Building on Quicksand

How the climate and debt crises are pushing millions into poverty – and what the UK can do about it.

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Anok Angok Kon lives in Aguat Boma, South Sudan. Regular floods damage her farmland, threatening her livelihood and her family's access to food. Credit: David Macharia/Christian Aid.

SUMMARY

The financial and human impacts of the climate and debt crises are colliding to trap millions of people in the global South into poverty. Without adequate action the climate crisis could push up to 132 million more people into extreme poverty by 2030.[1] Whilst lower income countries are receiving only a small fraction of the international climate finance (ICF) they need to mitigate, adapt to and build back from climate disasters, the costs keep rising. Meanwhile, most climate vulnerable countries are facing the worst debt crisis in a generation, leaving governments choosing between debt repayments, funding basic services and climate action. The largest share of global South debt is owed to private creditors[2], who charge the highest interest rates and are failing to constructively engage in international debt relief initiatives to deliver meaningful debt cancellation.

As we approach COP30 in November, **inadequate climate finance combined with debt is preventing lower income countries from investing in their own climate action.** For example, based on current payments Nigeria will pay private creditors $13bn in debt servicing between 2025 and 2030. Approximately the same amount could pay to install enough solar power for 5 million homes and 200,000 small businesses, convert 30 million homes to clean cooking and eliminate gas flaring, all by 2030.[3]

Wealthier governments' reliance on private finance for climate action is also failing to deliver the scale of climate action required, especially for vulnerable communities in the global South. To date, less than 50 cents in every $100 of all climate finance is private finance for adaptation.[4] To be delivered at scale and to meet the needs of the world's poorest people, **most ICF must be public and grants based**. New commitments and approaches are needed to meet the new global climate finance goal agreed at COP29 last year.

The decision to cut UK aid puts the government's pledge to rebuild the UK's reputation on international development in jeopardy. **Yet the UK can show leadership on climate finance and debt**, without costing the average UK taxpayer.

The UK can raise its fair share of ICF, alongside vital finance for domestic needs, through adopting a range of polluter pays' measures. For example, options could include phasing out fossil fuel producer subsidies, raising **$3.6bn.**[5] A permanent excess profits levy on fossil fuel producers could raise an additional **£2.2-4.4 bn per year.**[6] A reformed financial transaction tax could raise **£6.5bn a year.**[7] A net wealth tax on those with assets over £10m to the tune of 2% a year would raise **£24bn a year.**[8]

With most private creditors operating under UK law, the UK also holds a unique opportunity to tackle the debt crisis in the global South. Currently, the lack of accountability to debt restructuring initiatives has in part enabled a highly lucrative business environment for private creditors when investing in sovereign debt. According to new research by Debt Justice and Christian Aid, **bondholders and their clients could make more than $60 billion profit out of the global debt crisis.**[9] By passing the Debt Relief (Developing Countries) Bill, the UK can ensure private creditors play their part in debt relief efforts, releasing resources for countries in crisis at no cost to UK taxpayers.

The UK has valuable opportunities to address the climate and debt crises. We call on the UK Government to:

- **Raise its fair share of international climate finance through polluter pays measures.**
- **Pass the Debt Relief (Developing Countries) Bill, to unlock urgent debt relief for countries in crisis.**

Counting the cost of debt to climate action

A comparison of the costings for climate action outlined by global South governments, and their current debt servicing costs, illustrates the scale at which debt – and particularly debts paid to private creditors - is undermining their capacity to achieve their climate goals by draining public finances. According to research by Christian Aid and Debt Justice:

- **Nigeria** is due to pay $13bn to external private creditors between 2025 and 2030, based on current payments. Yet according to its climate strategy, Nigeria requires $13.4bn to install enough solar power for 5 million homes and 200,000 small to medium businesses, convert 30 million homes to clean cooking fuels AND eliminate gas flaring in the same period[10].
- **Egypt** requires $50bn up until 2030 to fund its full climate adaptation plan[11]. Based on the current yearly average it will pay $55.3bn to external private creditors in the same period.
- **Kenya** will pay a total $7bn to external private creditors between now and 2030, based on current payments. Yet, based on costings set out by the Kenyan government[12], the equivalent could deliver enough geothermal, solar and wind capacity to power 1.2million rural households. That's 10% of the population[13].

The climate and debt crises are pushing people into poverty

The scale of the climate crisis cannot be overstated. The 10 most recent years are the Earth's hottest years on record[14] and 3.3-3.6 billion people live in contexts highly vulnerable to climate change.[15] The impacts of the climate crisis hit the most vulnerable and least responsible the hardest and could push up to 132 million more people into extreme poverty by 2030.[16] Lower income countries are receiving just a small fraction of the finance they need to mitigate, adapt to and build back from climate disasters, whilst the costs keep rising.

Meanwhile, many of the most climate vulnerable countries are in a debt crisis. Even before the cuts to UK and US aid, African countries were collectively spending 50% more in debt repayments than the total aid to the region.[17] The largest share of this debt is owed to Western private creditors, who charge the highest interest rates compared to China and other lenders[18].

The debt and climate crises are compounding one another. Spiralling debt repayments prevent countries from not only investing adequately in basic services, but also in 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.[19] At the same time, insufficient provision of international climate finance (ICF) – and the majority of what *is* delivered coming in loans instead of grants[20] – 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.[21]

A lack of delivery on climate finance and debt relief is hampering urgent climate action. As we approach COP30 in November, countries are called on by the United National Framework Convention on Climate Change (UNFCCC) to submit their plans for mitigating and adapting to climate change to deliver on the Paris Agreement. For lower income countries, these plans are highly dependent on the delivery of ICF from wealthier countries. Lower income countries require finance to develop their economies cleanly ('mitigation'), to adapt to worsening climate impacts ('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'). Delivery of international climate finance is an obligation, established under the UNFCCC, 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. Yet with the rising costs of climate breakdown, a lack of climate finance and a spiralling debt crisis, lower income countries have no foundation on which to deliver climate action. They are, in effect, being required to build on quicksand.

Combined the climate and debt crises have created the perfect storm for public finances in the global South, trapping millions of people further into poverty, putting the UN Sustainable Development Goals and the Paris Agreement in grave peril.

The UK can show leadership

The Labour government has 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'[22]. It also set out its ambition to be a global climate leader. The decision to cut the already depleted aid budget puts these aspirations in jeopardy. Yet the government can and must stand firmly with global South partners, playing a leadership role in areas where it holds outsized opportunity. Notably it could ensure private creditors play their part in debt relief efforts and it could raise climate finance through making polluters pay. As we approach COP30, global South partners will look to the UK to step up. Now more than ever, bold action is needed. 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 previous Foreign Secretary has committed to make climate central to all that the Foreign Office does. While the government's recent step to strengthen its net zero target[23] is good news, climate leadership requires going beyond this to deliver a credible offer on ICF finance too.

Finance is key to global climate action. Ahead of COP30 in Belem, Brazil, in November, countries are due to submit updated climate plans to determine their contribution, and ramp up collective ambition, towards the Paris Agreement. Yet for lower income countries, the success of these plans is conditional on the delivery of climate finance. After delays and shortfalls in the delivery from wealthier countries on the previous climate finance commitment – the majority of which was delivered as loans – the New Collective Quantified Goal (NCQG) committed $300bn to be provided annually by 2035, 'led' by developing countries. The $300bn falls far short of even the conservative estimates of need, which run into trillions of dollars per year.[24] and leaves many important questions unanswered, including how that finance will be

raised and delivered. Despite and indeed because of these shortcomings, any richer country government that considers itself a principled global actor must, at a very minimum, act in good faith to deliver their fair share of this sum as a starting point. While the costs of climate action mounts and leaders including President Trump seek to undermine the political consensus captured in the Paris Agreement, this impasse could severely undermine global climate action. If the UK wants to offer climate leadership it must step up and determine its contribution to the NCQG, and how it will be delivered.

Ann Njeri and daughter, Lake Naivasha, Kenya. Their family's home was flooded in April 2024, leaving them without drinking water for months. Photo: David Macharia

The UK's fair share? ODI analysis calculates the UK's fair share of global ICF to be 5.8%, based on historical responsibility for climate change, ability to pay, and population.[25] Based on the minimum NCQG target of $300bn, this equates to £13bn a year[26]. This alone exceeds the total UK aid budget from which ICF is currently drawn and will do so further after aid decreases to 0.3% of GNI to pay for defence spending. It's clear that the UK must look beyond its aid budget at new ways to raise and deliver ICF.

Climate finance must be public finance. The UK government is increasingly putting its faith in private climate finance, which has a key role to play, especially in delivering mitigation initiatives like large scale energy projects. Yet to be delivered at scale and to meet the needs of the world's most climate vulnerable communities, most of the 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.[27] To date less than 50 cents in every $100 of all climate finance is private finance for adaptation.[28] Too much climate finance is provided as repayable loans with interest, which simply adds to the debt burden of those countries which are not responsible for the climate crisis – yet are, in this way, expected to doubly pay for its costs. A report commissioned by the late Pope Francis notes that "much of the current private finance agenda, including that centred around blended finance, risks becoming a quiet engine of future debt distress."[29] The African continent, already facing the worst of the current global debt crisis, is responsible for just 4% of global carbon emissions[30] and cannot be expected to borrow money that is owed to it, to address the impacts.

The UK can deliver ICF at no cost to the average taxpayer. To do so, the UK can employ new and progressive ways of raising public finances, including through fair 'polluter pays' measures. Polling by YouGov in March found 85% of those surveyed from the UK public agreed that the biggest polluters should pay to address the harm they've caused.[31] Employing a range of these measures could fund the UK's fair share of ICF whilst also servicing domestic needs. Options could include:

- Ending fossil fuel producer subsidies in the UK could save around **£3.6bn**[32] to fund ICF.
- A permanent excess profits tax on fossil fuel producers could raise an additional **£2.2bn-4.4bn per year**.[33]
- A reformed financial transaction tax could raise **£6.5bn a year**[34]**.**
- A UK Climate Damages Tax on the production of fossil fuels extracted, rising incrementally to deter future extraction, could raise around **£1bn in the first year, rising steeply** before falling in 10-20 years.[35]
- A net wealth tax on those with assets over £10m to the tune of 2% a year would raise **£24bn.**[36]

Joining the **Global Solidarity Levies Task Force** would also demonstrate support for polluter pays measures and help facilitate multilateral progress on raising climate finance. The Task Force has recently secured an agreement by 8 countries, including France, Spain and Kenya, to implement luxury air travel taxes and is building momentum for coordinated action on other revenue raising measures.

UK action on debt

On entering power, the UK Government identified 'tackling unsustainable debt' as one of its key priorities for its role in international development. Without meaningful action, millions of people face devastating impacts. As the former Development Minister recently reminded us, debt will also continue to "dampen global growth"[37]. 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[38]. However, UK leadership must go beyond hoping the approach taken by the previous government will yield different results.

The debt crisis is systemic and needs systemic solutions. 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.[39] These private creditors charged the highest interest rates, with the average interest rates for Africa countries at above 6% during the period of record low global rates (2010-2022), almost double that of Chinese lenders at 3% and far higher than other bilateral or multilateral lenders.[40] Debt payments by 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 has been to Western private creditors (39%), compared to 34% to multilateral institutions and 13% to Chinese public and private lenders.[41]

The G20 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). Private creditors refused to take part in the DSSI and are only taking part in the CF on a voluntary basis, under which they have been dragging out negotiations to hold out for higher repayments. For example, Chad failed to get any debt cancelled from its main private creditor, UK-based Glencore (see Ethiopia case study for further example.) As it reaches its fifth birthday, only 4 out of more than 70 eligible countries have applied for it, as it is seen as not delivering. Of these, Ethiopia, Ghana and Zambia, have not completed the process. And all four remain at high risk of debt distress. In May 2025, the African Union stated that "while the continent welcomed the G20 Common Framework as a first step towards a more comprehensive approach to the sovereign debt restructuring on the continent and beyond, it has not provided a pathway towards the quick restoration of debt sustainability, creating some considerable skepticism as to its potential to deliver effectively for highly indebted countries, particularly in Africa."[42] The same month, it was reported that South Sudan has been sued by private creditor Afreximbank at the High Court in London for $657 million over loans provided during the pandemic and for infrastructure support. This totals 47% of the entire government revenue of South Sudan – a country facing armed conflict, hunger and one of the world's worst refugee crises. South Sudan has also now been sued by oil trader BB Energy in London.

The lack of accountability to debt restructuring initiatives has in part enabled a highly lucrative business environment for private creditors investing in sovereign debt deals. According to new research by Debt Justice and Christian Aid, **bondholders could make more than $60 billion profit out of the global debt crisis**. BlackRock and its clients stand to make the most profit among these bondholders at $2.1 billion, making an average of 64% more than it lent to 15 countries in or at high risk of debt distress. Among these countries, the company and its clients are due to make profits of 83% from its bonds in Angola's debt, 77% from Egypt, 63% from Nigeria and 57% from Kenya[43].

The UK must pass the Debt Relief (Developing Countries) Bill. 90% of the debts to private creditors owed by countries eligible for the Common Framework are governed by English law. This gives the UK the ability to ensure private creditors take part in debt relief – a real trump card, should it choose to play it. By passing the Debt Relief Bill it can ensure private creditors play their part in debt relief, addressing 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 debt distressed countries from the threat of being sued for higher repayments by predatory private creditors, as Ethiopia has been threatened (see case study). In April 2025, diplomats from eight Southern and East African countries called on the UK government to enact the Debt Relief Bill. In July 2025 at the UN-led Financing for Development 4 summit, 192 governments, including the UK, reached the Compromiso de Sevilla, which "encourages jurisdictions to consider passing legislation aimed at limiting holdouts by creditors to facilitate effective debt restructuring." [44] As a party to this historic FfD4 agreement, the UK should honour this call.

Case Study: Ethiopia

Ethiopia spent twice as much on external debt repayments as it did on education in 2023. A lack of public finance for doctor and teacher salaries is leading to hospital and school closures[45]. 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. Creditors rejected the proposal and are now threatening to sue Ethiopia in English courts[46] The proposed Debt Relief (Developing Countries) Bill 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.

Alongside Ethiopia's debt crisis, years of droughts then floods have wrecked livelihoods and displaced communities. Finance to help communities build back and adapt is urgently needed. In Ethiopia's South Omo, nearly 38,000 people have already seen the benefits that climate finance can bring. Christian Aid's 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.

Lower income countries and climate vulnerable communities need actions as well as words. The previous government championed clauses in loan agreements that would suspend some debt payments in cases of climate shocks (known as 'climate resilient debt clauses'). Such clauses can provide temporary respite; but they continue to push debt payments into the future while interest continues to accrue. They also only impact future lending. 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, with the London Coalition on Sustainable Sovereign Debt being largely a vehicle for trying to advance these efforts. Yet if such improvements materialise, they might only help marginally with future debts, rather than address the crisis faced 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.

RECOMMENDATIONS

The UK Government still has real options for driving forward its mission "to create a world free from poverty on a liveable planet", without costing the average UK taxpayer. Christian Aid and Debt Justice call on the UK Government to:

- Raise its fair share of international climate finance through polluter pays taxes.
- Pass the Debt Relief (Developing Countries) Bill to unlock debt relief for countries in crisis.

We ask parliamentarians to support our calls to the UK Government by:

- Speaking in parliamentary debates, raising the issues covered in this report.
- Write to the Climate Minister about climate finance funded by 'polluter pays' measures, and the Economic Secretary to the Treasury about the need for debt legislation.
- Submit the following parliamentary questions:

  To the Secretary of State for Energy Security and Net-Zero
  - What plans does the Government have for raising its fair share of international climate finance through polluter pays taxes?
  - What plans does the Government have to ensure its international climate finance comes in the form of grants to avoid increasing the debt burden of lower-income countries?

  To the Chancellor of the Exchequer
  - What steps is the Government taking to ensure that private lenders, whose sovereign debt contracts are governed under English law, are prevented from suing countries in debt distress and are incentivised to fully participate in debt relief with lower-income countries?

For more information contact:

Lydia Harrold, UK Parliamentary Officer, Christian Aid: lharrold@christian-aid.org

Tim Jones, Policy Director, Debt Justice: tim@debtjustice.org.uk

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