

Debt pause clauses

Part of the False and Distracting Finance Solutions mini-series ■ Written by the Debt and Climate Working Group

The debt and climate crises are deeply connected - but false 'solutions' risk distracting from, delaying, and ultimately avoiding the deep changes needed to resolve them. This mini-series will give you the evidence, talking points, and tools to push back and promote genuine, lasting solutions to the debt and climate crises.

THE SALES PITCH

What are debt pause clauses?

A debt pause clause is a pre-agreed special term in loan or bond contracts that allows governments to postpone their debt repayments in the wake of climate change impacts (hurricanes, droughts and other climate extreme shocks), earthquakes, tsunamis, pandemics or other emergencies. The goal is to allow borrowers to temporarily postpone debt payments to provide temporary liquidity to respond to the emergency. These clauses defer payments on interest, principal or both, usually for up to 2 years. Proponents claim that debt pause clauses promote predictability, help countries avoid debt restructuring or default, and provide the necessary liquidity for emergency response and recovery. So far, the instrument has only triggered a debt payment pause for hurricanes in Grenada following Hurricane Ivan in 2015, and recently following Hurricane Beryl in 2024 in Grenada and St. Vincent and the Grenadines.

Why they're on the negotiating table

Barbados popularised, back in 2018, what were also known as climate resilient debt clauses (CRDCs), natural disaster clauses or hurricane clauses, by introducing them in a debt restructuring, covering only climate shocks. Creditor countries, together with some multilateral development banks, have been publicly committing to include these clauses in their lending in numerous international gatherings like the Paris Summit and COP28 in 2023, or promoting them as part of innovative finance solutions within the Baku to Belem Roadmap. The World Bank committed to include CRDCs in their lending to a selection of climate-vulnerable countries in 2023 (and expanded their proposal to other natural hazards and pandemics in 2024). At the Fourth Financing for Development Conference in Sevilla, in July 2025, countries and institutions including Barbados, Canada, France, Spain and UK, the IADB, European Investment Bank, African Development Bank, Asian Development Bank and Development Bank of Latin America and the Caribbean, committed once again to accelerate the systematic inclusion of these clauses in their lending through the Debt Pause Clause Alliance. Only one private bank, the Deutsche Bank, is part of the Alliance. In the absence of proper debt relief mechanisms and severe lack of public, grant-based climate finance from rich countries, particularly for loss and damage, these clauses can help countries which are facing climate impacts and other exogenous shocks keep financial resources available, rather than spending them on debt payments. However, these clauses come at a price and with several caveats.

REALITY CHECK

Why Debt Pause Clauses (CRDCs) are a distracting finance solution

- ▶ CRDCs simply suspend debt payments in the wake of a climate shock or a pandemic, but the debt is still to be repaid in the future, in some cases with additional interest on payments. Since they don't imply debt cancellation, they do not reduce the overall debt burden on a country. In the end, the triggering or implementation of a debt pause clause will be what is called 'Net Present Value (NPV) neutral', so there are no losses for the creditors.

- ▶ **Most sovereign debt contracts today do not include debt pause clauses.** Even if those who committed to them were to include these clauses in all of their lending, the short and medium-term impact would still be minimal. Almost all of the existing debt contracts were issued before these types of clauses existed, so they do not have such clauses. If a shock happens, only those contracts including the clauses will trigger a debt payments pause. Some official and multilateral creditors may choose to apply debt payments' pause clauses retrospectively, including these in their previous lending (like the World Bank has done), but other creditors will not as they are not committed to using them. For instance, private creditors are not picking up on including such clauses in their lending, and in the case of bondholders, they might only be willing to accept them at the cost of higher interest rates.
- ▶ **Debt pause clauses are likely to drive the borrowing cost up.** While some official proponents of debt clauses argue that these will not be more expensive, as "investors would have already priced in the relevant climate risks at the outset of purchasing the bond", there is a real risk that lenders and investors will want compensation for the risk of delayed repayment. This can even be the case with some multilateral lenders, such as the IADB, already charge a fee for a repayment deferral option.
- ▶ **Strict parametric triggers can diminish efficiency of the tool.** The debt contract, through the clause, will establish under which conditions (i.e. GDP impact, number of people affected, or the cost of the government's response to the shock) the debt payment clause triggers. Depending on how these conditions are defined, we can be in a situation where, even when there is catastrophic devastation, the clause doesn't trigger because the event does not meet the conditions established in the contract.
- ▶ **Diversity of conditions and triggers will mean different treatments.** Since the clauses are not standardised, and loan/bond characteristics are not fully transparent, in the case of an event that would trigger the debt pause, conditions might differ from one country to another, or even within a country from one creditor to another. In this sense, comparability of treatment across all external creditors won't be guaranteed unless the same type of clauses apply to all creditor groups and the whole of a country's debt. If this is not guaranteed, we can be in a situation where one creditor suspends debt payments and the money is used, not for recovering from the shock, but to repay other creditors that didn't include clauses in their lending. Also, if a weather extreme event, a pandemic or an environmental hazard impacts different countries, within the same region for instance, debt pause conditions may differ from one country to another depending on the details of each contract clause used in the different countries, or whether the different countries have incorporated clauses in their debt contracts.
- ▶ **It is still unclear for what specific type of crises and parameters of losses the debt pause clauses are going to be triggered.** Creditors and borrowers are not publishing information on the trigger structure and specific conditions for the clause to be used. This means it's very difficult for civil society to hold them accountable on the efficiency and use of these clauses.
- ▶ **Creditors can potentially veto the triggering of a clause.** There are risks around creditors blocking the deferral of payments using a veto instrument that gives 15 days for holders of at least 50% of the principal amount of the bonds to block the deferral request. To this day, there are no clearly defined rules around creditor veto rights.
- ▶ **Debt pause clauses do not cover slow-onset events, where impacts can be equally devastating.** For example, successive droughts, sea-level rise or desertification that affect millions of people are not accounted for as they develop gradually over time.

THE REAL FIX

- ▶ **Establishment of an automatic mechanism for a debt payments moratorium and comprehensive restructuring, including debt cancellation, in the wake of external catastrophic shocks.** There is an urgent need for an automatic debt payment standstill mechanism in the wake of catastrophic events, that includes all sovereign debt from all creditors. Keeping financial resources in the affected country is the fastest and most effective way to support emergency relief and early recovery. Following major shocks, such as climate disasters, geological events, pandemics, or other external crises, debt payments should be automatically suspended for a set period. Once the impact is assessed, a debt sustainability analysis should determine the necessary debt restructuring and cancellation to support recovery and reconstruction, with all creditors involved.
- ▶ **CRDCs are not enough on their own as they simply move the payments into the future.** Championing debt cancellation and reform of the debt architecture within UNFCCC processes would send a strong signal to other international institutions. We call for:
 - Immediate debt cancellation, across all creditors, for all countries that need it, free from economic conditions. This must complement climate finance, not replace it.
 - Support for establishing a UN Framework convention on sovereign debt.

Learn more

- ▶ [“Climate Resilient Debt Clauses: good or bad for the Global South?”](#), April 2024.
- ▶ [“Debt and Climate Justice: Strategic Engagement in UNFCCC Processes at COP30 and Beyond”](#), Debt and Climate Working Group, October 2025

About us

The Debt and Climate Working Group is a global coalition of civil society organisations, activists, academics, and movements collectively advancing justice at the intersection of the debt and climate crises. **For more information, contact Tess Woolfenden, tess@debtjustice.org.uk.**

