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Sarah Champion MP
Chair of the International Development Committee
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13/12/2022

Dear Sarah,

HMG supplementary information for the 'Debt relief in low-income countries' inquiry oral evidence session

At the HMG oral evidence session to the IDC inquiry on debt relief on 1st November 2022, HMG committed to write to the Chair with supplementary information to some of the answers provided to questions asked during the session by the panel.

On behalf of FCDO and HM Treasury, please find this information below, along with our thanks to the Chair and the panel in highlighting this important topic through the IDC. We have also provided an update on UK leadership on climate resilient debt clauses at COP27. Our apologies it has taken time to get back to you.

We look forward to receiving a copy of the IDC's report on debt relief.

Progress of the Common Framework (Q58)

Please see below the link to the terms of reference for the Common Framework which is in the public domain.

Source:
https://clubdeparis.org/sites/default/files/annex_common_framework_for_debt_treatments_beyond_the_dssi.pdf

Private sector participation in the DSSI (Q97 &Q106)

According to the World Bank, only one private creditor participated in the DSSI. We are not aware what share of debt suspended this accounts for.

Source: https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative#:~:text=Regrettably%2C%20only%20one%20private%20creditor%20participated.%20The%20World,or%20economic%20spending%20in%20response%20to%20the%20crisis.

Share of international sovereign bonds governed by English law, reporting Africa separately (Q110 & 111)

According to the IMF, English law governs about 45% of total stock of outstanding of international sovereign bonds, as a share of the nominal principal amount. About 52% of these bonds are governed by New York law.

We do not have a breakdown for Africa specifically. However, in 2021 the London Stock Exchange accounted for the majority of African sovereign bond issuances: $16 billion out of a total $22 billion[1].

Sources: (1) https://www.imf.org/~/media/Files/Publications/PP/2017/pp113017third-progress-report-on-cacs.ashx.
(2) https://thedocs.worldbank.org/en/doc/6e72b0ded996306fa01f5db7a0c38b19-0050052021/related/2022-Debt-Report-Edition-II.pdf .
(3) Bloomberg Terminal data on the London Stock Exchange.

Ministerial view on the ODA scoring of debt relief expenditure (Q126)

The UK government's position remains that we report ODA in line with the OECD Development Assistance Committee rules. As usual, HMT and FCDO are working closely together to monitor and manage risks against the ODA budget across government.

An update on the status of Climate Resilient Debt Clauses following COP27 and more information on the Majority Voting Provisions that we announced during the session (Q120)

In the lead up to COP27, many countries called for climate resilient debt clauses (CRDCs), which pause debt repayments when a climate shock or natural disaster hits. By doing so, these clauses can free up funds that would otherwise have been used for debt-service payments, thus lowering the risk of liquidity challenges that could lead to a default and a protracted, costly debt restructuring.

At COP27, the Exchequer Secretary to the Treasury (XST) James Cartlidge announced[2] that UK Export Finance (UKEF) will become the first export credit agency in the world to offer CRDCs in its direct sovereign lending to low-income countries and small islands states. XST called on other creditors – including private banks, other bilateral lenders and the international financial institutions – to do the same.

XST also announced[3] the publication[4] of a model term sheet for CRDCs, produced by the HM Treasury-led Private Sector Working Group (PSWG) on debt issues, which was set up under the UK's 2021 G7 Presidency. The model term sheet sets out key design principles of CRDCs for use in private sector lending.

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[1] $14 billion for Sub-Saharan Africa, and figures from North Africa, namely: Egypt ($3.8 billion in February and $3 billion in September) and Morocco (EUR 1 billion x EUR/USD rate of 1.18 in September 2021).
[2] https://www.gov.uk/government/news/uk-export-finance-launches-new-debt-solution-to-help-developing-countries-with-climate-shocks
[3] https://www.gov.uk/government/news/cop27-finance-day-building-resilience-for-countries-hit-by-natural-disasters
[4] https://www.icmagroup.org/News/news-in-brief/icma-publishes-new-climate-resilient-debt-clauses-to-facilitate-sovereign-debt-relief-and-financial-stability/

With UK encouragement, Multilateral Development Banks are exploring incorporating CDRCs in their lending, building on the leadership of the Inter-American Development Bank in offering such clauses.

In addition to CRDCs, the PSWG spent the last 18 months working on majority voting provisions (MVPs) for commercial loans – as mentioned during the HMG oral evidence session - initiated in response to a 2020 IMF report[5] on private debt restructuring. Following on the success story of Collective Action Clauses reforms for bonds in 2014, the PSWG agreed and published[6] specimen MVP clauses for commercial loans, allowing a majority of creditors to bind a minority to changes to payment terms, which will make restructurings more efficient and minimise disruptions caused by holdout creditors. This is particularly topical as bond yields rise, resulting in more countries possibly turning to commercial loans to raise financing.

Additional clarifications noted upon reading the transcript

1. **Q58:** That Chad's MoU provides for a process to reconvene if the financing gap reappears **-** not only when creditors have decided it's the right time
2. **Q64:** Please note, as per the written evidence, we use the term 'lower-income countries' as short-hand for the group of countries that were DSSI-eligible – defined as those eligible for World Bank IDA at the time or on the UN's Least Developed Countries list. This list excludes Sudan, Eritrea and Zimbabwe who were not eligible for IDA at the time.
3. **Q64:** The IMF statistic refers to those that are either in, or at risk of, debt distress – not only those in debt distress.
4. **Q65:** For clarity, the UK pays about £200m annually for MDRI and our commitment to do this stretches to 2044.
5. **Q66:** Please note the same group of countries as in Q64.
6. **Q81:** To clarify that Somalia was getting able to access limited financing pre-arrears clearance, from international financial institutions, for example certain grants from IDA. Clearing Somalia's arrears then allowed it to restore normal access to finance from the international financial institutions, including grants, that it had not been able to access for a long time.

Yours sincerely,

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[5] https://www.imf.org/en/Publications/Policy-Papers/Issues/2020/09/30/The-International-Architecture-for-Resolving-Sovereign-Debt-Involving-Private-Sector-49796
[6] https://www.iif.com/Publications/ID/5130