

February 2015

Response to the ‘Don’t turn the clock back’ campaign by Jubilee Debt Campaign

Justine Greening, Secretary of State for International Development has received campaign cards that raise a number of concerns about lending to developing countries and about averting a future debt crisis. I am responding as Minister of State who leads on the issues raised.

The UK Government believes that the maintenance of sustainable debt levels is a critical factor for achieving poverty reduction in developing countries. Debt sustainability underpins stable macroeconomic performance and helps countries to access long-term affordable finance from a range of sources. The UK has for many years been at the forefront of international efforts to promote debt sustainability, including providing more than £5 billion in debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI).

The Department for International Development (DFID) will continue to be a predominantly grant-based organisation. There is no intention to adopt a policy requiring bilateral UK aid to take the form of loans. The provision of any sovereign loans would be determined solely on a case-by-case basis. No such cases have been approved by this Coalition Government to date. DFID’s ongoing contributions to the International Financial Institutions (IFIs) are used to provide concessional finance to developing countries. These IFIs have policies in place to support developing countries’ debt sustainability. For instance, countries receiving support from the International Development Association (IDA) that are at high risk of, or in, debt distress, receive assistance from the World Bank only in the form of grants. For countries at low or moderate risk of debt distress, World Bank loans are provided at highly concessional rates; the IDA’s interest rate is 0%.

We continue to be a strong advocate for responsible lending and borrowing practices, notably through our ongoing support for the IMF-World Bank Debt Sustainability Framework and the OECD sustainable lending principles, which govern the provision of export credits to developing countries. We are also committed to building the debt management capacity of developing countries through DFID in-country programmes. At the international level, we have also supported G20 efforts to develop sustainable financing guidelines in collaboration with low-income countries that were set out in the September 2013 G20 Leaders’ Declaration, and are working to ensure that discussions on the Post-2015 development agenda appropriately reflect the importance of debt sustainability for economic development.

The Government believes that the processes for sovereign debt restructurings should be timely, predictable, and effective, and that they should support action to promote debt sustainability internationally. We are fully engaged in the IMF's ongoing work to improve the contractual framework for international sovereign debt, which should help to reduce the power of holdout creditors in future, while ensuring that all creditors are treated fairly. The UK has taken the lead internationally in establishing domestic legislation to curb so-called 'vulture fund' activities, by preventing commercial creditors from recovering excessive amounts of debt from the world's poorest countries.

I would like to thank you for raising very important concerns through this campaign; DFID will always ensure that the interests of developing countries are at the centre of its work.

DESMOND SWAYNE