

Research report

Forum: Economic and Social Council

Issue: Addressing the Risk of Debt Dependency Arising
from Foreign Infrastructure Investments in
Developing States

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Introduction

Most developing states have limited funds and require large-scale investments for building infrastructure such as ports, roads, and energy systems and for setting up digital infrastructure. Since their domestic resources are lacking, in order to obtain these funds, they are forced to rely on foreign loans and investments. While in some cases foreign infrastructure investment can support economic growth, in others it leads to a high debt burden, reduced fiscal space, and increased dependence on external creditors.

Debt dependence is created when a significant amount of a government's revenue is used to pay back these external creditors (also called debt- servicing), this means that less government money is allocated to health, education, social protection, and climate action. In recent years we have observed an increase in debt- servicing for developing countries; this is due to the rise in interest rates, exchange-rate pressures, and weak economic growth. UNCTAD reported that developing countries' external debt reached approximately \$11.7 trillion in 2024, causing debt- servicing to divert money from essential public services.

In 2024, low-income countries spend around 18.1% percent of government revenue on debt- servicing, while the least developed countries spent around 22.3 %, which is double what was spent in 2023. For certain countries debt payments are even steeper, Angola spent around 65% from 2024 to 2025 on debt expenditures, and Laos around 61%.

The World Bank and IMF are responsible of assessing whether low income countries are able to take out more loans while being able to repay outstanding ones, they use debt sustainability markers to evaluate.

Definitions of key terms

- **Developing states**
Countries with lower or middle levels of income, industrialisation, infrastructure, and human development compared with highly industrialized countries.
- **Foreign infrastructure investment**
Financial investment from foreign governments, companies, banks or international institutions, to fund projects like railroads, ports and etc...
This can take the form of loans, grants, equity investment, or even PPPs
- **Debt dependency**
A situation in which a state relies heavily on borrowing and must use a significant part of its revenue to repay foreign creditors,
- **External debt**
Money owed by a government or private entities to creditors located outside the country
- **Debt sustainability**
The ability of a government to meet its current and future debt obligations without requiring exceptional financial assistance or compromising essential public services.
- **Debt distress**
A situation in which a country struggles, or is at high risk of struggling, to repay its debt.
As classified by the IMF
- **Concessional finance**
A loan given on favorable terms, usually with lower interest rates than commercial ones or longer repayment periods.
- **Public-private partnership (PPP):**
An agreement/cooperation between a government and private companies to finance public infrastructure. This may minimize cost at the start but may lead to long-term payment obligations

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- **Debt trap**

A situation in which a country's debt is so high that it needs to take more loans just to be able to pay back the outstanding ones.

- **Bilateral creditors**

Foreign governments that act as investors in domestic projects.

General overview

Debt dependency caused by foreign infrastructure developments is not a rare occurrence, but in recent years the scale of it has drastically risen, amounting to sums countries simply can't afford to pay back without social consequences. Historically, countries have taken out foreign loans to finance large infrastructure projects due to the domestic resources being insufficient to cover high upfront costs. Throughout the 70s and 80s numerous countries took heavy loans from bilateral creditors and commercial banks, often at variable interest rates and foreign currency, but in the 1980s, when the global interest spiked and commodity prices fell, many states were unable to service their debts, which led to the Latin American debt crisis and to structural adjustment programs in Africa and Asia. This showed the world that borrowing money could become unsustainable if projects fail to generate sufficient funds to meet debt servicing needs and if external conditions change.

In 1990 and the early 2000s, debt-relieving initiatives such as the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative were launched, which removed billions of dollars of debt for the poorest countries. But these initiatives only temporarily reduced debt burdens and created fiscal space for social spending, soon many countries began borrowing again, strengthened by the low global interest rates and strong investor demand for new infrastructure assets in the 2000s and 2010s. Between 2010 and 2022, the external debt of low- and middle-income countries increased by more than 50%, reaching \$9.2 trillion, and by 2024 the figure rose to 11.7 trillion.

Often infrastructure projects cost more and take longer than initially planned, which increases the debt burden without an increase in economic returns to support it. Research shows that 9 out of 10 infrastructure projects experience cost overruns, for example hydropower projects supported by the World Bank, 70% experienced cost overruns and more than 80% experienced time overruns. When costs exceeds the budget, governments borrow additional funds to cover it. Studies by UNCTAD also suggests that governance quality (reliability and accountability) plays

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a crucial role in determining whether an infrastructure investment can lead to sustainable development or debt distress.

Another aspect that has to be discussed is the role of currency and interest-rate risk in infrastructure-related borrowing. Most infrastructure loans are given in foreign currency, the most common being the American dollar, while project revenues are earned in the domestic currency, so when the domestic currency depreciates and the exchange rate to foreign currency rises, the real cost of debt service rises sharply. This was evident in the 1980s debt crisis, in which the dollar strength increased and correspondingly the global interest rate surged. In 2023, developing countries paid approximately \$25 billion more to external creditors than the loans they initially received from them. The net transfer of these resources (the poorer countries with the weaker currency have to pay more to the richer countries with the stronger currency) defeats the original purpose of loans as a form of aid for infrastructure in developing countries.

The composition of the various creditors has been constantly shifting, in the 1980s most creditors were commercial banks and multilateral institutions. Today money is mostly loaned from bilateral creditors, China (a non-pari club bilateral creditor) in particular plays a big role, such as China's Belt and Road Initiative (BRI), which was launched in 2013 and has financed infrastructure in many developing states. This has led to concerns regarding debt sustainability and transparency, as all post-2014 contracts with Chinese state-owned entities enforce broad confidentiality clauses and clauses preventing traditional debt restructuring framework. This increases the risk of a prolonged debt dependency.

the HIPC Initiative and Multilateral Debt Relief Initiative provided debt relief in the 1990s and 2000s, but since then many countries have had regained debt. The G20's Debt Service Suspension Initiative led to temporary relief during the COVID-19 pandemic, but it failed in reduced the total amount of debt. In 2020 The G20 Common Framework was established, it was designed to coordinate debt restructuring, but it has been limited by slow negotiations and disagreements between states and their creditors. As of 2025, only four countries (Chad, Zambia, Ghana, Ethiopia) have been eligible to open cases under this framework, and Chad is the only one to have closed a case.

Major parties involved

- *China*

largest bilateral creditor and leader of the Belt and Road Initiative (BRI), which has financed infrastructure in developing states with confidentiality clauses and “no Paris Club” clauses that prevent debt restructuring.

- *Japan*

A major creditor and provides infrastructure finance through the Japan International Cooperation Agency (JICA) and participates in debt restructuring efforts.

- *United States*

Influences infrastructure financing and debt policy with the Treasury Department, USAID, and it plays a large role in the IMF, World Bank, and G20. Most loans are given in the US dollar, thus the global interest rate is influenced strongly by America.

- *International Monetary Fund (IMF)*

This organization provides financial assistance and economic surveillance by conducting Debt Sustainability Analyses and calculating countries’ risk of debt distress, which determines if additional borrowing is advisable.

- *World Bank Group*

Provides concessional loans and grants, its Debt Sustainability Framework is used to assess debt risks for low-income countries and its International Debt Report tracks developing-country debt trends.

- *G20*

It coordinates major economies and creditors, and it created the Common Framework for Debt Treatments, which assists eligible low-income countries with debt restructuring. Unfortunately it is a slow process.

- *Paris Club*

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It is an informal group of official creditors that coordinate debt restructuring for poor countries in debt risk and has many bilateral creditor participants.

Timeline of Key Events

Date	Event and description
1944	The Bretton Woods Conference establishes the IMF and World Bank
1960s–1970s	Many newly independent states take loans from creditors and banks to finance large infrastructure. (often in foreign currency)
Early 1980s	Sharp rise in global interest rate and fall in commodity prices that trigger the Latin American debt crisis as well as debt distress in Africa due to unsustainability of earlier loans.
1996	IMF and World Bank launch the Heavily Indebted Poor Countries (HIPC) Initiative to provide debt relief to the poorest countries, burdened by past infrastructure debt.
2000s–early 2010s	Low global interest rates leads to a new wave of loans by developing countries.
2010–2022	External debt of low- and middle-income countries increases by more than 50%
2013	China announces the Belt and Road Initiative (BRI), one of the largest sources of foreign infrastructure finance for developing states.
2015	The sustainable development goals are adopted with goal 9 calling for resilient infrastructure.
2022	G20 introduces Debt Service Suspension Initiative (DSSI), that temporarily suspends debt- servicing for certain countries during covid- 19 pandemic
2022	G20 establishes Common Framework for Debt Treatments, this manages debt- restructuring for countries in dept distress
2024	Developing countries' total external debt reaches approximately

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	\$11.7 trillion
2024	Zambia and Ghana make progress under the G20 Common Framework

Previous attempts to solve the issue

1. Debt relief initiatives (HIPC Initiative and Multilateral Debt Relief Initiative)
2. The G20 Debt Service Suspension Initiative (2020)
3. The G20 Common Framework (2020)
4. IMF and World Bank debt assessments(sustainability assessments)

(All have been previously explained, refer to the general overview)

Possible solutions

1. Make passing sustainability assessments by the IMF on every infrastructure loan mandatory.

This assesses whether countries will be able to pay back debt in the course of a certain period, passing these sustainability assessments is not currently mandatory in order to get a loan.

2. Improve debt transparency

This prevents hidden debt and supports stability due to more accurate sustainability assessment results.

3. Speed up and improve debt restructuring frameworks

As mentioned earlier, the current frameworks (G20) are slow due to disagreements and certain countries not being eligible for restructuring with G20.

4. Expand concessional loans and grants (more funding for the World Bank)

Concessional loans from the World Bank would give developing countries loans with a very low interest rate that they could eventually pay back and money from grants does not need to be repaid.

5. Increase domestic currency financing (reduces exchange-rate risk)

Loans given in domestic currency and being paid back in said currency avoids currency exchange rate risk (explained in general overview)

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