# Financial innovation links debt relief to climate and health goals in low-income countries



International attention is intensifying around the financial challenges faced by low-income countries, particularly those exacerbated by climate-related vulnerabilities. According to recent data from the World Bank, these nations have experienced a troubling financial trend in 2023: they paid out more to lenders than they received in new credit, including loans from international financial institutions. This situation has made it increasingly difficult for many countries in the lower-income brackets to finance not only essential public services but also the climate resilience and green development projects critical to their sustainable futures.

The financial strain faced by these countries was a focal point at the recent International Monetary Fund (IMF) and World Bank spring meetings in Washington. Senior figures, including IMF managing director Kristalina Georgieva and US Treasury Secretary Scott Bessent, called for renewed discussions on sovereign debt restructuring to address unsustainable debt loads.

These concerns echoed the sentiments expressed in Pope Francis's final New Year’s address, in which he urged wealthy nations to acknowledge their "ecological debt" by forgiving loans of poorer countries unable to repay. This concept of ecological debt reflects the disproportionately high contribution of rich countries to global emissions and environmental degradation, legitimising demands from climate-vulnerable lower-income countries for assistance in climate adaptation and green economic transition.

In response, a new report from an international expert panel, commissioned by the governments of France, Kenya, Colombia, and Germany, proposes innovative approaches to sovereign debt management. The report emphasises the integration of climate and environmental considerations into debt restructuring processes. Vera Songwe, a former World Bank economist and co-chair of the expert group, told the Financial Times: "We really cannot have the debt conversation without including climate and nature." The report advocates for conditional debt relief arrangements wherein creditor nations agree to debt haircuts in exchange for debtor countries committing to targeted investments in climate resilience and environmental conservation.

This concept of "greening debt restructuring" has already seen some application in debt-for-nature swaps, such as those undertaken by Ecuador and Gabon. These swaps link debt relief to environmental projects and could be expanded to help countries that, while not in official distress, grapple with burdensome debt service costs. Proponents argue this approach aligns the interests of creditor nations with global ecological imperatives and may be politically more feasible amid cuts in traditional overseas aid budgets.

However, experts acknowledge potential challenges. Adding environmental conditions to debt restructuring could complicate and prolong an already lengthy process. Further, compulsory haircuts for creditors might reduce private sector willingness to lend to low-income countries in the future. Despite these concerns, Songwe highlighted that private investors in high-yield government bonds are cognisant of the risks involved. She also suggested that institutions like the IMF and World Bank could play crucial roles by revising debt sustainability frameworks to incorporate environmental risks and the economic benefits of investing in resilience. She emphasised, "We need to look at this as one complete conversation."

Separately, philanthropic efforts are supplementing government aid in addressing pressing health challenges in low-income countries. A new initiative launched recently, the Beginnings Fund, has secured $450 million in funding to improve neonatal health across Africa, where more than a million infants die within their first month each year. The fund prioritises partnerships with national governments to enhance maternal and newborn care systems, including training and healthcare improvements.

The Beginnings Fund brings together a diverse coalition of donors, including the foundation of Mohammed bin Zayed, the Gates Foundation, and the Children’s Investment Fund Foundation. Tsitsi Masiyiwa, chair of Delta Philanthropies and one of the initiative's backers, noted the previously fragmented approach to newborn mortality efforts: “Newborn mortality is causing more deaths than HIV or tuberculosis or malaria, and yet it hasn’t had this kind of joined-up initiative that these other areas in global health have had to date.”

Robyn Calder, president of ELMA Philanthropies, also underscored the potential benefits of economies of scale in the procurement of medicines and equipment, which the fund could achieve. She said, “It’s not just about money, but also learnings and experience, and modelling what does and doesn’t work.” Masiyiwa added that consolidating efforts could be key to lowering the high mortality rates: “And if we pull all that together, then we are more likely to reduce these glaring numbers.”

The Financial Times is reporting on these developments amid wider discussions about the role of financial innovation and philanthropy in addressing the intersecting crises of debt sustainability, climate change, and health in low-income countries.

Source: [Noah Wire Services](https://www.noahwire.com)

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