hook on to last year, when we held our G7 Presidency in 2021, was that we set up a Private Sector Working Group under our Presidency, to try to figure out how we can improve debt resolution, including through contractual methods, building on some of the ideas and the debates that the UN had, but also thinking through how we can use market-based solutions using contracts to, basically, reduce holdout behaviour. We try to lean on areas where we can make progress rather than maybe dwelling too much on where things are a bit stuck.

Q85 **Harriett Baldwin:** I am the interloper at this Committee from the Treasury Select Committee, and I am particularly interested in the issue of the $650 billion of SDRs that were created. Can you talk us through, in plain English, so that everyone understands, how that is relevant to this discussion and if there is any ongoing work being done, particularly in the Treasury, about the $650 billion of SDRs that were issued at the IMF meetings and how they might help with some of these issues?

Veda Poon: I was talking about the G7 Presidency. We used our year last year to try to push for historical allocation of these Special Drawing Rights. They are comprised of a basket of currencies. The IMF issued $650 billion worth of these SDRs, and every IMF member, according to their voting share, receives a share of these.

Harriett Baldwin: Indeed. The UK got about $20 billion.

Veda Poon: Yes. Depending on how you define them, in terms of low-income countries, we might be at about $21 billion, according to their voting share. There has been a lot of discussion about how we, in technical terms, channel some of those Special Drawing Rights. For advanced economies that are in stronger external positions, how can we lend some of those Special Drawing Rights?

Q86 **Harriett Baldwin:** Has there been a lot of discussion within the Treasury about that?

Veda Poon: Yes, as well as globally.

Q87 **Harriett Baldwin:** We are more interested in the bits that we do not see and that are inside the Treasury.

Veda Poon: Absolutely. There is a lot within Treasury. Not only did we decide to go down the route of putting our support behind this $650 billion allocation last year, but we were very quick to on-lend some of those special drawing rights and did a SDR1 billion channelling or on-lending from the UK Treasury to the concessional arm of the IMF. This was last autumn.

Q88 **Harriett Baldwin:** Did you say 1 billion?

Veda Poon: Yes. I should maybe step back and say that, of our allocated amount of SDRs, we committed to channel 20%, so we have committed SDR1 billion of that to the poverty reduction growth trust, which is the concessional arm of the IMF. Earlier this year, also linking back to the G7 Presidency, we wanted to think about a creative way of supporting developing and vulnerable countries on their green transition and how to support their efforts to tackle climate change.

We used our Presidency to set up and to try to get the ball rolling on something called the Resilience and Sustainability Trust Fund, which is a new type of instrument in the IMF that has long-term maturity loans and 10.5 years of grace period at low interest rates to help countries tackle their climate transition challenges. In April this year, we decided to channel SDR2.5 billion of our allocation towards that Resilience and Sustainability Trust Fund.

Q89 **Harriett Baldwin:** So in total, it is SDR3.5 billion.

Veda Poon: Yes, and then we have another SDR500 million left that we are thinking about how best to use. We are in discussion with the African Development Bank on how we might possibly on-lend those SDRs to support its balance sheet. It is what we call on-lending to multilateral development banks. It is quite complicated but, in the technical discussions, we are hopeful that we can find a way forward. The SDR500 million is the last bit of our SDR4 billion that we have not yet taken a position on how to allocate.

Q90 **Harriett Baldwin:** Is the new Chancellor paying close interest to this, or is this still happening at officials level?

Veda Poon: We had the annual meetings of the IMF and the World Bank in mid-October. As you know, we had a change of Minister at that point, so the former Chancellor was briefed on this. We need to have an opportunity to brief this Minister on the issue.

Q91 **Harriett Baldwin:** If I could just change over to Rachel and talk about the geostrategic issues that are raised by the fact that China is now the world's largest official creditor, could you talk specifically about how the UK is reacting to that in its approach? Has that resulted in any changes in terms of the geostrategic approach that we are taking?

Rachel Turner: I would say two things. One is the point that I referred to when I was talking about the International Development Strategy. The

UK has been very clear in its commitment in that strategy that we want to give countries more options and tools for how they choose to finance their growth and their public positions.

As part of the G7 conversations this year, the G7 also agreed something called the G7 partnership for infrastructure and investment. The objective of that partnership was very much for all the G7 to come behind a very similar objective to bring the weight of investment tools and the wider toolkit, whether it be from France, Canada, the US, Japan or Italy, into a common ambition to provide a nimbler set of tools and alternatives for countries, so that they can make their own choices about who they build their sustainable financing partnerships with.

Those are the two practical things that we have done, and that frames our overall approach to your question about China. It is about choice and alternatives, and being very clear that the G7 stands ready to provide sustainable finance.

Q92 **Harriett Baldwin:** Presumably, British International Investment plays into that narrative.

Rachel Turner: British International Investment is absolutely at the core. We use the banner British Investment Partnerships, under which British International Investment is absolutely at the heart and at the core of that toolkit. As I was saying earlier, we also have some other very important tools that do slightly different things from BII and are an important part of the menu.

Q93 **Harriett Baldwin:** On the question about low-income and middle-income countries, where you can have a lot of extreme poverty still apparent at the individual level, are some of the distinctions that are used in this debate around indebtedness unhelpful in that regard?

Rachel Turner: Veda has answered our ambition, and the statement that we made earlier this year recognising the need to be able to offer debt restructuring solutions not just to the most vulnerable but also to vulnerable middle-income countries is important. Certainly, there are some vulnerable middle-income countries currently. Sri Lanka, for example, is one of those. I agree with you that we need to be ambitious in how we help countries deal with the current situation.

One thing that I wanted to say is that we spoke about countries not coming forward to ask for the Common Framework. It is worth just emphasising to the Committee that, of course, in the year after the pandemic, many countries did bounce back. They were relatively optimistic that they were going to grow back after the pandemic.

It was only when we saw the war, with Russia's aggressive and illegal invasion of Ukraine, that countries were thrown into another crisis that compounded the pandemic and prevented countries from growing back. That is a really important part of the context that we need to have in mind as we think about the challenges for both low-income and middle-income countries.

Q94 **Harriett Baldwin:** Is the UK playing a role as an international convening power to focus on debt problems in any specific country? Some countries have been named in your evidence, including Somalia and Sri Lanka. Are we actively convening these debt restructurings?

Rachel Turner: We were very active in Sudan before the political developments in 2021. We were also part of the very specific steps that were taken to help Sudan clear its arrears to the international financial institutions, which is one of the important first steps in debt relief. Sudan and Somalia were the two where we have taken a particularly high-profile role.

Q95 **Harriett Baldwin:** Have we stopped in Sudan? You implied that we have.

Rachel Turner: Yes, we have. Because of what is happening in Sudan, the international community has stopped progressing the debt relief there, awaiting progress on a genuinely civilian Government.

Harriett Baldwin: I declare an interest as chair of the All-Party Group on Sudan and South Sudan, but thank you very much for letting me come along to your Committee, Sarah.

Chair: It is a pleasure. Can I also say that it is a pleasure to have members of the Parliament of Madagascar here with us for this session? We spoke earlier today, specifically talking about debt relief and the impact of shifting climates on your population, economy and agriculture, so thank you very much for coming and joining us on this session today.

Q96 **Mrs Latham:** We heard earlier that the private sector was involved in debt relief and that you worked closely with it in order to reduce the debts, but I understand that the impact of national debt in low-income countries has been undermined by the lack of participation of the private sector in debt relief schemes. Is that true and, if so, has it undermined the Debt Service Suspension Initiative and the Common Framework? You said earlier that they were involved and that you worked closely with them, but that is not our understanding.

Veda Poon: On the private sector, there is a lot that we could say. The first thing to say is that the sheer scale of privately held debt means that we need to really address the issues head on, and we are in regular dialogue with the private sector, including the International Institute for Finance, which we saw literally a couple of weeks ago in Washington, to talk about a range of issues—not just country-specific ones but more strategic ones.

On the Debt Service Suspension Initiative, we have been on the record, as G20 members, expressing our disappointment with the lack of private sector participation. There are probably a variety of reasons, and Edd might want to add, but my sense is that the Paris Club certainly provided a lot of debt service suspension. There may be some uncertainties about the figures for non-Paris Club, non-traditional creditors, but, for the private sector, only Zambia had requested that of the private sector. We tried to have discussions with the private sector on some sort of framework to guide those discussions, but that did not materialise. Edd may want to add.

Recognising that the private sector should be part of the set of solutions, the way that we see it is that we, as bilateral creditors, have a role to play. The private sector and multilateral institutions have a role to play, but borrower countries also have a role to play, because they have to determine what they think is in their best interest in terms of debt treatments.

On the private sector side, one thing to draw your attention to is that, in 2014, we supported the IMF work on the collective action clauses. The US Treasury was very involved at the time, and this is about making sure that there are no holdout creditors in terms of bonds and series of bonds. What we tried to do last year, during our G7 Presidency, on the theme of trying to make progress where we can, was to set up a Private Sector Working Group, which includes sovereign borrowers and official creditors, but also the private sector and legal advisors, to think about how we can replicate what we did for collective action clauses in bonds, for similar types of terms in private sector loans and syndicated loans.

As I was mentioning earlier, because of the difficult fundraising circumstances at the moment, some countries are finding it difficult to issue bonds and get take-up of them. The yields are very high, and so countries have had to turn to loans.

Q97 **Chair:** Am I right that only 0.2% of debt suspension has come from the private sector?

Veda Poon: Do you mean through the DSSI? Edd, do you know?

Edward Wilson: That sounds a reasonable figure, because there was very little participation. Just to clarify, it is a slightly complex situation, because, in the main, countries did not request the DSSI.

Q98 **Chair:** Why would they not request? Is that for fear of what it would do to their economies?

Edward Wilson: The reasons are potentially complicated. In the main, there were some concerns about ongoing access to private finance and not wishing to interfere with ongoing bond and loan repayments. I do not know whether that was founded, but, certainly, it seemed to prevent countries coming forward and requesting it.

Q99 **Chair:** Was that fear realistic?

Veda Poon: The DSSI was created very quickly. We had to support these countries. I would say that probably not enough countries made a direct request to the private sector. One lesson learned from that period is in terms of the role of credit rating agencies. Without wishing to name specific—

Chair: We would love it if you could name specific agencies.

Veda Poon: During that period, one particular agency would say, "If you sought debt service suspension from the private sector, this would have a particular impact on your rating". A couple of weeks later, somebody else would put out a slightly different opinion. The lesson is probably a need for more consistency in how the rating agencies assess the impact of requesting debt service suspension when in fact that is supposed to increase your longer-term viability.

Q100 **Chair:** If you were doing the scheme again, you would have got them on board at the very beginning.

Veda Poon: At that time—this was a couple of years ago, and the Covid years blur—there was a concerted effort to speak with them. I know the Paris Club Secretariat did so very comprehensively. The fact of the matter is that how CRAs assess different types of debt treatments and the steps with the treatment differ. That is an area that we will seek consistency on.

Just going back to the question on the private sector, to continue the story, we were trying to see what we could do in the area of syndicated loans to avoid hold-out behaviour, where you have a few loan-holders who say, "We will stand in the way of debt restructurings". That is going to slow things down. That may put people off from seeking a debt restructuring. As I said at the beginning, we want to manage this proactively.

We have come a long way over the last 18 months by working with the private sector through the Private Sector Working Group. We have these terms now. They are called majority voting provisions. I am really glad to say to the Committee that, starting yesterday, the Institute of International Finance published these specimen clauses with a guidance note on how these clauses should function. It is for our industry to decide how they want to take them up.

Q101 **Chair:** It is still voluntary.

Veda Poon: It is for industry to decide how they take them up.

Chair: That is a yes. It is still voluntary.

Veda Poon: They have to decide what is best for them. We also have the International Capital Markets Association—

Q102 **Chair:** That is a yes; it is voluntary. Thank you very much. In 2010, the UK Government legislated to prevent low-income countries from being sued for defaulting on debt under the HIPC Initiative. We have received evidence that suggests the UK should consider this sort of legislation again to prevent creditors suing developing countries for more than they would receive had they participated in the Common Framework. What are the pros and cons of this?

Edward Wilson: If I may, I will say a word about the HIPC legislation, which I was involved in preparing at the time. Basically, that legislation says that, where a representative group of creditors has written off a set amount of debt, a private creditor cannot take that country to court and sue for a greater amount. It levels the playing field.

That legislation was done in the context of a very set international initiative with a set amount of debt, quite a small amount of commercial debt, where the impacts on the wider market were deemed to be limited. A lot of that debt was long since in arrears.

We are focused on—Veda has just basically gone through it—enhancing the contractual approach. This is about making sure the architecture governing private sector debt restructuring is strengthened and fit for purpose. In the absence of a sovereign debt restructuring mechanism, a little bit like we were talking about earlier, the focus has been on enhancing this contractual approach so that the terms in contracts reduce the likelihood of hold-out creditors and ensure that majority views, where the majority are willing to accept a debt treatment, apply to all and bind the minority.

That is what we have been focusing on. It has worked. The IMF has assessed very recently that it has worked very well since the introduction of enhanced collective action clauses, which was in 2014. In the last few years, nearly all—it is 96%—sovereign bonds that have been introduced have had collective action clauses. The IMF has basically said that this is now working well to ensure relatively smooth private sector participation in debt treatments. We identified a gap, which was the majority voting provisions in syndicated loans, and we have now got very far in getting these specimen clauses produced and getting this to happen in conjunction with the private sector.

Rachel Turner: That is an extremely important development for some of the most vulnerable countries, which are turning to those syndicated loans to fill their financing gaps. It is a recognition of the nature of the creditor landscape that some of the poorest countries are facing. It sounds a bit sophisticated and complicated, but it is definitely not just an issue facing the rich and middle-income countries.

The work that the Treasury and colleagues have done to lead this work with private sector creditors is very important from a development perspective. It is a great step forward in the wider debt architecture.

Q103 **Chair:** To draw it down to a more basic point, did the 2010 legislation help stop profiteering off low-income countries' debt? Are the measures you are talking about, which have recently come in, another part of the armour on that?

Rachel Turner: Yes.

Q104 **Chair:** In bringing in this sort of measure, is there any risk that it might actually drive firms out of the UK's legal jurisdiction?

Veda Poon: Just to go back to CACs, we had a discussion about the impacts on the market. There has been a lot of take-up of that. Out of the 300 issuances that you mentioned, only four did not include CACs. That has not led to any financing issues.

For majority voting provisions, this is the first step we are taking. The G7 is very well aware of the reforms we are trying to undertake. Before you talked about whether it was voluntary, I was about to say that the International Capital Markets Association has put this on the website; I expect the Asia Pacific Loan Market Association has also done that. As with everything we do, we take a lot of steps to get everyone together, but our hope is that financial institutions and non-financial institutions doing this sort of lending will also take these clauses up in their contracts.

To put it mildly, given the issues that Rachel mentioned, with a lot of countries moving to loans because of their inability to raise finance through bonds, we want to put it out there now so that people have this additional piece of the arsenal, as you mentioned.

Q105 **Chair:** I know I pushed you on whether it was voluntary, but another approach is legislating to make debt restructuring agreements biding for all private creditors if the agreement is supported by at least two-thirds of private creditors. Is this a viable option?

Veda Poon: At the moment, we very much prefer using market-based solutions. There is quite a bit of consensus, at least in the advanced economies, on that one. A lot of the loan agreements are written in the UK and US.

Q106 **Chair:** Was the 0.2% debt settlement from private creditors just from one company?

Veda Poon: Do you mean on the DSSI?

Chair: Yes.

Rachel Turner: This is on the bond issuances that did not have a CAC in them. Was it just one bond?

Veda Poon: You mean the four issuances out of 300. I would have to—

Rachel Turner: It would be one country. Maybe we can write to you, Chair.

Q107 **Chair:** That would be really interesting. Thank you. The reason I am pushing this is because it has been voluntary for years, and we are not seeing the private sector stepping up and doing the right thing. At what point do we make it conditional?

Q108 ***Rachel Turner:*** We remain ambitious for the Common Framework to extend beyond three countries. As it moves forward, the key thing will be to see how the private sector responds to requests for debt treatment in the Common Framework. It is a fact that in the three Common Frameworks that we have spoken about, we have not yet reached the stage where there has been a request to the private sector. The key thing will be to see, when Zambia makes its request to the private sector, whether the private sector engages with the request. That will be the key next step to monitor.

Q109 **Chair:** Do we have a timescale on that?

Rachel Turner: Do we know when the Zambia creditor committee will meet?

Edward Wilson: No, we cannot give a set timetable. It is still subject to negotiations.

Chair: Are we expecting it to be imminent or to take months or years? What is your best guess?

Edward Wilson: We should not put a timeframe on it. It is probably not sensible for us to do that. It is subject to negotiations. I am sorry. I know that is not overly helpful.

Q110 **Nigel Mills:** Do we know how many of the international sovereign bonds are governed by English law or somehow subject to our jurisdiction? Is it a large proportion of them?

Veda Poon: We were talking to the IMF a couple of weeks ago about this. The fund staff have done analyses. There were 300 issuances of international sovereign bonds since June 2020. Of those, English and New York law account for 97%.

Q111 **Nigel Mills:** Do we get half of that?

Veda Poon: I would have to look at the figures.

Edward Wilson: My understanding is that it is about half. We would probably have to write with more detail.

Rachel Turner: We can write with more detail. Particularly for Africa, you will see that the UK will be more dominant for issuance for Africa.

Q112 **Nigel Mills:** Do we try to co-ordinate with New York—is that state or federal law?—to make sure we have commonality in approach and we are trying to do things the same way?

Veda Poon: We have regular discussion with our US Treasury colleagues on all manner of debt issues, including the private sector. The legislation you refer to is the New York legislation. It was put forward twice. It has not gained a lot of traction.

Q113 **Nigel Mills:** I have not yet referred to the legislation, but I might have been coming to it. I was just asking whether we try to make sure we have a consistent policy and approach towards these instruments.

Veda Poon: In the regular dialogue that we have with US colleagues, we are very focused on a market-based approach. This is linked to the previous question that was raised. The private sector has been constructive in engaging with us. We would not have been able to put forward these majority voting provisions without their input. We have had a lot of debate about how best to cast the voting thresholds.

As ever with these things, you try to reach consensus where you can. It would be important for me to say that they did provide very constructive input into our discussions.

Q114 **Mrs Latham:** Could we turn to debt and climate issues, please? Debt-for-nature or climate swaps are viewed by some as a potential way of tackling climate and debt issues simultaneously. What is the Government's position on these swaps and what are the pros and cons?

Rachel Turner: We have both been working closely on climate finance for vulnerable countries. Veda, do you want to start with the approach to debt-for-nature swaps? I can then add on wider climate financing.

Veda Poon: Clearly, debt-for-climate or debt-for-nature swaps are a very topical issue. For as long as I have been in this job, we have had a lot of representations on it. Just to be clear in terms of what we are talking about, this is about swapping existing debt contracts with new ones that are discounted, with the proceeds used to support projects that tackle climate change or biodiversity loss.

Our own sense is that there are a couple of examples, or more than a couple of examples, where countries themselves have decided to go for these swaps. There is evidence that these swaps have helped countries reprofile their debts. The two notable examples are Seychelles and Belize. The Committee knows that. The Inter-American Development Bank also recently did a guarantee that is helping Barbados to refinance its debt.

We are open to discussing these. My own sense is that they tend to come with quite high transaction costs and there is a lot of monitoring involved to make sure the swaps work and fulfil the objectives. Typically, if a country decides that it wants to do it, that is really positive and that is their sovereign decision. On the UK side, we try to look at the country's debt objectives and their climate objectives in parallel and provide support in parallel.

Q115 **Mrs Latham:** Rachel, you are in FCDO. Do you come from an FCO background or a DFID background?

Rachel Turner: I come from DFID.

Q116 **Mrs Latham:** That is fine. Is there any strong international development case for embedding climate, nature and biodiversity outcomes into international debt restructuring?

Rachel Turner: If we go back to Glasgow, the key message from the most vulnerable countries was that they want more climate finance, but particularly that they want climate finance to be easier and more straightforward to access. At Glasgow we made the commitment, which we will be taking through to Sharm El Sheikh, to continue to support countries to manage climate finance. That is the really important thing to say, as we think about this.

Countries find it difficult to access the climate architecture at the moment. It is very project-based. There are heavy transaction costs. It also mitigates against countries taking a wider approach to how they best organise their budget and their policies. Why do we think that goes to this issue of whether climate objectives should be conditional to debt relief? We think it creates more rigidity in the system. As Veda said, what is most important is that we support countries with sustainable debt positions through the right debt restructuring that makes the most sense for their sustainable development.

When we think about the depth of debt restructuring they need, we should absolutely be clear that we are thinking about the future shocks they may face as a result of climate. That is important.

Q117 **Mrs Latham:** It did not really gain traction in Glasgow.

Rachel Turner: The issue of access definitely gained traction. We are the co-chair of something called the Taskforce on Access to Climate Finance with Fiji, and work has continued all year to try to improve the functioning of the system. We feel it is important to help countries with the depth and the right debt restructuring that will give them the ability to bear future climate shocks. That should be the focus.

The question about conditionality, about how you use the fiscal space that has been freed up through the restructuring, should happen through a separate and parallel conversation where we can work in partnership with countries on how they use finance. That is how we feel the architecture can be made more straightforward for countries.

Q118 **Mrs Latham:** As it did not gain any traction in Glasgow, do you anticipate the UK championing it so it does gain traction in Egypt?

Rachel Turner: We will champion making it more straightforward for countries to access climate finance. There are also two particular parts that we want to, will and are championing in this space. The first is the use of climate and disaster-resilient debt clauses in debt. Veda has spoken about the new debt clauses in syndicated loans to prevent holdout action, but we have also been championing the use of clauses that mean, when climate or disaster shocks occur, creditors have already agreed in advance they will pause all requirements for debt repayments during the period of that shock.

It is something Barbados has done. Mia Mottley, the Prime Minister of Barbados, has been talking about it during the course of the year. She is leading a wider reform initiative of the international financial system. We are strongly supportive of that.

We are working with private creditors, and we have also called out to all multilateral development banks to look at whether they could start to introduce similar clauses that would pause payment in the event of shocks in their lending to the most vulnerable. In fact, the Inter-American Development Bank has already done that, and it announced that at Glasgow.

Q119 **Mrs Latham:** We talk about shocks, but, if there is a hurricane or flood, the flood goes down after a few weeks.

Rachel Turner: It would be specified. Ed has been working on the detail.

Q120 **Mrs Latham:** Can you specify that in advance of each possible scenario?

Edward Wilson: You are right to highlight it. It is a challenge, but it has been done in the case of Barbados, which has introduced these clauses in some of their debts. You have to identify in advance, in conjunction with the country and its lenders, the scale of shock that they would want to trigger a debt deferral. Is it a category 5 hurricane? Is it a category 4 hurricane? That is a negotiation they have to have. You have to identify the right organisation to provide that information. Typically, private sector creditors will want an independent organisation to do that.

We have been working with them to get a market consensus around the standard terms that would underpin these instruments, which could be used in a broader set of cases than has been done for Barbados, and to discuss these trigger mechanisms and the appropriate ways of doing that.

Rachel Turner: One of the reasons we are more confident that we have the ability to specify those triggers is because of the work we have been doing in parallel to build what we call the development risk insurance architecture. During our G7 presidency, we made a commitment to scale up our support for disaster risk financing and to continue to invest in what is known as development insurers, including the African Risk Capacity and the Caribbean Catastrophe Risk Insurance Facility.

Through that work, we have been learning a lot about understanding triggers and the underlying modelling of climate shocks, which allows us to be more confident that these types of clauses can be well specified and very useful for countries going forward.

Veda Poon: If I could just add one thing, we are very cognisant of how much people want to see progress on climate-resilient debt clauses in particular. The Canadians picked it up, with due credit to them, in their own G7 Presidency. There was a climate and development ministerial meeting that the COP president chaired on the margins of UNGA in September.

If I may quote, there was a statement put out afterwards that tried to summarise the discussions, including the borrower countries, which said, "The expansion of climate resilient debt clauses […] was clearly called for by a number of participants, with calls to expand the geography and encourage all creditors (bilateral, multilateral and private) to include this type of clause in new debt instruments going forward, and ensure a wider set of countries can access it".

We have talked about majority voting provisions on syndicated loans. Climate-resilient debt clauses are the second leg of the private sector work. We are trying to see what progress we can make on a model term sheet in time for the discussions this month. We are in November now.

Q121 **Chair:** I just have a couple of quick questions, if that is okay. There is concern that the Common Framework is being left to market forces, and history sadly tells us that private creditors do not tend to participate unless they are compelled. I am sorry; I am like a dog with a bone on this one. Could you clarify—Veda, this is to you—whether the UK has ruled out introducing legislation to compel the private sector to participate?

Veda Poon: As I said before, we are focused on market-based approaches, working with the private sector. We will have to discuss any further policy with Ministers.

Q122 **Chair:** You have not ruled it out or you have ruled it out.

Veda Poon: At the moment, we are very keen to work on market-based solutions. As we have described before, we are not convinced that legislation is the right thing to do. It could increase the cost of financing. We are bearing strongly on the work we have done and hoping to encourage take-up of those clauses.

Q123 **Chair:** I could do this for longer, but I accept your position. The UK's stated aim and intent is to reduce multilateral ODA contributions, but most debt relief seems to happen on a multilateral level. What are the implications for debt relief if the UK shifts to a much more bilateral way of working as part of its International Development Strategy? Does it make it more difficult to do debt relief?

Rachel Turner: There are two parts to the answer to that. Veda has been clear that we will absolutely stay a full part of the multilateral debt system.

Q124 **Chair:** It sounds as though you are legally committed to it for the foreseeable future.

Rachel Turner: If you think about the Common Framework and the Paris Club, these are all multilateral. How we allocate the aid programme is a slightly separate issue. The commitment to continuing to finance the multilateral development banks, though, is important for the overall financing that is available to countries. We have spoken a lot about the pressures that countries face from commercial borrowing and from other high-cost and complex borrowing, but we are still an important contributor to multilateral development banks.

We are still a significant donor to IDA. IDA, with strong support and strong requests from us, has been able to surge financing, during the pandemic and again now during this extremely difficult year for poor countries, to the most vulnerable countries. The volume of financing we are getting from IDA particularly is extremely important in helping the most debt-distressed countries through this time.

What is very important for the Committee to note is that since the HIPC initiative we have negotiated for the multilateral development banks, including IDA and the World Bank, to provide all their financing to the most debt-vulnerable countries as grants. That is a very important and major shift in the architecture.

I know you were asking the question in a slightly wider way, but we are still there at the table at IDA. The framework for IDA 20 that was published at the time the IDA negotiations were concluded also includes some very specific commitments from the World Bank to help countries manage their debt position. We specifically asked for those. IDA has agreed to support 50 countries with new debt transparency plans. We have asked for a deep dive on debt transparency from IDA, because a lack of debt transparency makes debt management so difficult. We have also asked IDA to work with countries to increase their tax revenue. There is a commitment in there to work with countries to get their tax-to-GDP ratios up to 15.

I want to assure the Committee that we are continuing to use our multilateral engagement to support countries through these crises.

Q125 **Chair:** That has come across loud and clear. Your passion for this is deeply appreciated. Thank you. The reason I am asking—I end where I started—is that, if you look around the world, for a whole range of reasons low and middle-income countries are facing a tough economic situation. I am particularly minded of a country such as Sri Lanka, which almost went bankrupt because of the debt burden it had towards China, for example. It pains me that—I use these words deliberately—some of the poorest in the world are shackled to debt, which is stopping them having healthcare or education, for example.

At a time when the UK has less money that we can put in—we do not need to go there—is there a way that we could implement debt relief without it being attributed to ODA spend? When money is tight, this would seem to be something that could come straight from the Treasury rather than being put against ODA. Is that something, first, is a possibility and, secondly, is being discussed?

Rachel Turner: That is one of those questions that is hard for officials to answer.

Chair: I was asking the Treasury whether that was a possibility.

Veda Poon: We report debt relief in accordance with DAC rules. That is not an issue that we have discussed to date.

Chair: What has not been discussed?

Veda Poon: Your question about whether we could not score debt relief as—

Q126 **Chair:** It is our choice whether we put it against ODA spend. Is the Treasury having discussions about whether to put debt relief expenditure against ODA? It could be Treasury reserves, for example.

Veda Poon: This is something we will have to discuss with Ministers. For the moment, we report according to DAC rules.

Chair: If you could discuss it with Ministers and come back with their thoughts on it, we would be most grateful for that. Committee, thank you very much. Harriet in particular, thank you very much. It is a good way to work.

Harriett Baldwin: What I took away from that, if I have interpreted what we have heard correctly, is that, with the change in ministerial team at the Treasury, there has not yet been time to discuss this, and it would be helpful to be updated.

Chair: If your committee is able to push on that, we would be very grateful. Thank you very much for your time. Thank you for saying as much as you could. It is appreciated.