The UK's role in tackling the climate and debt crises

Key messages

- The financial and human impacts of the climate and debt crises are colliding to trap millions of people in the global South into poverty.
- As costs of the climate crisis continue to rise and hit the world's most vulnerable the hardest, pledges to provide climate finance at scale are falling far short.
- At the same time, the worst debt crisis in a generation is leaving global South governments choosing between repaying lenders and investing in the basic needs of their citizens.
- As one of the world's largest historical carbon emitters looking to play a global climate leadership role, the UK can deliver its fair share of international climate finance even in difficult economic times. It can be raised at no cost to the ordinary taxpayer - through fairly taxing the biggest and wealthiest polluters.
- As most relevant debt contracts held by private creditors operate under UK law (putting the UK in a unique position), the government also has a clear route to fulfilling its pledge to 'tackle the unsustainable debt' facing global South countries. It could act on this opportunity by passing the Debt Relief (Developing Countries) Bill. This Bill incentivises private lenders to fully participate in global debt relief, releasing resources for countries in crisis at no cost to UK taxpayers.
- This government made a promise to reset relationships with global South governments, building partnerships based on respect. The cuts to the aid budget only makes it even more urgent to look to other routes to honour our commitments. The UK government holds valuable cards beyond the aid budget, as above. It should play them.

The climate and debt crises

The scale of the climate crisis cannot be overstated, 2024 was the hottest year on record[1], and 3.3-3.6 billion people live in contexts highly vulnerable to climate change[2]. With droughts, floods, wildfires and rising sea levels occurring every year across the world, the impacts of the climate crisis hit the poorest and least responsible the hardest – and could push up to 132 million more people into extreme poverty by 2030.[3] The climate finance promised by the historically high emitting, and relatively richer, countries, has been inadequate to date – and at the same time the costs keep rising.

Meanwhile, many of the same countries most affected by the climate crisis have also been plunged into a debt crisis. 32 African countries now spend more in paying external debts than they do on healthcare, while 25 spend more on debt than education.[4] Even before the cuts to aid, Africa was already spending 50 times more in debt repayments than it received in UK aid, and 50% more than the total aid to the region.[5] The largest share of these debt repayments are owed to Western private creditors, who charge the highest interest rates compared to China and other lenders.

The debt and climate crises are compounding one another. Spiralling debt repayments prevent countries from not only investing adequately in basic services for their people, but also in investing in their own climate action. According to one study, lower-income countries are spending 12 times more on debt repayments than on addressing the impacts of the climate crisis.[6] At the same time, insufficient provision of international climate finance – and the majority of what *is* delivered coming in loans instead of grants[7] – is deepening the debt burden placed on lower income countries. The world's most climate vulnerable countries are spending twice as much on debt repayments than they receive in climate finance.[8]

Combined the climate and debt crises are pushing people further into poverty, placing achieving the

[1] WMO (2025) WMO confirms 2024 as warmest year on record at about 1.55°C above pre-industrial level
[2] IPCC (2022) https://www.ipcc.ch/report/ar6/wg2 ,
[3] Work Bank (2020), https://openknowledge.worldbank.org/entities/publication/a549a5ee-71cd-5ed4-bcf3-3a8cb508b199
[4] Christian Aid (2024), https://www.christianaid.org.uk/sites/default/files/2025-01/j474500-between_life_and_debt_online.pdf
[5] Christian Aid (2024), https://www.christianaid.org.uk/sites/default/files/2025-01/j474500-between_life_and_debt_online.pdf
[6] Development Finance International (2023), https://www.development-finance.org/en/news/832-debt-service-watch
[7] House of Commons Library (2024), The UK and the US$100 billion climate finance goal - House of Commons Library
[8] IIED (2024), https://www.iied.org/worlds-least-developed-countries-spend-twice-much-servicing-debts-they-receive-climate-finance

UN Sustainable Development Goals and the Paris Agreement goal to keep temperatures rises to within 1.5C in grave peril.

The UK can show leadership

Upon entering power last July, the Labour government promised to 'turn the page to rebuild Britain's reputation on international development with a new approach based on genuine respect and partnership with the global South to support our common interests', and it also set out its ambition to be a global climate leader.

The decision to cut the already depleted aid budget to fund defence has placed these aspirations in jeopardy. Yet the government can still meet the UK's global security challenges whilst (and indeed by) standing firmly with global South partners. It can play a leadership role in areas where it has outsized power, notably by incentivising private creditors to provide more debt relief, and raising climate finance through making polluters pay. As we look to the all-important Financing for Development Conference (FFD4) in Seville in July and the global climate talks in Brazil in November (COP30), global South partners will look to the UK to step up. Now more than ever bold action is needed.

UK action on Climate Finance

Christian Aid welcomes the government's ambitions to be a global climate leader. The Energy Secretary has recognised that we are in a critical decade for climate action and the Foreign Secretary has committed to make climate central to all that the Foreign Office does. While the government's recent step to strengthen the UK's domestic carbon emissions reduction target[9] is good news, global climate leadership requires going beyond domestic action to deliver a credible offer on international climate finance too.

Why climate finance. The provision of international climate finance is essential to tackling the climate crisis globally. It is needed to enable lower income countries to develop their economies cleanly ('mitigation'), so they can adapt to worsening climate impacts such as droughts and flooding ('adaptation'), and to pay for the escalating costs of the damage to homes, crops, livelihoods and lives beyond what can be prevented or adapted to ('Loss and Damage'). Climate finance is an obligation on the part of historically high emitting countries towards those countries that have least contributed to the climate crisis but are bearing the brunt of the impacts. It is also the way to unlock the global action to put us on a path to limiting global temperature rise to 1.5C.

Climate finance must be public finance. The majority of this finance needs to be public grant-based finance, especially for adaptation and Loss and Damage. Very little private finance is flowing to these areas and the evidence suggests it is not likely to do so at scale, particularly for the poorest countries.[10] To date less than 50 cents in every $100 of all climate finance is private finance for adaptation.[11] Too much climate finance is provided as repayable loans with interest, which simply adds to the debt burden of those countries who are not responsible for the climate crisis – yet are, in this way, expected to doubly pay for its costs. The African continent, for example, is responsible for just 4% of global carbon emissions[12] and cannot be expected to borrow money that is owed to it, to address the impacts.

The global climate finance goal. After delays and shortfalls in the delivery from richer countries on the previous climate finance commitment – the majority of which was delivered as loans - a new climate finance goal was agreed last year at COP29. $300bn is to be provided annually by 2035, 'led' by developing countries. It falls far short of even the conservative estimates of need, which run into trillions of dollars per year.[13] The goal was described by the Least Developed Countries Group of governments as "sacrificing the needs of the world's poorest".[14]

The UK can meet its fair share at no cost to the average taxpayer. To meet the UK's fair share of

[9] Gov.uk (2024),https://www.gov.uk/government/news/uk-shows-international-leadership-in-tackling-climate-crisis
[10] Christian Aid (2024), https://www.christianaid.org.uk/resources/our-work/putting-our-money-where-our-mouth
[11] Christian Aid (2024), https://www.christianaid.org.uk/resources/our-work/putting-our-money-where-our-mouth
[12] Aljazeera (2023), https://www.aljazeera.com/news/2023/9/4/how-much-does-africa-contribute-to-global-carbon-emissions
[13] Independent High Level Expert Group on Climate Finance (2024), https://www.lse.ac.uk/granthaminstitute/publication/raising-ambition-and-accelerating-delivery-of-climate-finance/
[14] LDC Climate Change (2024), COP29: A Staggering Betrayal of the World's Most Vulnerable – LDC Climate Change

this already modest goal, the government will need to contribute a higher figure than it formerly took from the aid budget. It can pay its share of climate finance through 'polluter pays taxes'. Options could include a permanent excess profits tax on oil and gas production, redirecting tax reliefs for fossil fuel companies such as the Ring Fence Expenditure Supplement, fairly taxing private jets and superyachts, and exploring further aviation taxes. Further, in view of the fact that the world's richest 1% pollute as much as the poorest 66%[15], a wealth tax should be introduced and a proportion of it used for climate finance. A wealth tax of 2% on those with £10m+ could generate £24bn a year.[16]

Raising ambition in actions as well as words. The former government took climate finance from the aid budget, and overclaimed about what private finance could deliver despite the evidence of its limitations. A government with a narrative of increased ambition, needs to show how it is going further.

UK action on Debt

The government identified 'tackling unsustainable debt' as one of its key priority contributions in the sphere of international development. Without meaningful action not only will millions of people face devastating human impacts, but as the former Development Minister recently reminded us debt will continue to "dampen global growth"[17]. Minister Dodds spoke of the importance of fast, orderly restructuring to help countries avoid debt defaults, noting the critical role the UK can play as the jurisdiction where most private creditor debts are legally registered[18]. However, UK leadership must go beyond hoping the efforts made by the previous government will yield different results.

The roots and nature of the debt crisis. The current debt crisis largely stems from the 2008 global finance crisis, after which private lenders, such as commercial banks, investment firms and hedge funds, hugely increased lending to lower-income countries in search of higher profits when interest rates in the global North were low.[19]
These private creditors charge the highest interest rates, with the average interest rates for Africa countries above 6.2%, almost double that of Chinese lenders at 3.2% and far higher than other bilateral or multilateral lenders.[20] Debts of lower income countries are now at their highest levels for 30 years, with economic shocks not of their making, from Covid to the war in Ukraine, exacerbating the situation over recent years. From 2020-25 the largest share of lower-income country external debt repayments have been to Western private creditors (39%) compared to 34% to multilateral institutions and 13% to Chinese public and private lenders.[21]

The global debt relief mechanism is not working. When the global pandemic hit, G20 governments agreed to provide debt relief to lower-income countries through the Debt Service Suspension Initiative (DSSI) and the Common Framework (CF), but private creditors refused to take part in the DSSI and under the CF participate only on a voluntary basis. Private creditors have been dragging out negotiations under the CF, to hold out for higher repayments. For example, Chad failed to get any debt cancelled from its main private creditor, UK-based Glencore. As the CF nears its fifth birthday, only 4 of more than 70 eligible countries have applied for it, as it is not seen to be delivering.

Passing the Debt Relief (Developing Countries) Bill.
90% of the debts to private creditors owed by low-income countries eligible for the Common Framework, are governed under English law. This gives the UK hugely outsized powers – a real trump card, should it choose to play it. By passing the Debt Relief Bill it can incentivize private creditors to play their full part in debt relief, unlocking the deadlock in multilateral negotiations and truly speeding up much needed debt relief for global South partners, all at no cost to the UK taxpayer. The bill does this by strengthening the legal framework of the Common Framework, ensuring that no creditors, including private creditors, can hold out for higher repayments than other creditors. Ultimately this would protect

[15] Oxfam (2023), https://www.oxfam.org.uk/media/press-releases/richest-1-emit-as-much-planet-heating-pollution-as-two-thirds-of-humanity-oxfam/
[16] Tax Justice UK (2024), https://taxjustice.uk/blog/ten-tax-reforms-to-raise-60-billion-for-public-services-and-a-fairer-economy/
[17] Gov UK (2025), https://www.gov.uk/government/speeches/new-partnerships-for-growth-fcdo-ministers-speech-at-the-lse
[18] Gov UK (2025), https://www.gov.uk/government/speeches/new-partnerships-for-growth-fcdo-ministers-speech-at-the-lse
[19] Christian Aid (2022), https://www.christianaid.org.uk/sites/default/files/2022-12/risky-business-briefing-final-revised-1.pdf
[20] Kiel Institute for the World Economy (2023), https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Kiel_Working_Paper/2022/KWP_2217_Who_Lends_to_Africa_and_How_/KWP_2217.pdf
[21] Debt Justice (2024), https://debtjustice.org.uk/press-release/lower-income-country-debt-payments-hit-highest-level-in-30-years

debt distressed countries from the threat of being sued for higher repayments by predatory private creditors, as is the case for Ethiopia (see case study).

Raising ambition in actions as well as words. The previous Conservative government championed clauses in loan agreements that would enable some debts to be suspended in cases of climate shocks (known as 'climate resilient debt clauses'). Such clauses can be helpful in providing temporary respite, however they continue to push debt payments into the future while interest continues to accrue. The former government also sought to encourage technical improvements to so-called 'collective action clauses' – striving to include Majority Voting Provisions in syndicated loans – but without success to date. The current government continues to try to nudge forward these efforts – yet if and when such improvements materialise they might only help marginally with future debts, rather than addressing the crisis countries are facing today. A far more ambitious answer is needed – and the government holds it in its hand. It could pass the Debt Relief (Developing Countries) Bill.

Case Study: Ethiopia

Ethiopia spent twice as much on external debt repayments as it did on education in 2023 ($1.4bn on education).[22] A lack of public finance for doctor and teacher salaries is leading to hospital and school closures.[23] Four years into debt negotiations under the Common Framework, the Ethiopian government proposed a debt restructuring plan that would have seen its bondholder creditors provide some debt relief but still make a 30% profit.[24] Creditors rejected the proposal and are now threatening to sue Ethiopia in English courts, claiming the IMF are exaggerating Ethiopia's need for debt relief.[25] The legislation that the UK is uniquely placed to enact would remove this threat of private creditors suing for unfair levels of repayment, strengthening Ethiopia's hand in the negotiations, enabling a balanced deal to be reached. It would free up resources for Ethiopia to invest in schools and hospitals.

Alongside Ethiopia's debt crisis, years of droughts then floods have prevented people from making a living, forced them to migrate and caused them to lose their homes. The costs of building back and adapting to climate breakdown are mounting, but sufficient climate finance can enable the action required to tackle the climate crisis. In Ethiopia's South Omo, nearly 38,000 people have already seen the benefits that climate finance can bring. Our local partners Action for Development used £250,000 of loss and damage finance from the Scottish Government to: secure peoples' livelihoods, by replacing livestock previously lost in recent droughts; restore access to water by rehabilitating damaged boreholes; and support communities to switch to fishing as an alternative source of food and income for families by providing grants for equipment and training.

The UK Government still has real options for driving forward its mission "to create a world free from poverty on a liveable planet". It can demonstrate global leadership by fairly taxing wealthy polluters and incentivising private creditors to provide debt relief for countries in crisis, without costing ordinary working people.

We urge Parliamentarians to submit the following questions:

To the Secretary of State for Energy Security and Net-Zero

- What plans does the UK Government have for raising its fair share of international climate finance through polluter pays taxes?
- What plans does the UK Government have for ensuring its international climate finance contribution comes in the form of grants, in order to not increase the debt burden of lower-income countries?

To the Economic Secretary to the Treasury

- What steps will the UK Government take to ensure private creditors are prevented from suing countries in debt distress for higher payments than other lenders such as bilateral country creditors?

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[22] Christian Aid (2024), https://www.christianaid.org.uk/sites/default/files/2025-01/j474500-between_life_and_debt_online.pdf
[23] Amhara Association of America (2024), https://www.amharaamerica.org/post/5500-schools-closed-majority-in-amhara
[24] Debt Justice (2025), https://debtjustice.org.uk/press-release/bondholders-would-still-make-30-profit-from-rejected-ethiopia-deal
[25] Financial Times (2025) https://www.ft.com/content/40c35ffd-fa86-445f-9c4c-dc434b61de25