

UK Export Finance launches new debt solution to help developing countries with climate shocks

- Announced on Finance Day at COP27, UK Export Finance (UKEF) will become the first export credit agency in the world to offer Climate Resilient Debt Clauses (CRDC) in its direct sovereign lending.
- The clauses will offer low-income countries and small island developing states the ability to defer debt repayments in the event of a severe climate shock or natural disaster.
- This announcement is part of the UK Government's wider objective to help improve the financial resilience of vulnerable countries in the face of severe climate shocks.

UK Export Finance (UKEF) will become the first export credit agency in the world to introduce Climate Resilient Debt Clauses (CRDCs) into its loan agreements. These will provide low-income countries and small island developing states the ability to defer debt repayments in the event of a severe climate shock or natural disaster.

This is part of UKEF's broader ambition to embed climate change into its decision-making in line with its [Climate Change Strategy](#) and net zero 2050 target.

Speaking at COP27 Finance Day, Tim Reid, UK Export Finance's Director of Business Group will say:

Some countries are now facing tough choices between protecting their citizens as they respond to climate shocks or paying down their debts. UKEF can play an important role in helping governments navigate these decisions. By suspending the debt service payments, UKEF will enable borrowing countries to focus on responding to and recovering from a crisis.

We encourage other official creditors to consider including similar provisions in their own lending to countries most vulnerable to climate change.

UKEF helps overseas buyers access financial support to make their projects happen, provided they commit to sourcing goods and services from the UK. This helps open new doors for world-class British suppliers to trade overseas.

This announcement is part of the UK Government's wider objective to improve the financial resilience of vulnerable countries around the world in the face of severe climate shocks. Alongside UKEF, the Private Sector Working Group

chaired by the UK Treasury will also launch today a 'model term sheet' to embed climate resilient debt deferral into standard bond and loan contracts. Multilateral Development Banks will also agree to form an informal working group to further explore CRDCs and other approaches, building on the Inter-American Development Bank's leadership in this area.

Exchequer Secretary to the Treasury, James Cartlidge, said:

Climate shocks are increasing in frequency and severity which is why we are supporting countries hit hardest. In the wake of a disaster, they face painful trade-offs between rebuilding their communities and making debt repayments.

Today is a significant milestone in our work to find innovative solutions to these global challenges, and I am proud that UK Export Finance is the first export credit agency in the world to offer loans which suspend debt service payments for countries hit by climate catastrophes and natural disasters.

Building on our COP26 legacy, we are committed to climate-resilient development, as the UK continues to play a leading role in reducing carbon emissions to Net Zero by 2050.

The new CRDC are part of UKEF's commitment to a greener, more sustainable future following the launch of its Climate Change Strategy in 2021, where it committed to net zero greenhouse gas emissions by 2050 across its portfolio and operations. UKEF has provided over £7 billion of support for green and sustainable projects since 2019, and it has a £2 billion direct lending facility dedicated to financing clean growth projects overseas.

Benefits of the new debt clauses include:

- CRDC deferrals will not be considered events of default, preserving finance and project continuity while providing liquidity for the country authorities.
- In the event they are hit by a natural disaster or other climate shock, eligible countries will be able to request a 12-month suspension of all principal and interest payments due to UKEF, and deferred payments will be repayable over a 5-year period following a 1-year grace period.

CRDC will be offered in new and amended UKEF direct sovereign lending and previously restructured sovereign transactions to low-income countries (LICs) and climate-vulnerable small-island developing states (SIDS).

This announcement is part of Finance Day at the COP27 summit in Sharm El Sheikh. COP27 is bringing parties together to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate

Change.

More generally, UKEF is providing large-scale backing for sustainable projects across Africa, Asia and Europe. This includes:

On the Multilateral Development Banks's work:

- The Inter-American Development (IDB) is the only Multilateral Development Bank (MDB) to offer a form of CRDC in its lending currently, through a Principal Payment Option. Benigno López Benítez, Vice President for Sectors at the IDB, joined the panel in the UK Pavilion on Finance Day to share the IDB's experience with CRDCs.
- MDBs are vital sources of large-scale affordable finance to developing countries. Development Finance Institutions mostly provide project investment finance. The UK is calling on all MDBs, Development Finance Institutions and other creditors to explore the use of CRDCs.
- The UK welcomes the formation of an MDB informal working group to further explore CRDCs and other approaches, building on the Inter-American Development Bank's leadership in this area.