United Against Malnutrition & Hunger

informed INTERNATIONAL

Debt and Malnutrition: Ending the Doom Loop

Table of Contents

List of Acronyms

AAAA - Addis Ababa Action Agenda

COVID-19 - Coronavirus Disease 2019

DSA - Debt Sustainability Analysis

EPD - Ending Preventable Deaths

FCDO - Foreign, Commonwealth & Development Office

FAO - Food and Agriculture Organization

G20 - Group of Twenty

GDP - Gross Domestic Product

HWCN - Healthy Women, Children and Newborns

IMF - International Monetary Fund

LMIC - Low- and Middle-Income Countries

ODA - Official Development Assistance

SDG - Sustainable Development Goal

SOFI - State of Food Security and Nutrition in the World

UNICEF - United Nations International Children's Emergency Fund

WHO - World Health Organization

WB - World Bank

List of Figures

Executive Summary

Around the world, hundreds of millions of people face a daily battle against malnutrition—a silent crisis that stunts lives, weakens communities, and traps generations in poverty. For many low and middle income countries (LMICs), a hidden barrier worsens this crisis: sovereign debt. Rising debt burdens in Bangladesh, the Democratic Republic of Congo (DRC), Ethiopia, Kenya, Malawi, Nepal, Nigeria, Pakistan, and Sierra Leone—the UK's flagship countries as designated in the 2021 Ending Preventable Deaths strategy[1] (now Healthy Women Children and Newborns - HWCN)—have forced cuts to vital nutrition programmes. Yet this doom loop is not inevitable: breaking it can protect nutrition, support growth, and advance sustainable development.

This report shows how debt pressures translate into malnutrition—and what can be done to break the loop. The sections that follow set out the channels, the evidence, and the reforms required.

Debt and Malnutrition: The Doom Loop

The central objective of this report is to highlight the often overlooked link between sovereign debt and malnutrition. The analysis reveals a troubling cycle, known as the doom loop, where rising debt burdens force governments to prioritise repayments over essential investments in nutrition, health, education, and social protection. As funding for these critical sectors declines, nutrition programmes are scaled back or abandoned, leaving millions more vulnerable to illness, poor health, and premature death.

This destructive cycle deepens poverty and directly undermines progress towards the Sustainable Development Goals (SDGs), particularly SDG 2 (Zero Hunger). It also threatens the UK's commitment to help end preventable, maternal, child, and newborn deaths and support improved nutrition. Yet this doom loop is not an inevitable fate—it is a challenge that can be overcome.

Breaking the doom loop can be transformative. Countries that protect nutrition investments, even during financial crises, can shield their populations from the worst impacts of debt. Well-nourished children learn better, grow healthier, and become more productive adults.

Healthier populations boost economic resilience, enabling governments to manage debt more sustainably.

In 2023 alone, LMICs allocated over US$400 billion to debt repayments—more than they invested in essential social services like health and education. This stark reality highlights the scale of the challenge but also the potential for change. With the right strategies, impossible trade-offs can become opportunities for growth. Breaking the doom loop is not just about avoiding harm—it's about unlocking a cycle of health, resilience, and sustainable development. With donor budgets tightening—including the UK's planned shift to 0.3% of gross national income (GNI)—debt reform and ring-fenced nutrition official development assistance (ODA) are critical to avoid further setbacks.

The Scale and Structure of Sovereign Debt

Since 2010, debt levels in LMICs have skyrocketed. The nine countries featured in this report have seen their combined sovereign debt increase by nearly 250%, far outstripping their economic growth. This sharp rise contrasts starkly with stable or moderate growth in high-income countries like the UK and Germany. Countries such as Kenya and Pakistan illustrate the severe consequences—nearly two-thirds of government revenues in Kenya and almost 60% in Pakistan are diverted just to pay off creditors.

Yet the burden is not only in the numbers—it is in the structure. Much of this debt is held by private creditors, whose loans come with high interest rates, strict repayment terms, and limited options for restructuring. Unlike loans from international financial institutions like the IMF, private debt is often short-term, denominated in foreign currencies, and lacks transparency. This exposes debtor nations to significant risk. For countries like Pakistan, where the rupee has lost over 200% of its value against the US dollar in the past decade, foreign currency-denominated loans have tripled in cost, forcing severe cuts to health, education, and nutrition budgets.

This structure reflects broader systemic inequities within the global financial system. While wealthier nations access credit at low interest rates, LMICs are forced to pay significantly more—interest rates of 8% to 15%, compared to just 2% to 4% for richer countries. This disparity is driven by an inequitable risk assessment system and limited bargaining power, trapping LMICs in a vicious cycle of borrowing, debt servicing, and austerity.

But this crisis is not inevitable. By reforming how debt is managed, countries can turn debt from a barrier into a tool for growth. Transparency in lending, fairer creditor practices, and debt restructuring that protects nutrition and social investments can restore fiscal space. Linking debt relief to measurable outcomes, like improved nutrition, ensures that debt reductions directly benefit populations.

By reforming how debt is managed, countries can turn debt from a barrier into a tool for growth.

The scale and structure of sovereign debt are daunting, but they also highlight the potential for change. With the right strategies, debt can become a driver of health, resilience, and sustainable development.

Debt's Direct Impact on Malnutrition

Malnutrition isn't simply about a shortage of food— it's a crisis of human potential, quietly diminishing lives and weakening societies. In the nine countries studied, malnutrition remains alarmingly widespread. Stunting, a clear indicator of chronic malnutrition, affects roughly one-third of young children, well above global averages, while anaemia affects nearly four in ten women of reproductive age, leaving them more vulnerable to illness and reducing their ability to thrive. This nutritional deprivation damages immune systems, increases vulnerability to disease, and undermines recovery from illness, locking millions in cycles of poor health.

High sovereign debt burdens directly undermine efforts to reduce malnutrition through three interconnected pathways:

- **Crowded-out public spending.** Governments facing substantial debt repayments experience drastically reduced fiscal space, forcing them to slash essential budgets for health and nutrition services. However, nutrition is foundational—when it is protected, even amid financial challenges, populations can maintain strength and resilience, and societies are better equipped to withstand shocks.

- **Price and affordability shocks.** Elevated debt levels fuel economic instability, manifesting through inflation and currency depreciation.

This dramatically increases the cost of essential food items, particularly nutritious foods like fruits, vegetables, dairy products, and protein sources. By stabilising debt and ensuring responsible lending, countries can reduce these economic shocks, making healthy diets more affordable for millions.

- **Service disruption and widening inequities.** Debt-driven austerity disrupts nutrition services, further undermining delivery across the system. When nutrition programmes falter, entire health systems suffer as malnourished populations become more susceptible to disease, and educational outcomes deteriorate. In resource-strapped environments, community health workers and nutrition specialists become scarce, vital nutritional supplies run short, and frontline interventions falter. These disruptions disproportionately affect economically disadvantaged and vulnerable populations, further deepening existing inequalities and nutritional disparities.

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But breaking this cycle is possible. Protecting nutrition investments, even during fiscal pressures, can transform these outcomes—enabling children to grow healthy, communities to thrive, and economies to become more resilient. Nutrition is not just a social investment—it is a catalyst for growth and development.

Addressing malnutrition effectively requires consistent, robust, well-funded programmes because nutrition is foundational. Health improvements, educational gains, and economic development cannot be achieved without it. Breaking the damaging connection between debt and malnutrition is not just about avoiding harm—it's about unlocking a cycle of health, resilience, and sustainable progress. By reducing debt burdens and ensuring that debt policies protect essential nutrition investments, countries can turn crisis into opportunity—building healthier populations, stronger economies, and a more sustainable future.

Breaking the connection between debt and malnutrition is not just about avoiding harm - it's about unlocking a cycle of health, resilience, and sustainable progress.

Structural Barriers and Global Inequities

The global financial architecture systematically disadvantages LMICs, reinforcing structural inequities that exacerbate debt distress and undernutrition. Private creditors, who now represent a significant share of sovereign lending to LMICs, often operate with minimal transparency and accountability. Unlike traditional multilateral lenders, private creditors frequently refuse or delay participating in coordinated debt restructuring efforts, leaving debtor countries trapped in prolonged fiscal distress.

But this is not an unchangeable reality. Strengthening transparency and accountability in sovereign lending can transform these dynamics. By promoting voluntary disclosure of loan terms, encouraging fair creditor practices, and ensuring that debt restructuring protects social investments, countries can regain fiscal space and resilience.

The G20's Common Framework for Debt Treatments, designed to streamline debt relief, remains largely ineffective. Criticised for being slow, complex, and stigmatising, it deters countries from seeking relief, forcing them to continue unsustainable repayments. Ethiopia, for instance, waited years to receive debt relief, significantly limiting its ability to invest in critical social services. But reforming this framework—making it faster, fairer, and focused on protecting health and nutrition spending—can turn it into a tool for positive change.

Moreover, debt sustainability assessments by the International Monetary Fund (IMF) and the World Bank are fundamentally flawed, focusing narrowly on a country's capacity to keep repaying debts rather than the human impact of these payments. Countries like Kenya, Pakistan, and Ethiopia find themselves classified as having "sustainable" debt, even while cutting essential services to meet repayment obligations. But sustainability should mean more than avoiding default—it should mean ensuring that debt policies support human well-being and development.

Internal governance issues also undermine progress. Loan agreements are frequently negotiated without transparency or proper legislative oversight, leading to financial commitments disconnected from national development priorities. In Kenya and Pakistan, opaque debt agreements have led to financial obligations that undermine public investment in nutrition and social services.

But this cycle can be broken. Reforming the global financial system can reduce the burden of sovereign debt and create the conditions where borrowing can support long-term development.

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Greater transparency, fair creditor practices, and debt restructuring that protects essential services, particularly nutrition, can ensure that debt supports, rather than undermines, health, education, and sustainable development.

Greater transparency, fair creditor practices, and debt restructuring that protects essential services, particularly nutrition, can help ensure that debt supports economic and social development, rather than undermines it.

Protecting Nutrition: Fiscal and Structural Solutions

Addressing this crisis requires urgent, comprehensive reforms to sovereign debt management and international financial practices. In a constrained ODA context, this report advances a two-track response: (i) protect and prioritise nutrition ODA now; and (ii) reduce long-run aid dependence by dismantling debt barriers, ensuring meaningful debt relief, and supporting domestic fiscal reforms. These reforms are not only about avoiding harm—they are about unlocking opportunities for health, resilience, and sustainable development. The recommendations that follow offer clear, practical steps to turn sovereign debt from a barrier into a driver of progress:

1. Protect Nutrition Investments During Budget Cuts and Economic Crisis.

- **Embed nutrition-specific and nutrition-sensitive budget floors within IMF and World Bank-supported fiscal programmes.** This ensures that even in times of fiscal constraint, essential nutrition services are maintained, protecting child growth, maternal health, and community well-being.
- **Ensure nutrition budgets remain protected during fiscal adjustments, particularly in areas of greatest need.** Safeguarding nutrition funding means safeguarding the future, ensuring that children grow healthy and economies remain strong.

2. Deploy Targeted Official Development Assistance

- **Ring-fence nutrition within a constrained ODA envelope.** Prioritise countries in or near debt distress, and favour grants or highly concessional finance to avoid adding to debt burdens while stabilising essential services during crises.
- **Finance the systems that keep services working:** last-mile supply chains (therapeutic foods, micronutrients, fortified staples), the frontline workforce and supervision, and real-time data to target and track results.

3. Promote Debt Transparency and Creditor Accountability

- **Advocate for voluntary disclosure charters, encouraging creditors to transparently report loan terms and impacts on nutrition.** Transparency empowers governments to make informed decisions and ensures that debt does not undermine social investments.
- **Support the creation of public debt registries that link debt obligations to social sector budgets.** This protects nutrition funding by making debt obligations clear, transparent, and accountable.

4. Link Debt Relief to Measurable Nutrition Outcomes

- **Pilot debt-for-nutrition swaps, channelling debt relief directly into proven nutrition interventions.** This transforms debt reductions into health gains, ensuring that debt relief translates into better nutrition and stronger communities.
- **Include measurable nutrition benchmarks in restructuring agreements.** This incentivises governments to prioritise nutrition as part of their fiscal recovery plans, creating a direct link between debt management and human well-being.

5. Reform Debt Sustainability Assessments (DSAs)

- **Revise IMF and World Bank frameworks to explicitly account for the costs of debt servicing on nutrition and social protection programmes.** This ensures that debt sustainability is measured by its impact on people, not just by financial metrics.
- **Integrate thresholds and metrics sensitive to nutrition and social vulnerability into DSAs.** This makes debt sustainability assessments more accurate, protecting essential services and ensuring that debt policies promote well-being.

A Call for Action: UK's Leadership Role

The UK is uniquely positioned to champion these reforms, given its influence in global financial systems, its strategic interest in the countries highlighted, and its established commitment to nutrition and global health. Leadership should mean action: promoting faster, more transparent and fairer debt relief; ensuring creditor practices protect essential services; and linking debt restructuring to measurable

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nutrition outcomes—so countries can break the doom loop between debt and malnutrition and turn crisis into opportunity.

But leadership starts at home. Recent spending patterns underline the risk: bilateral 'basic nutrition' spending—£1 billion across 2009–2023—fell dramatically in 2021 with the UKs aid cuts. At the time, there was a 21% fall in overall ODA, but this coincided with a 61% fall in nutrition-specific aid.[2] Against this backdrop—and with ODA set to fall further to 0.3% of GNI by 2027—the UK should ring-fence its £1.5 billion nutrition commitment (2022–2030)[3] and prioritise nutrition within a smaller aid envelope, while favouring grant-based or highly concessional finance for countries in or near debt distress, safeguarding frontline nutrition programmes during fiscal consolidations, and supporting domestic fiscal reforms to reduce long-run aid dependence.

The UK's leadership can set a global example: strategic investments in nutrition transform lives, strengthen communities, and boost economic resilience. Civil society, international partners, and affected countries should continue to hold the UK to its commitments, ensuring life-saving nutrition programmes are not sacrificed. When the UK leads with purpose, debt can become a bridge—linking women and children to health, opportunity, and sustainable development.

Conclusion

The intersection of debt and malnutrition is not merely an economic issue—it's a humanitarian crisis affecting millions. Yet this crisis can be transformed. Breaking the doom loop linking sovereign debt and malnutrition can turn a vicious cycle into a virtuous one, where debt relief supports health, education, and growth. The recommendations in this report provide a clear roadmap. By protecting nutrition spending, aligning fiscal reform with social investment, promoting transparency and accountability, and reducing debt burdens, we can create a future where nutrition is not sacrificed to debt.

Breaking the doom loop linking sovereign debt and malnutrition can turn a vicious cycle into a virtuous one, where debt relief supports health, education, and growth.

Achieving this vision demands bold, coordinated action. Governments must be able to prioritise human development over austerity. Creditors must ensure fair and transparent lending. International organisations must measure debt sustainability by human well-being, not repayments. The time for decisive, collective action is now—lives depend on it.

Introduction

This report examines a growing but under-examined challenge: how sovereign debt burdens are undermining progress in tackling malnutrition across low- and middle-income countries. It focuses on nine countries—Bangladesh, the Democratic Republic of Congo (DRC), Ethiopia, Kenya, Malawi, Nepal, Nigeria, Pakistan, and Sierra Leone—selected both for their high rates of undernutrition and because they are the flagship countries in the UK's Ending Preventable Deaths (EPD) strategy, launched in 2021 and transitioning into the Healthy Women, Children and Newborns (HWCN) initiative.[4]

The EPD approach prioritises countries where the UK aims to support measurable reductions in maternal, newborn and child mortality by 2030. While the initiative spans health, nutrition and systems-strengthening goals, undernutrition is a critical pillar—both as a direct cause of child death and as a barrier to survival, growth and resilience. This report contributes to that agenda by examining one of the most pressing and least-addressed constraints: the rising cost of sovereign debt and the channels—reduced fiscal space, higher food prices and disrupted services—through which it undermines nutrition.

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A shifting international context also shapes this analysis. Public finances in major donors—including the UK, US and across Europe—are tightening, and short-term increases in official development assistance (ODA) are unlikely. This report therefore frames a two-track response: first, protect and prioritise current UK ODA commitments for nutrition, because nutrition is foundational to health, learning and productivity; and second, reduce long-term reliance on ODA by tackling the sovereign-debt barrier and supporting domestic fiscal reforms (revenue mobilisation, expenditure efficiency and public financial management) so governments can sustainably finance programmes to prevent and treat malnutrition.

In 2023, low- and middle-income countries (LMICs) spent over US$400 billion on debt repayments, more than on health or education in many cases.[5] This alarming trend forces governments to make untenable trade-offs, where debt servicing takes precedence over essential investments in nutrition, health, and education. The result is a fiscal environment where borrowing - instead of supporting development - is undermining it.

In 2023, low- and middle-income countries spent over US$400 billion on debt repayments, more than on health or education in many cases.

This dynamic has created what can be described as a doom loop: a destructive cycle in which rising debt burdens lead to spending cuts in core social sectors, weakening long-term development outcomes, such as nutrition, that borrowing was meant to support. These setbacks deepen poverty and vulnerability, increasing the likelihood of future crises, and reinforcing dependence on debt. Unless this loop is broken, efforts to end preventable deaths will continue to be undermined by the very financing systems meant to support them. This is precisely why the UK should use its influence to help dismantle debt barriers—so that fiscal space expands over time and the need for external aid diminishes.

The nine countries in this report reflect the flagship countries where the UK has a stated interest in achieving results. Two additional countries—Somalia and South Sudan—were excluded due to substantial gaps in debt data, particularly on domestic and external servicing, which limited the feasibility of cross-country comparison.

Across the selected countries, the nutrition burden remains high. Hunger affects 27% of people in the African group and 13% in the Asian group, while stunting affects 32%, well above the global average of 22%.[6] At the same time, five of the nine countries—Ethiopia, Kenya, Malawi, Pakistan, and Sierra Leone—are already in or near debt distress, and others face rapidly growing debt servicing costs.[7] These pressures are making fiscal trade-offs more acute and placing vital nutrition programmes at risk, threatening progress toward SDG 2 (Zero Hunger) and the goals of the Healthy Women, Children and Newborns strategy to support improved nutrition. Taken together, breaking the debt–malnutrition link and strengthening domestic fiscal capacity will reduce long-term dependence on ODA; in the near term, nutrition ODA must be protected and prioritised to safeguard lives and human capital.

LMIC's sovereign debt burden is making fiscal trade-offs more acute and placing vital nutrition programmes at risk, threatening progress toward SDG 2 (Zero Hunger) and the goals of the Healthy Women, Children and Newborns strategy.

Objectives of the Report

Building on this premise, the report presents a comparative overview of debt and malnutrition trends, and analyses how sovereign debt dynamics are shaping fiscal decisions, economic conditions, and policy trade-offs that influence nutrition outcomes in low- and middle-income settings. The report is intended as a contribution to the broader policy conversation on sovereign debt and development, particularly in the context of the UK's global health and nutrition priorities. By framing malnutrition as both a human development challenge and a fiscal policy issue, the report offers a new lens for understanding how debt sustainability debates intersect with nutrition outcomes. It aims to support more joined-up thinking across development, finance, and nutrition communities, and to inform UK and international engagement on debt reform, social sector financing, and global commitments to ending malnutrition.

Specifically, the report pursues three core objectives:

1. **Elevate the overlooked links between debt and malnutrition**
   Establish a clear understanding of the current debt and malnutrition landscape and examine how sovereign debt burdens interact with key drivers of undernutrition. This includes analysing not only constrained public financing for nutrition, but also how debt contributes to broader economic pressures—such as inflation, reduced household purchasing power, and rising poverty—that directly influence malnutrition rates. The objective is to bring greater visibility to these connections and highlight how debt dynamics are undermining progress toward SDG 2 (Zero Hunger) and the nutrition goals embedded in the FCDO's development strategy.

2. **Identify Structural Barriers to Debt Sustainability and Development Equity**
   Examine how global financial systems, multilateral institutions, and creditor arrangements shape the borrowing environment for LMICs. This includes highlighting the systemic inequities, such as higher borrowing costs and discriminatory credit risk assessments that disproportionately affect lower-income countries. The report explores policy reforms that could enhance debt transparency, improve creditor accountability, and create fairer conditions for sustainable development.

3. **Provide Actionable Recommendations for UK Advocacy and Policy Reform**
   Offer clear, evidence-based recommendations to support UK and international efforts to improve sovereign debt practices. These include strategies to protect nutrition and broader social sector budgets during debt restructuring processes, promote nutrition-sensitive financing approaches, and strengthen the UK's leadership in advocating for more resilient and equitable debt frameworks. Emphasis is placed on linking debt relief and public investment to improved nutrition outcomes, contributing to FCDO's goal to support improved nutrition.

Through this lens, the report seeks to support more effective, people-centred approaches to development finance, where fiscal responsibility and social investment are not mutually exclusive, but mutually reinforcing.

Methodology

This report employs a mixed-methods approach to assess how sovereign debt burdens affect fiscal space and, in turn, a country's capacity to address malnutrition. It combines secondary data analysis with qualitative field research to provide both a broad, comparative overview and deep, contextual insights from two country case studies.

Secondary Data Analysis

The core of the cross-country analysis draws on publicly available data from leading institutional sources. These include:

Debt Data:

World Bank International Debt Statistics, IMF debt sustainability assessments, and creditor composition data from regional and global financial platforms. These sources provide comprehensive information on debt levels, servicing obligations, and creditor profiles across the nine FCDO-flagship countries.

Nutrition Data:

UNICEF's State of the World's Children, the Global Nutrition Report, WHO's Global Health Observatory, and FAO's State of Food Security and Nutrition in the World (SOFI). These databases offer reliable indicators of stunting, wasting, undernourishment, and diet affordability.

Supplementary Materials:

Peer-reviewed research, think tank publications, and policy briefs that provide further context on the macroeconomic, political, and social dimensions of debt and nutrition.

By triangulating across these sources, the report identifies patterns and divergences in how debt pressures intersect with malnutrition across different fiscal and institutional contexts.

Qualitative Case Studies: Pakistan and Kenya

To complement the cross-country analysis, the report draws on qualitative fieldwork in two focal countries—**Pakistan and Kenya**—selected due to their high debt burdens, severe nutrition challenges, and relevance to UK foreign policy priorities. Field research included:

- Semi-structured interviews with government officials, economists, nutrition and health experts, civil society actors, and development partners;
- Review of national budget documents, debt reports, and nutrition programme data;
- Insights from frontline service providers and community stakeholders.

These case studies offer rich, on-the-ground perspectives on how sovereign debt dynamics shape public spending decisions, especially for nutrition-related programmes. They also illuminate how policy trade-offs are experienced by affected populations, particularly vulnerable women and children.

Together, the quantitative and qualitative strands of analysis provide a robust foundation for understanding how sovereign debt and fiscal stress affect nutrition outcomes—and what can be done to address them.

Framing the Scope and Reference Points

This report takes a deliberately focused approach to the issue of malnutrition, centring on undernutrition as it manifests in low- and middle-income countries. Undernutrition refers specifically to conditions caused by insufficient caloric and nutrient intake. These include:

- **Undernourishment**: chronic hunger that prevents individuals from consuming the minimum daily energy required for a healthy life;
- **Stunting**: low height for age, often referred to as chronic undernutrition, it impairs physical and mental development;
- **Wasting (thinness)**: low weight for height, often referred to as acute undernutrition, it can indicate recent and severe weight loss;
- **Micronutrient deficiencies**: low in key vitamins and minerals, with or without sufficient food. Common examples include iron deficiency leading to anaemia.

This focus reflects the urgent and widespread nature of undernutrition across the nine countries included in this analysis. While overnutrition—manifested as obesity and associated non-communicable diseases—is an increasingly relevant global issue, it lies outside the scope of this report. The emphasis is on hunger-driven malnutrition and its direct implications for health, development, and poverty reduction in debt-constrained contexts.

To frame the analysis and provide accessible reference points for readers, this report includes comparisons with two high-income economies: the United Kingdom and Germany. The United Kingdom serves as the primary reference, given the intended audience of this report and the UK's leadership role in global development and debt reform. Germany is included as a complementary benchmark—both a leading economy in the European Union and a country with a strong track record in debt management, fiscal policy, and social welfare investment, including nutrition. These comparisons are not meant to suggest equivalence in context, but to illuminate disparities in fiscal flexibility, debt servicing costs, and capacity to protect public health during periods of economic strain.

Debt Landscape Analysis

Sovereign debt—defined as the money borrowed by a country's government, either from domestic or international lenders—can be a vital tool for national development. Governments can borrow to fund public spending, bridge budget gaps, and finance critical investments in infrastructure, healthcare, education, and other essential services that drive economic growth and improve human well-being. In contexts where domestic revenues are limited debt, if sustainable, can provide a critical lifeline, covering the shortfall between available resources and urgent needs.

When managed responsibly, sovereign debt can be a powerful enabler of long-term development. However, in recent years, rising debt levels and growing debt servicing obligations have become an increasing source of concern, especially for countries already operating within narrow fiscal margins. The intended development benefits of borrowing risk being undermined when a growing share of government budgets must be allocated to interest payments rather than public investment.

When managed responsibly, sovereign debt can be a powerful enabler of long-term development but benefits of borrowing are reversed when an unsustainable share of government revenues goes to servicing debt and countries become trapped in a cycle where new borrowing is allocated to interest payments, rather than public investment.

This situation has been exacerbated by a series of global economic disruptions over the past decade. The COVID-19 pandemic, supply chain shocks, inflationary pressures, and volatility in commodity markets have all contributed to greater borrowing needs across much of the developing world. As a result, many LMICs have experienced sharp increases in their debt-to-GDP ratios and per capita debt burdens, prompting renewed questions about debt sustainability and the long-term fiscal resilience of these economies.

The Scale of Sovereign Debt

Sovereign debt has surged globally over the past decade and a half. In 2010, total global sovereign debt stood at just over US$50 trillion. Today, it exceeds US$100 trillion, having doubled in just 15 years.[8] While this stock of debt is highly concentrated—over half is held by just two countries, the United States and China—the sharpest proportional increases have occurred in low and middle-income countries. These countries, often facing lower fiscal capacity and far smaller economic bases, have seen their debt burdens rise at a significantly faster pace than most advanced economies.

In 2023, LMICs saw their external debt stock increase to US$8.8 trillion.[9] Debt service payments for low income countries climbed by 36% to US$98 billion[10]—a figure that continues to rise as global interest rates surge. The fallout from COVID-19 forced many countries to borrow further, deepening vulnerabilities and narrowing already fragile fiscal space.

To examine this evolving landscape, this report focuses on nine LMICs of interest, contextualising their debt trends by comparison with two high-income benchmarks: Germany and the United Kingdom. While absolute debt levels vary enormously, the scale and pace of change provide critical insights into the fiscal trajectories of these countries.

In 2010, the United Kingdom's national debt was already nearing US$2 trillion. Yet, with a robust economy and a per capita income of around US$40,000, this debt was largely sustainable. In contrast, the nine LMICs combined had total public debt of just US$227 billion—less than one-eighth of the UK's debt—despite representing over 600 million people at the time. The average per capita income across these countries was approximately US$850, nearly 50 times lower than that of the UK.[11] Today, these nine countries are home to more than one billion people—roughly one in every eight people on the planet—and with rising populations and growing development needs, the disparities in debt burden between LMICs and high-income countries have only widened.

Given the significant differences in economic size, income levels, and initial debt burdens among the nine countries analysed, this chapter uses an indexed approach to present debt data. An indexed approach means setting a common baseline year—in this case, 2010—at a value of 100. This allows changes in debt levels to be measured as a relative percentage increase or decrease from that starting point. For example, a value of 200 on the index indicates that debt has doubled since 2010, while a value of 150 means a 50% increase.

This method is particularly useful for understanding debt dynamics across diverse countries. By focusing on relative change rather than absolute values, it highlights how fast debt is growing within each country, regardless of its starting debt level. It also provides a clear and comparable measure of fiscal stress, making it easier to identify countries where debt is rising at unsustainable rates. For consistency and clarity, figures for the LMIC group are typically reported as the median of the nine countries.

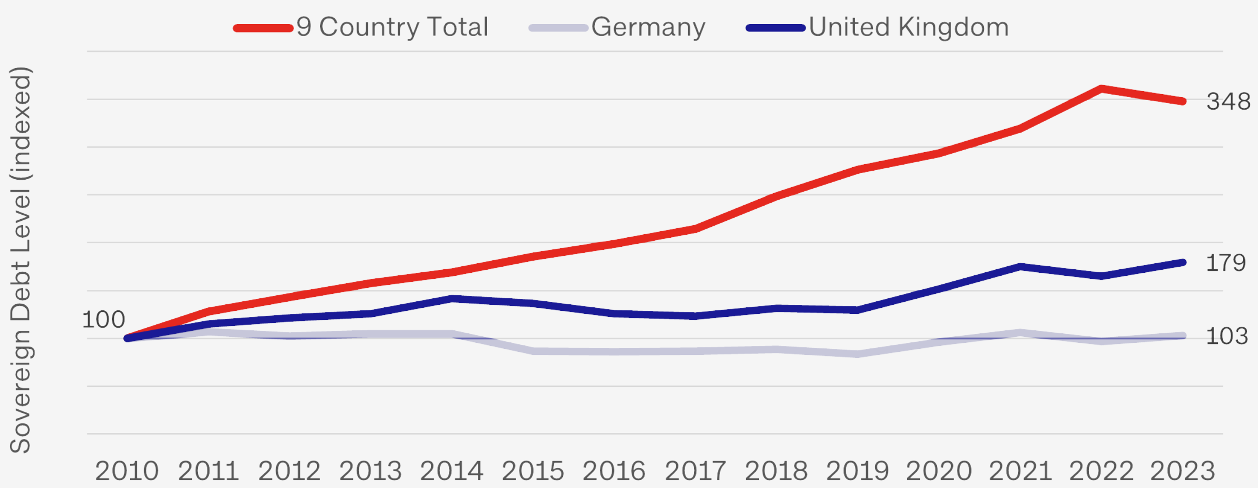
This indexed approach has two main advantages. First, it enables equitable comparison across countries of vastly different sizes and income levels, ensuring that smaller economies are not overshadowed by larger ones. Second, by observing relative change over time, it provides an early warning system for when debt growth begins to exceed sustainable levels, particularly for countries with weaker revenue bases.

Sovereign Debt Growth Since 2010

The indexed data displayed in Figure 1[12] shows a clear and widening divergence between LMICs and advanced economies. Between 2010 and 2023:

- The combined sovereign debt level for the nine LMICs increased by 248%, rising from an index value of 100 to 348.
- The United Kingdom's indexed debt level rose to 179, indicating a 79% increase since 2010.
- Germany's debt index remained relatively stable, reaching just 103 in 2023, suggesting only a modest increase over the 13-year period.

Figure 1: Total Sovereign Debt Level, 2010-2023
(Indexed: 2010 = 100)



LMIC debt levels have risen more rapidly than those of high-income economies.

This divergence reflects the pace and pressure of development financing in LMICs, where governments are often compelled to expand borrowing to close infrastructure gaps, respond to demographic pressures and maintain essential services. The graph also suggests that LMICs have faced greater economic turbulence over the past decade, with debt levels rising more sharply in response to shocks. By contrast, Germany and the UK show relatively stable or moderate debt paths — highlighting the structural vulnerability of lower-income economies when global crises strike.

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Debt Sustainability: Understanding Sovereign Debt in Relation to GDP

While total public debt offers a sense of the overall borrowing footprint of a country, it tells us little about a nation's ability to manage that debt. Kenya illustrates the point: the IMF's sustainability threshold for many LMICs is 55% of GDP[13] and Kenya exceeded this in 2024, reaching 65.7%.[14] The ratio rose quickly as new borrowing covered repayments and a weakening currency inflated foreign-currency liabilities. The result has been heightened public concern and protests amid pressures on essential services and household incomes.[15]

For a clearer view of capacity to carry debt, we use sovereign debt as a percentage of GDP—a widely used gauge of whether obligations are sustainable over time. Debt-to-GDP ratios let us compare countries of very different sizes and incomes: a US$50 billion debt load may be burdensome for one country but manageable for another, depending on the size of their economy. In essence, a rising ratio signals debt is growing faster than the economy's ability to generate income—an early warning of potential distress.

Over the last decade, patterns also diverged across income groups. Germany and the UK show relatively stable or moderate debt paths, while several LMICs have experienced more volatile and sustained increases, underscoring the structural vulnerability of lower-income economies when global shocks hit.

Pakistan provides a further illustration. Its public debt-to-GDP ratio climbed from 55.2% (2010) to 77.6% (2023), reflecting years in which borrowing increasingly rolled over existing obligations.[16] As the ratio rose, a larger share of limited revenues went to debt service, squeezing fiscal space for priority investments in health, education and nutrition programmes and making the system more exposed to currency and interest-rate shocks.

Building on the analysis of total debt levels, the sections that follow examine how public debt has evolved relative to GDP across the nine LMICs—alongside Germany and the United Kingdom—using the same indexed approach (2010 = 100) to track trends over time.

Debt Is Rising Faster Than Economic Growth in Low-Income Countries

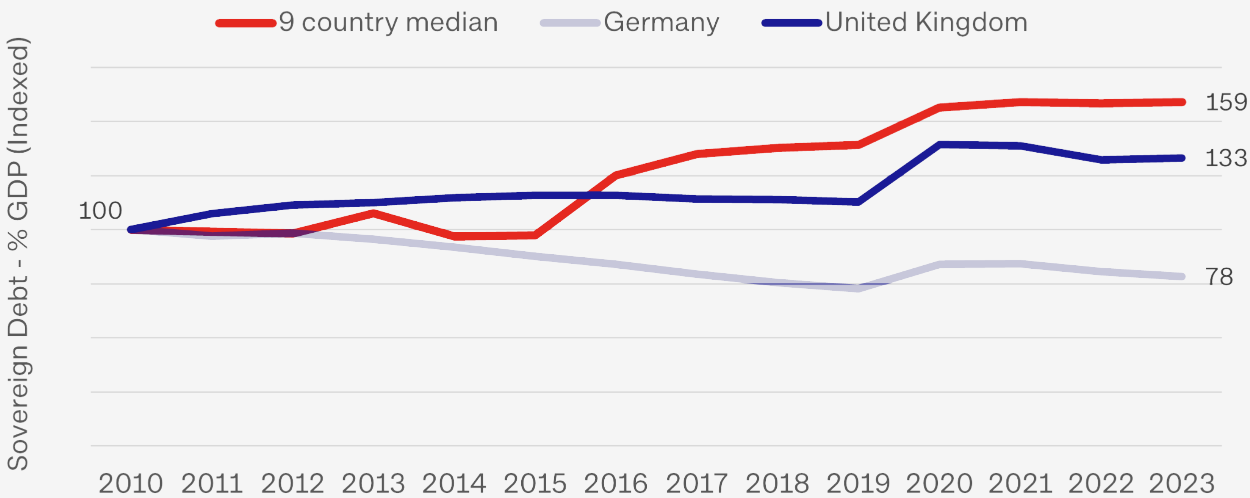
The indexed debt-to-GDP data reveals a clear divergence between low-income countries and advanced economies, not just in the level of borrowing, but in the balance between debt accumulation and economic performance. From 2010 to 2023:

- The median debt-to-GDP ratio for the nine LMICs rose from an index value of 100 to 159—a 59% increase in relative debt burden.
- The United Kingdom's index rose to 133, reflecting an increase in borrowing that slightly outpaced its economic growth.
- Germany's debt-to-GDP index fell to 78, indicating a decline in relative debt burden, due in part to consistent GDP growth over the period.

Since 2010, the sovereign debt of LMICs (as a percentage of GDP) has surged by 59%, far outpacing the 33% rise in the United Kingdom and the 22% decline in Germany (Figure 2[17]). This reflects a stark contrast in economic resilience: while high-income countries can better manage their debt relative to their economies, LMICs are caught in a cycle of rising debt without corresponding economic gains.

Unlike high-income countries, which often benefit from strong investor confidence, broad tax bases, and deep capital markets, many LMICs face structural limitations that make it harder to grow out of debt. Even modest global disruptions—such as commodity price volatility, inflation, or exchange rate pressures—can quickly widen deficits, depreciate currencies, and inflate debt servicing costs.

Figure 2: Sovereign Debt (% GDP), 2010-2023
(Indexed: 2010 = 100)



LMICs see faster debt growth than high-income countries.

While development needs remain high in LMICs, the data underscores that growing debt without commensurate economic expansion presents mounting sustainability risks. These trends raise important questions about the trade-offs countries are being forced to make: borrowing to invest in growth versus ensuring long-term fiscal stability.

The Changing Structure of External Debt: Rising Reliance on Private Creditors

A further challenge to debt sustainability in LMICs lies not just in the volume of debt being accumulated, but in the types of creditors involved. While high-income countries like the United Kingdom and Germany primarily issue debt through domestic bond markets—typically denominated in their own currencies—LMICs face a very different financing landscape.

Most LMICs do not enjoy ready access to deep and affordable capital markets. Instead, they must borrow externally through a mix of sources: multilateral lenders such as the World Bank or IMF, bilateral arrangements with other governments, or commercial creditors, including banks and private bondholders. This dynamic is particularly significant because external debt accounts for around half of the total sovereign debt stock in several of the countries in this analysis—

particularly in larger economies like Pakistan, Nigeria, and Kenya—and an even greater proportion in smaller economies such as Malawi and Sierra Leone.

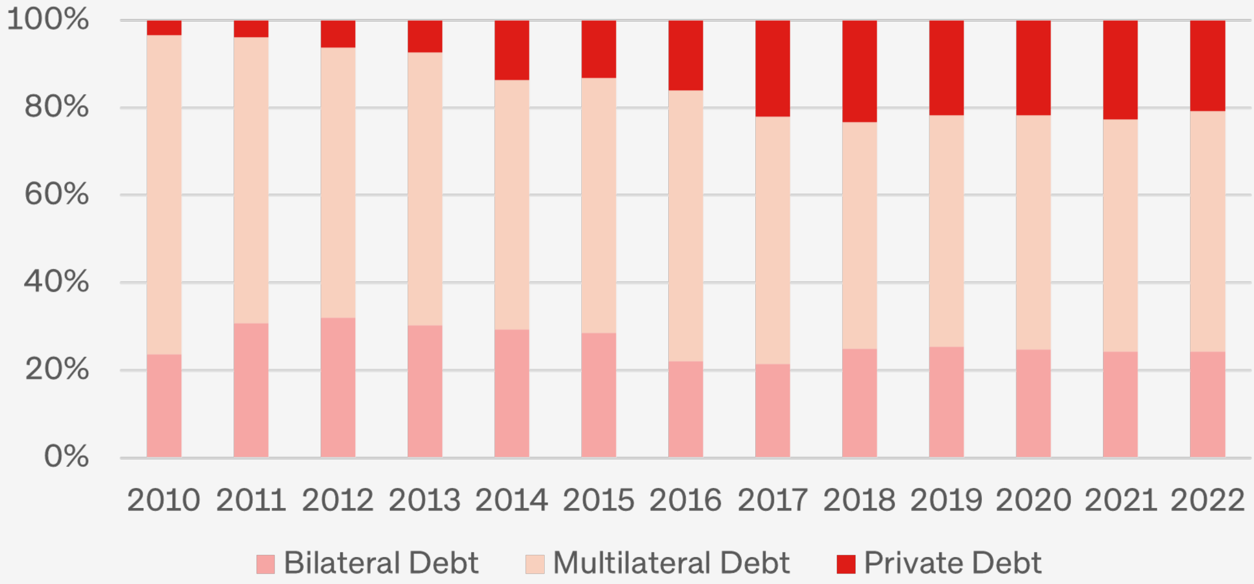
One critical difference in how LMICs borrow externally is that these loans are almost always denominated in foreign currencies—mainly US dollars and euros. This introduces a layer of vulnerability that goes beyond the debt itself. If a country's currency depreciates—which often happens during economic downturns, inflation shocks, or periods of political instability—the cost of repaying foreign-denominated debt increases sharply in local terms. Servicing the same amount of debt can suddenly require a much larger share of government revenue. This foreign exchange risk makes budgeting more volatile and amplifies the impact of global financial shocks, leaving countries with less control over their fiscal trajectories.

Why Foreign Currency Debt Matters

- **Currency Depreciation Increases Repayment Costs:**
  When a country's local currency weakens against the dollar or euro, the cost of servicing foreign-denominated debt rises–even if the debt amount stays the same.
- **Less Fiscal Flexibility:**
  Unlike high-income countries, LMICs can't print or control the currency in which they owe debt, making it harder to respond to crises or restructure payments.
- **Higher Risk, Higher Cost:**
  Foreign currency loans often come with steeper interest rates, compounding the burden when repayments must be made in stronger global currencies.
- **Vulnerability to External Shocks:**
  Global events–like rising US interest rates or dollar appreciation–can squeeze LMIC budgets, forcing cuts to essential services just to meet debt obligations.

The figure that follows[18] illustrates the evolving composition of external debt for the nine LMICs, showing a clear increase in the share held by private creditors. In 2010, private creditors held only a small fraction of LMIC external debt portfolios. But over time, as multilateral and bilateral options became more constrained—or less adequate to meet growing financing needs—LMICs turned increasingly to commercial lenders. By 2022, private debt accounted for a significantly larger share of the total, often at much higher cost.

Figure 3: External Debt Portfolio by Creditor Type



Private creditors play a growing role in external debt portfolios among LMICs.

This shift has important implications for debt servicing. Commercial loans typically carry interest rates three to five times higher than those available to high-income countries like the UK or Germany. Where Germany might borrow at 2-3%, LMICs can face rates of 8–15%, with shorter repayment timelines and less flexibility in the event of crisis. This has created a structural inequity in the global financial system: the countries with the least fiscal capacity pay the most to borrow.

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The case of Kenya provides a clear example of how this dynamic plays out. Kenya sits at the median among the nine LMICs studied and has one of the most transparent debt profiles. According to the latest available data, 23% of Kenya's external debt is held by private or commercial lenders. Yet, this relatively small share is responsible for 58% of the country's total external debt servicing costs.[19] In other words, more than half of what Kenya spends repaying its external debt goes to just one-quarter of the debt portfolio—a striking imbalance that drains public resources away from investment in development, health, and education.

As private creditors play a growing role in sovereign lending to LMICs, the cost of borrowing is rising, even as fiscal space is shrinking. And when those loans are denominated in foreign currencies, countries are exposed to exchange rate fluctuations that can dramatically increase repayment costs overnight. Without more equitable financing terms and better access to affordable, long-term credit, the debt profiles of many LMICs are at risk of becoming increasingly unsustainable.

Interest Payments: The Cost of Borrowing

Beyond the amount of debt a country holds, how much it costs to service that debt, in terms of annual interest payments, plays a defining role in fiscal sustainability. Rising debt service costs leave governments with fewer resources to fund essential services and respond to crises. And here, the picture for LMICs is particularly stark.

Beyond the amount of debt a country holds, the cost of servicing that debt, captured as interest payments as a percentage of government revenue, is a critical measure of fiscal sustainability. This metric shows how much of a government's budget is consumed by debt obligations rather than being available for essential public services like health, education, and nutrition. When interest payments claim a growing share of revenue, governments face difficult choices: cut social spending, raise taxes, or take on even more debt to cover the gap. For low- and middle-income countries, where revenue bases are often limited, rising interest costs can quickly become a crisis in slow motion, squeezing out investments in human development and pushing nations into a vicious cycle of debt dependency.

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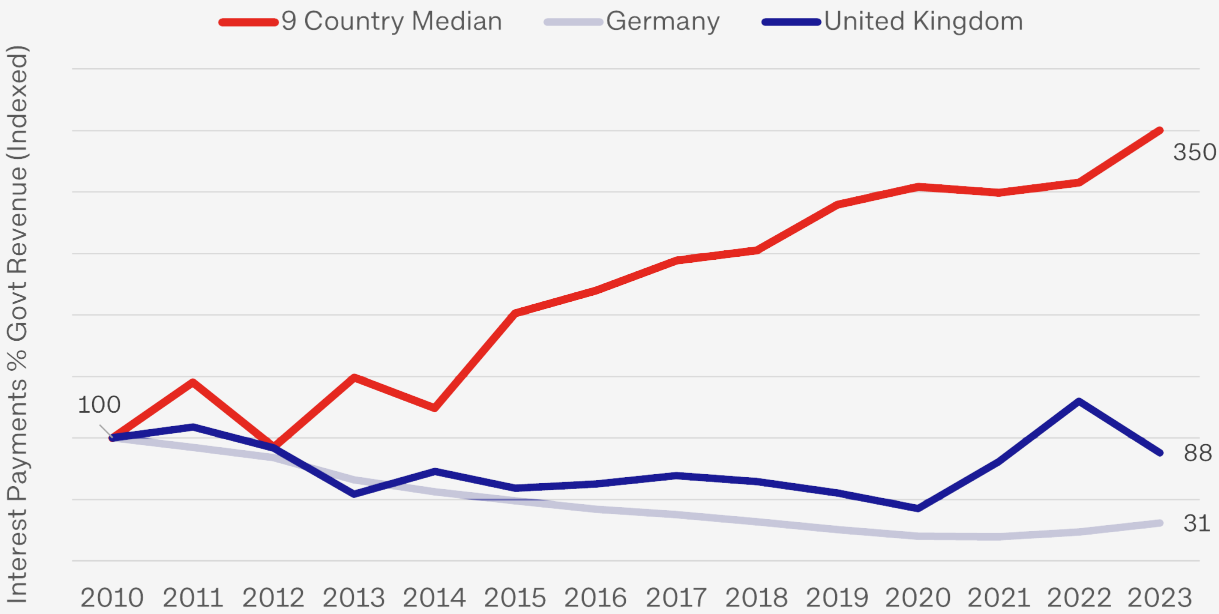
Figure 4: Debt Interest Payments (% Revenues), 2010-2023
(Indexed: 2010 = 100)



LMICs face surging interest payments as a share of government revenue.

As Figure 4[20] shows, the burden of sovereign debt servicing as a share of government revenues has sharply diverged between high-income countries and LMICs. Since 2010, interest payments as a percentage of revenue have surged in many developing economies, while remaining stable—or even declining—in wealthier nations. This divergence is starkly illustrated by the cases of the United Kingdom, Pakistan, and Nigeria:

- In the United Kingdom, interest payments as a share of government revenue fell slightly, from 7.2% in 2010 to 6.9% in 2023, reflecting a relatively stable fiscal environment and access to low-cost borrowing.
- In Pakistan, the situation worsened dramatically. Interest payments rose from 30.2% of revenue in 2010 to 59.5% in 2023—nearly doubling. This means that almost 60% of all government revenue is now consumed by debt servicing, leaving limited space for public investment.

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- Nigeria experienced an even steeper escalation. In 2010, interest payments accounted for just 5.1% of government revenue. By 2023, that figure had soared to 34%—a sixfold increase—pushing the country into a severe fiscal squeeze.

This growing gulf reflects a deeper divide in fiscal resilience. High-income countries benefit from low interest rates, strong credit ratings, and deeper financial markets, allowing them to borrow affordably and maintain manageable debt service costs. LMICs, by contrast, face higher borrowing costs, are often compelled to tap expensive commercial loans, and must allocate an ever-larger share of government revenues to interest payments.

The implications are severe. For LMICs, this dynamic creates a vicious cycle—a doom loop—where rising debt service costs crowd out funding for critical social services like health, education, and nutrition. When a country must dedicate the majority of its revenue to servicing debt, it becomes locked in a cycle where new borrowing is required just to meet existing obligations. This is the essence of a bad debt trap—a situation where countries are borrowing not to invest in their futures, but to pay for the past.

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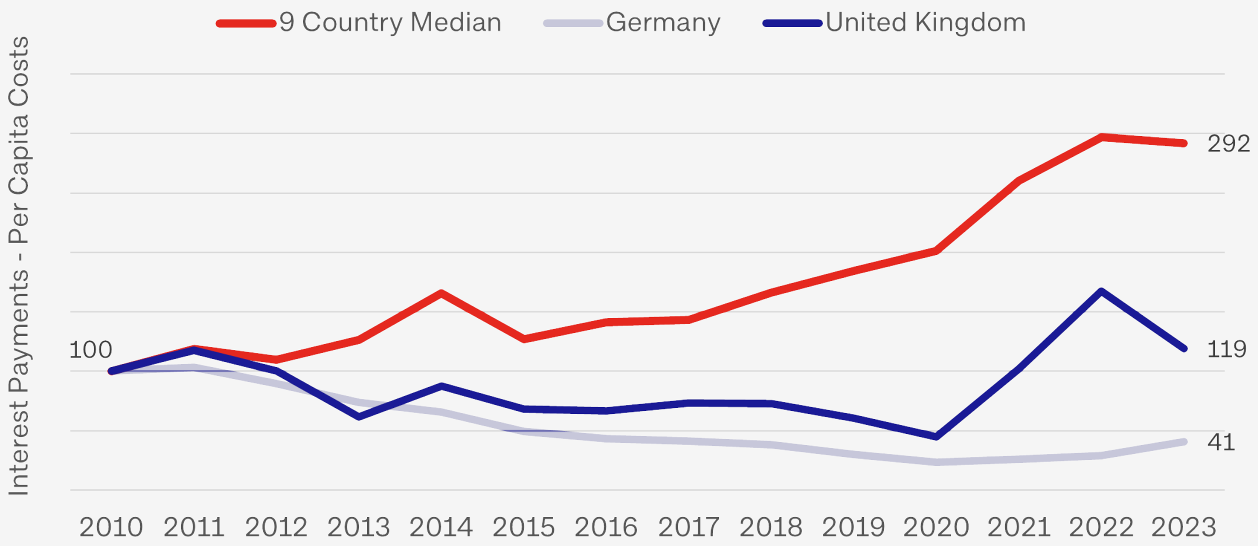
Figure 4 captures this trend clearly: while fiscal pressure eases in high-income settings, it is mounting in LMICs. Unless there is a shift—through more affordable credit, fair restructuring mechanisms, or targeted international relief—the rising cost of debt servicing will continue to undercut development progress, leaving millions without access to essential services.

The Weight of Interest Payments on Citizens: A Per Capita View

While debt servicing as a percentage of government revenue shows how debt squeezes public budgets, it doesn't fully capture how this burden is felt at the individual level. Looking at sovereign interest payments per capita offers another critical lens—one that speaks directly to the impact on populations, especially in countries where poverty is widespread and public services are already under strain.

Figure 5: Debt Interest Payments US$ GDP Per Capita, 2010-2023 (Indexed: 2010 = 100)



Per capita interest burden nearly triples in LMICs, while remaining flat or falling in advanced economies.

As shown in the graph above[21], the per capita cost of interest payments in LMICs has risen dramatically over the past decade, nearly tripling since 2010. For the median country in our LMIC group, indexed interest costs rose from 100 in 2010 to 292 by 2023. In contrast, Germany's index dropped to 41, while the United Kingdom's per capita burden fluctuated but ultimately rose only modestly to 119.

This trend reflects more than just growing debt levels—it signals a deepening inequity in how the burden of sovereign debt is distributed globally. In many LMICs, large portions of the population live on just a few dollars per day. Yet they are, in effect, carrying a growing share of the cost of borrowing through reduced public investment, weaker services, and the long-term effects of austerity.

In countries already struggling with widespread poverty, rising per capita debt servicing costs place an even tighter squeeze on developmental progress. This is especially concerning in contexts where governments are unable to mobilise sufficient domestic revenue and where basic services like healthcare, education, and infrastructure depend heavily on public funding. As interest costs climb, fewer resources are left to meet these needs.

The cost of debt is not abstract—it is felt daily in empty clinic shelves, fewer outreach visits, curtailed school meal programmes, and a shift in household diets, from diverse foods to cheaper, less nutritious staples. These pressures fall disproportionately on women and children—especially pregnant and lactating women and adolescent girls—whose nutritional needs and caregiving roles expose them first to the harms of austerity. Unless action is taken to reduce the cost of sovereign borrowing and restructure unsustainable obligations, rising per-capita interest payments risk locking entire populations into cycles of fiscal compression and underdevelopment.

Key Findings

Sovereign debt is a critical tool for national development, enabling governments to fund essential services, build infrastructure, and promote economic growth. However, this chapter has highlighted that for many LMICs, the burden of debt has become a growing barrier rather than a bridge to progress. Three key findings emerge from this analysis:

1. **Debt is Growing Faster Than Economies Can Sustain**
   Since 2010, the debt burden for the nine LMICs in this analysis has surged by 248%, far outpacing their economic growth. In contrast, high-income countries like Germany have maintained stable debt levels relative to GDP. This rapid debt accumulation means that LMICs are increasingly borrowing not for development, but to service existing obligations—fuelling a cycle of dependency.

2. **Debt Servicing Costs Are Consuming Government Revenues**
   The cost of servicing debt, measured as interest payments as a share of government revenue, has risen dramatically for LMICs, while remaining stable or even declining in high-income countries. In Pakistan, for example, interest payments consumed 59.5% of government revenue in 2023, leaving little room for social spending. Similarly, Nigeria saw a sixfold increase in debt servicing costs as a share of revenue between 2010 and 2023. This dynamic creates a doom loop where countries must borrow more just to cover their interest payments—crowding out critical investments in health, education, and nutrition.

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3. Rising Reliance on Private Creditors Increases Costs and Risks

The structure of external debt has shifted significantly, with LMICs increasingly relying on private creditors rather than traditional multilateral or bilateral lenders. Private loans often come with higher interest rates, shorter maturities, and limited flexibility for restructuring. In Kenya, for example, while only 23% of external debt is owed to private creditors, these loans account for 58% of total debt servicing costs. This dependence on private lending leaves countries more vulnerable to global financial shocks and further squeezes fiscal space.

Landscape Analysis of Malnutrition and Hunger

Malnutrition occurs when a person's diet lacks the essential nutrients needed for healthy growth, development, and functioning, or when someone consumes too much, too little, or an imbalance of these nutrients.[22] It is more than just hunger—it is a crisis that undermines health, limits child development, and traps families in cycles of poverty.[23] Malnourished children struggle to learn, perform poorly in school, and face limited opportunities as adults. Economically, malnutrition reduces productivity and slows growth, costing countries billions in lost potential.[24]

But malnutrition is also a critical part of the broader challenge of hunger, one of the most visible indicators of food insecurity. The United Nations' SDG 2 (Zero Hunger) aims to end hunger, achieve food security, and improve nutrition by 2030.[25] Yet the world is not only off track to meet this goal but sliding backwards. According to the United Nations, progress on SDG 2 has stalled or reversed in many regions, pushing millions more into food insecurity.[26] And hunger is not evenly spread—it is overwhelmingly concentrated in LMICs, where limited fiscal space, high debt payments, and dependence on imported food leave populations exposed.[27]

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Unlike high-income countries that can buffer their populations with subsidies and social protection, LMICs face a harsher reality shaped by unequal trade, creditor-dominated financing, and a global system that often values debt repayment over public health. For these countries, hunger and malnutrition are two sides of the same crisis, driven by the same systemic inequities.

Malnutrition is typically measured through indicators such as stunting (low height-for-age), wasting (low weight-for-height), underweight (low weight-for-age), anaemia prevalence, and nutrient deficiencies—especially among young children and pregnant women.[28] But these are not just health statistics—they are a measure of a country's development and resilience. Addressing malnutrition involves more than providing adequate food—it requires ensuring access to nutritious diets, improving maternal and child healthcare, and sustainably strengthening food systems.[29]

The problem goes beyond food availability. For many LMICs, external economic pressures—particularly sovereign debt burdens—worsen malnutrition. High debt servicing costs divert government revenues away from critical sectors like health, education, and nutrition. As governments are forced to make difficult fiscal choices, their capacity to effectively combat malnutrition weakens, leaving millions without the support they need to thrive.[30]

Undernourishment in LMICs: A Closer Look at Hunger

Undernourishment is the main global indicator used to track hunger—and it's more than just missing a few meals. It reflects the share of people in a country who regularly don't get enough food to meet the minimum energy needed for a healthy, active life.[31] This directly relates to SDG Target 2.1, which aims to end hunger and ensure everyone, especially the most vulnerable, can access safe, nutritious, and sufficient food year-round.

In a country like Kenya, undernourishment isn't an abstract figure—it's a daily reality. It can mean skipping meals, relying on nutrient-poor staples, or stretching food to last through the week. Children may be chronically tired or unable to concentrate in school. Adults might struggle to work productively or manage long-term health conditions worsened by inadequate diets. The consequences ripple outward: lower productivity, reduced earnings, and long-term economic loss.[32]

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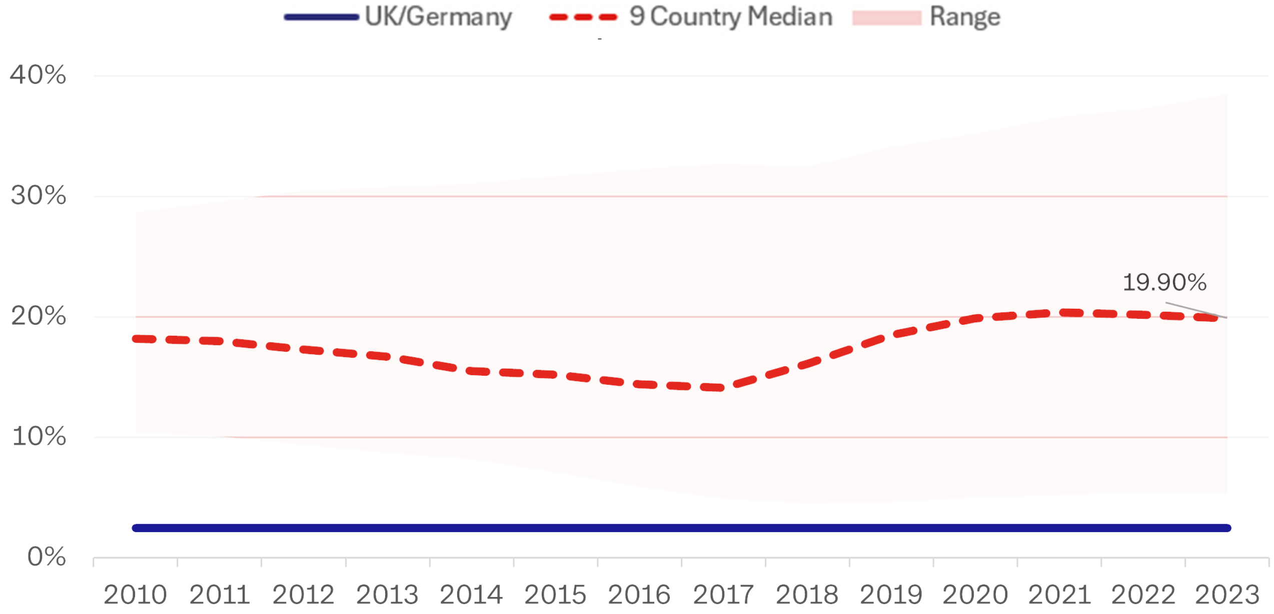
Figure 6: Prevalence of Undernourishment



Country results diverged: undernourishment improved in some, worsened in others.

The graph[33] tracks undernourishment trends across nine LMICs from 2010 to 2023. The red dotted line shows the median prevalence of undernourishment among these countries, while the shaded red area highlights the range of results across the nine LMICs. While some countries improved over the period, countries like Bangladesh, Ethiopia, and Nepal, most countries' level of undernourishment worsened. In stark contrast, the solid blue line at the bottom represents the average for Germany and the United Kingdom, both consistently below 2.5%. Over the period, the median undernourishment rate among LMICs has edged upward, reflecting a troubling reality: progress has stalled or even reversed for many. Meanwhile, high-income countries have essentially eradicated undernourishment. This contrast reveals the deep global divide in food security, where many LMICs continue to struggle. Without decisive policy changes and greater financial support, especially in a context of mounting fiscal pressure, achieving the goal of ending hunger by 2030 will remain a distant hope.

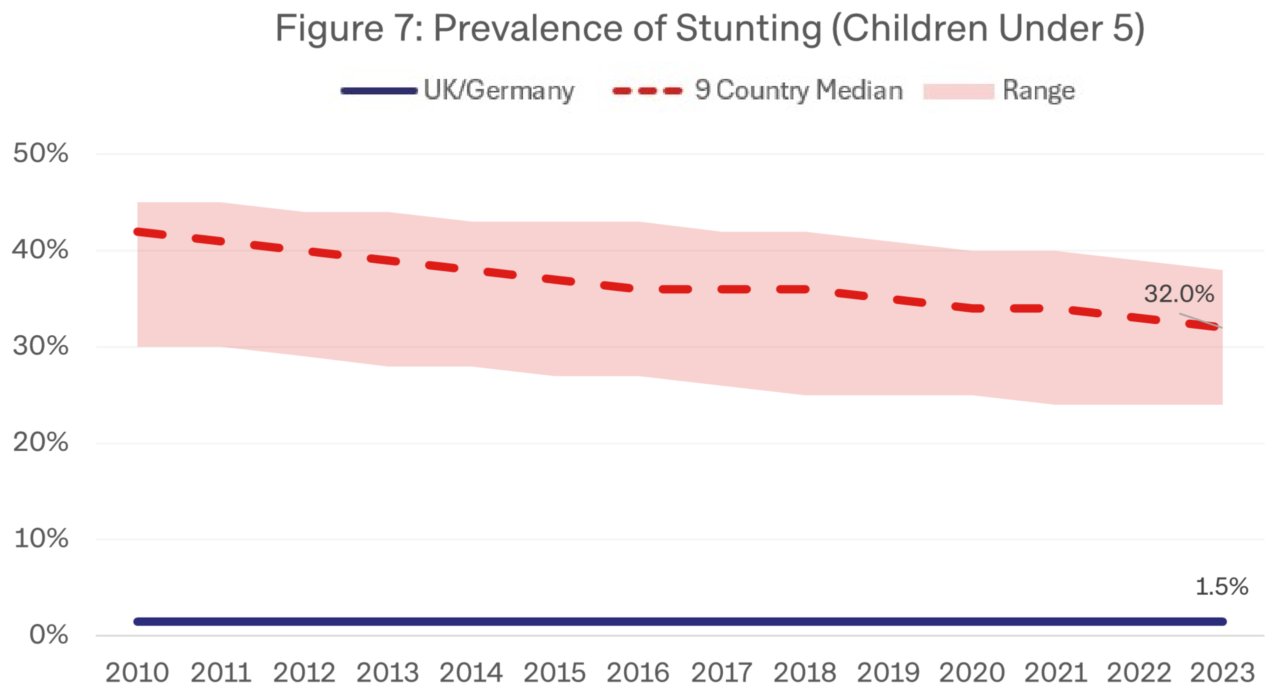
Malnutrition: The Persistent Reality of Stunting and Anaemia

When we discuss malnutrition, we're talking about much more than empty stomachs. Take, for example, a young child in rural Ethiopia or a mother in urban Bangladesh—both facing daily nutritional struggles that affect their health, energy, and future opportunities. Malnutrition, specifically stunting in children and anaemia in women, casts a long shadow over their lives, limiting potential and exacerbating cycles of poverty and inequality.

That's why SDG targets for Goal 2 – Zero Hunger are so important. It calls for an end to all forms of malnutrition by 2030, with specific targets to reduce stunting in children under five and address the nutritional needs of adolescent girls, pregnant and lactating women, and older persons. Since the SDGs were adopted in 2015, the world has made some gains—but progress has been far too slow. Global stunting rates have declined only modestly, and anaemia in women remains widespread, especially in low-income settings. In fact, recent data shows that at the current pace, we are not on track to meet this target by 2030.[34] These indicators aren't just statistics—they're signs of persistent inequality and unmet needs that require urgent, sustained action.

Stunting Among Children Under Five

Stunting refers to impaired growth and development resulting from chronic nutritional deprivation, often aggravated by recurrent illness. A stunted child isn't just shorter in stature; they're more likely to face cognitive impairments, poorer school performance, and reduced productivity later in life.[35]

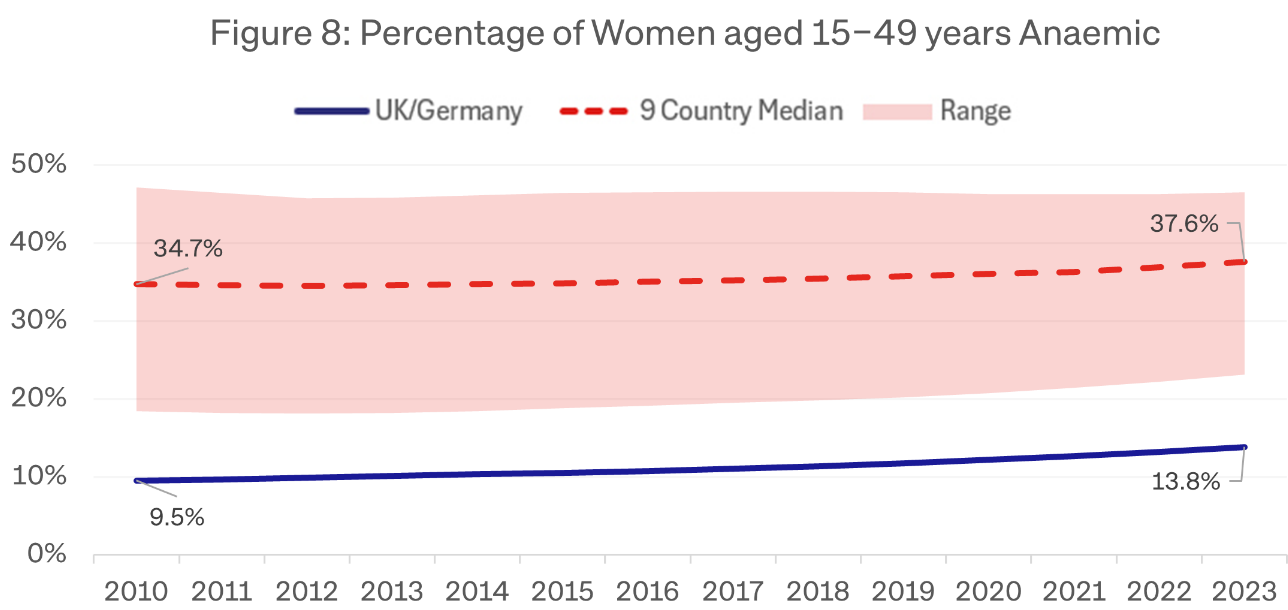


Stunting remains alarmingly high in LMICs despite modest declines.

Figure 7[36] shows trends in stunting among children across the group of nine countries from 2010 to 2023. The red dotted line represents the median stunting rate, while the shaded red area captures the range, revealing that some countries experience far higher rates than others. Encouragingly, the median rate has declined slightly, but it remains alarmingly high, with more than a third of young children affected. In stark contrast, the solid blue line at the bottom represents the stunting rate in Germany and the United Kingdom, effectively zero. This contrast underscores the persistent global divide in early childhood nutrition, where even modest progress in LMICs is overshadowed by severe, lingering challenges.

Anaemia Among Women of Reproductive Age

Anaemia is a condition in which the number of red blood cells (or haemoglobin) is below normal, limiting the delivery of oxygen to tissues and organs. Often driven by nutritional deficiencies, but also chronic disease, infections and gynaecological conditions, it saps energy, impairs immunity, and raises risks in pregnancy and childbirth. For mothers, it increases obstetric complications and mortality; for babies, it is linked to low birthweight, and poorer cognitive and motor development, entrenching intergenerational disadvantage and limiting participation in economic and social life.[37]



Persistent anaemia burden in LMICs far exceeds high-income country levels.

Figure 8[38] shows a broad-based rise in anaemia among women aged 15–49 across the nine LMICs: the median increased from 34.7% (2010) to 37.6% (2023). While the cross-country spread narrowed slightly by 2023, this largely reflects convergence at higher levels—the lower end moved up as the upper end remained elevated. Germany/UK rates also rose, from ~9.5% to ~13.8%, underscoring that anaemia is not confined to LMICs. These trends mirror the WHO's findings that anaemia in nonpregnant women has increased globally since 2012 and that the world is off-track for the 2030 target to halve prevalence. Together, they point to deteriorating diet quality and constrained women's health and nutrition services under fiscal pressure, strengthening the case for routine screening and treatment of micronutrient deficiencies and infections, and measures that improve access to affordable, nutrient-dense foods.

Addressing stunting and anaemia is essential for health, learning and productivity. Progress requires coordinated action. National governments should strengthen social protection; invest in maternal, newborn, child and adolescent health; and fund proven nutrition interventions that reach the most vulnerable. These include routine screening and treatment of deficiencies and infections, supplementation and food fortification, and quality frontline services. All of this depends on reliable public financing and sustained political commitment.

International partners must also step up. When predictable grant finance declines, governments often bridge gaps with higher-cost borrowing—domestic or non-concessional external—raising debt-service burdens and compressing fiscal space for health and nutrition.[39] To avoid that substitution, partners should prioritise nutrition within ODA; sustain grant-based and highly concessional funding; support innovative delivery models; and build national capacity, supply chains and data systems to scale what works. The private sector can expand access to affordable, nutritious foods through fortification, distribution and pricing. Without targeted, sustained action anchored in national policy and international cooperation, the world will not meet SDG target 2.2 to end all forms of malnutrition by 2030.

Healthy Eating: A Costly Challenge in Many Countries

Ensuring people can afford a healthy diet is critical for achieving food security and good nutrition. Yet, globally, nutritious eating remains beyond the reach of billions. The global average cost of a healthy diet worldwide is around US$3.96 per person per day, adjusted for local purchasing power.[40] This means the cost is calculated in a way that accounts for what people can actually afford in each country. The troubling reality is that around 2.8 billion people—35% of the world's

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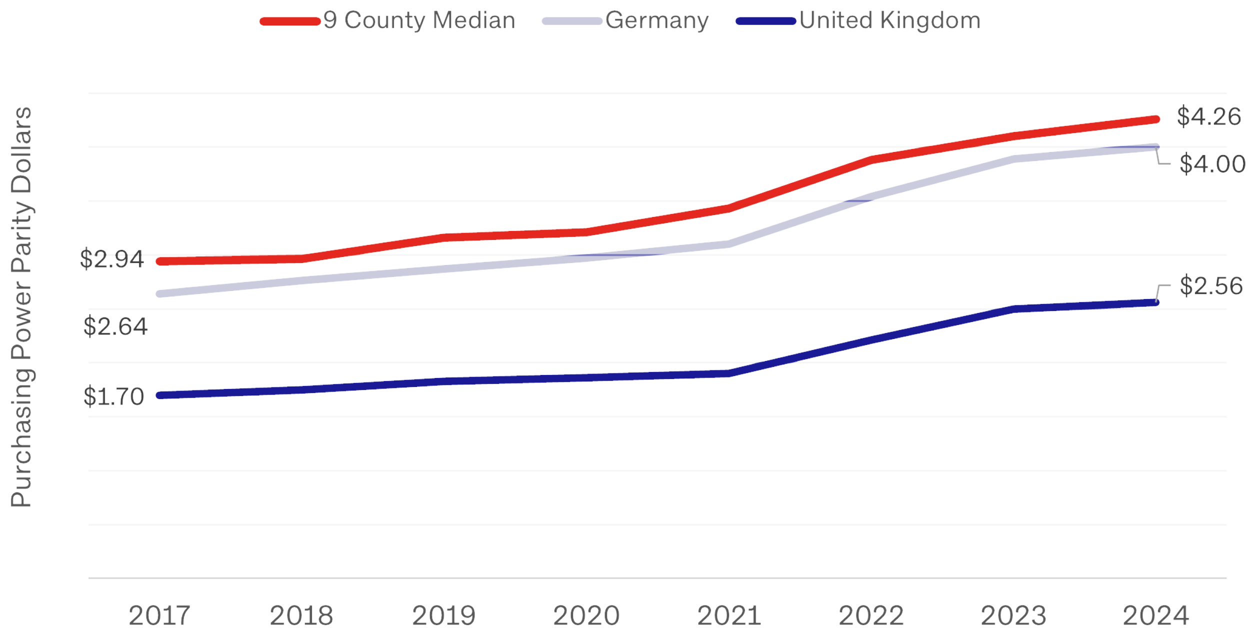
Looking specifically at the nine LMICs in our analysis, the cost of a healthy diet has steadily climbed—from about US$2.94 in 2017 to US$4.26 in 2024 as shown in Figure 9.[42] While the cost has also risen in higher-income countries like Germany and the UK, it remains lower in absolute terms: in 2024, the cost of a healthy diet in the nine-country median was 66.4% higher than in the UK (US$4.26 vs US$2.56). This wide price gap underscores the sharper burden faced by lower-income populations.

In 2024, the cost of a healthy diet in the nine-country median was 66.4% higher than in the UK.

Figure 9: Cost of a Healthy Diet (Adjusted for Local Prices, USD)



The cost of a healthy diet is higher in LMICs than in wealthier nations.

But why does a healthy diet cost more in LMICs in real terms, despite lower incomes? A major factor is the high cost of nutrient-rich foods such as fruits, vegetables, dairy, and animal-sourced proteins, which are often more expensive in LMICs due to supply chain inefficiencies, limited cold storage infrastructure, and volatile food markets.[43] In many LMICs, food systems are dominated by staple grains and lack the diversity and subsidies that help keep nutritious food prices stable in high-income countries. Transport costs, trade barriers, and inadequate investment in agricultural production further inflate prices at the consumer level.

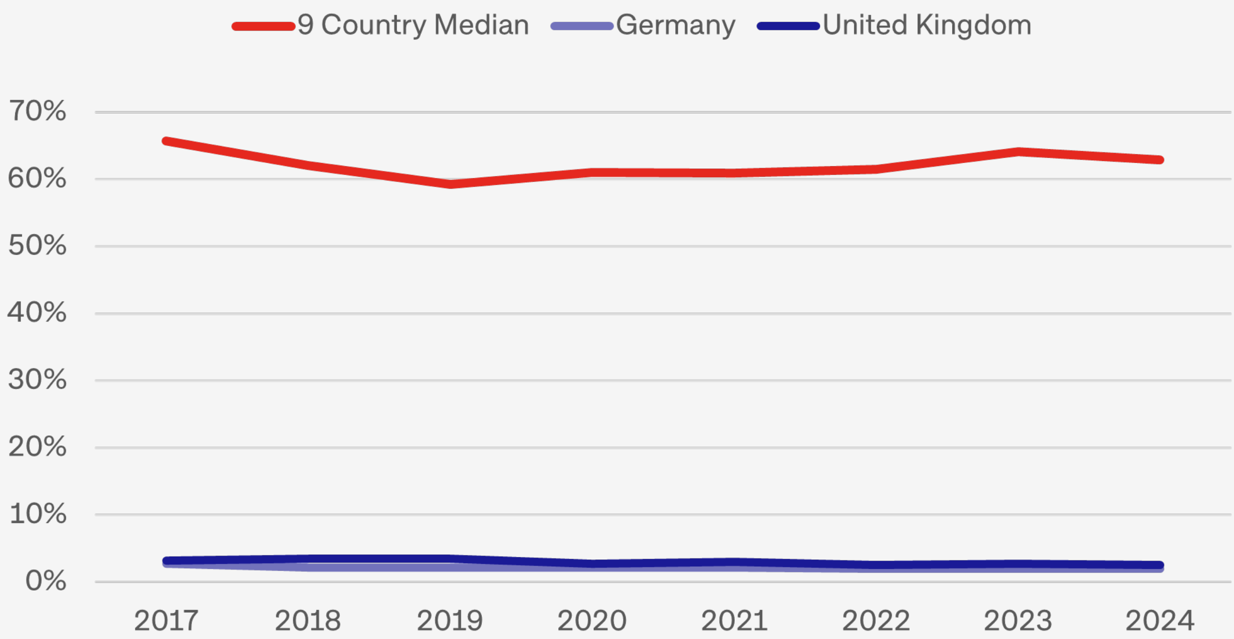
Meanwhile, in countries like the UK, public policies—including subsidies for farmers, food safety nets, and efficient distribution systems—help lower the cost of a diverse, balanced diet for most households. These systems are often backed by substantial public investment, which is largely lacking in resource-constrained settings.

So, while the cost of a healthy diet may seem similar across countries in purchasing power parity (PPP) terms, the economic strain it imposes on an average household in an LMIC is vastly greater. While the numerical differences seem small, in real-world terms, these costs represent a significantly larger financial burden for households in LMICs, where average incomes are typically much lower.

This affordability gap becomes clear when looking at the data on how many people can't afford these healthy diets. In the nine LMICs surveyed, over 60% of the population consistently find themselves unable to cover the costs of nutritious food after accounting for basic non-food necessities.[44] As shown in Figure 10[45], this percentage has remained alarmingly high since 2017, illustrating just how entrenched this challenge is—and how little progress has been made in expanding access to healthy diets for the poor.

In the nine LMICs surveyed, over 60% of the population consistently find themselves unable to cover the costs of nutritious food after accounting for basic non-food necessities.

Figure 10: Prevalence of Unaffordability of a Healthy Diet



In LMICs, nutritious eating is out of reach for the majority - not so in wealthier nations.

What's especially concerning is that this isn't just about temporary price spikes or short-term shocks. These are structural affordability issues rooted in poverty, inequality, and underinvestment in food systems and public welfare. When most of a household's income goes toward rent, fuel, and school fees, there's little left for fruits, vegetables, dairy, or protein-rich foods. Households are forced to prioritise calories over nutrition, leading to poor dietary diversity, especially for children and women.[46]

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In countries like Germany and the UK, strong social protection systems and higher incomes act as a buffer, ensuring that virtually all households can afford the minimum cost of a healthy diet. But in LMICs, where informal labour dominates and safety nets are weak or absent, even small increases in food prices can push millions into nutritional insecurity. The persistence of this divide underscores the urgent need to address not only food availability but also income security and affordability barriers that prevent people from accessing the nutrition they need to thrive.

Key Findings

This chapter reveals a stark reality: the world is not on track to end hunger by 2030, and the burden of malnutrition is deeply unequal. It is overwhelmingly concentrated in LMICs, where a toxic mix of economic vulnerability, high debt servicing costs, climate shocks, and conflict leaves millions struggling to access nutritious food.

1. Global Food Security is Marked by Deep Inequality

Hunger is not just a matter of scarcity but a symptom of global inequality. In high-income countries, governments can shield their populations from food price shocks through subsidies and social protection. But in LMICs, even small disruptions—like a spike in global grain prices or currency depreciation—can push millions into hunger. More than 2.8 billion people cannot afford a healthy diet, with the highest burdens in Africa and South Asia.[47] These disparities are not an accident. They reflect a global system where trade rules, financial flows, and debt obligations are stacked against lower income countries.

2. Without Major Policy Shifts, Ending Hunger by 2030 Will Remain Out of Reach

Current trends show the world is set to miss the goal of ending hunger by 2030. LMICs are being asked to tackle malnutrition while trapped between rising food prices, limited fiscal space, and growing debt burdens. This report highlights how countries like Kenya and Pakistan are forced to choose between servicing debt and sustaining nutrition programmes—an impossible trade-off. Achieving SDG 2 (Zero Hunger) will require more than incremental progress. It demands debt relief, fairer trade terms, targeted financial support for nutrition, and stronger protection for social sector budgets.

Debt and Malnutrition: A Barrier to Progress

In much of the world, the budget battles that shape a child's future are not fought in parliament chambers alone — they are also waged across bond markets and creditor negotiations. Behind every stunted child or undernourished mother is a balance sheet, and often, the weight of a sovereign debt burden too heavy for a government to carry without sacrifice.

Debt Erodes Fiscal Space for Social Spending

Our analysis of nine LMICs, where malnutrition remains persistently high, reveals that sovereign debt does not undermine nutrition and health investments uniformly. Its impact hinges critically on a country's tax capacity. Where governments can raise sufficient revenue, they are more likely to shield social sector spending from the pressure of debt. But where tax-to-GDP ratios are low, rising debt burdens often erode fiscal space, constraining the ability to invest in programmes that protect maternal and child health, food security, and human development.

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Regression analysis of health spending data over two decades shows that debt is not inherently detrimental to public health investment, unless it is paired with weak domestic revenue generation. In low-tax contexts (below 10% of GDP), higher debt burdens are significantly associated with lower government health spending. However, when tax capacity is stronger, the opposite trend emerges: debt appears to co-exist with — and even support — higher health investment. These findings underscore the importance of looking beyond debt levels alone to examine the fiscal systems surrounding them.

In the same way, our analysis of malnutrition data shows that countries with higher tax capacity are better able to protect nutritional outcomes, even in the face of rising debt. Where tax systems are stronger, the predicted malnutrition rate remains stable or declines as debt rises. But in low-revenue contexts, malnutrition worsens alongside sovereign debt burdens.

In other words, the harm of debt is not simply in its size, but in its context. A country with a robust tax base has options: it can raise resources domestically, structure debt service sensibly, and protect its investment in people. But where revenue is scarce, debt eats into what little fiscal space exists, leaving too little for the essentials.

Tax Capacity Protects Social Spending

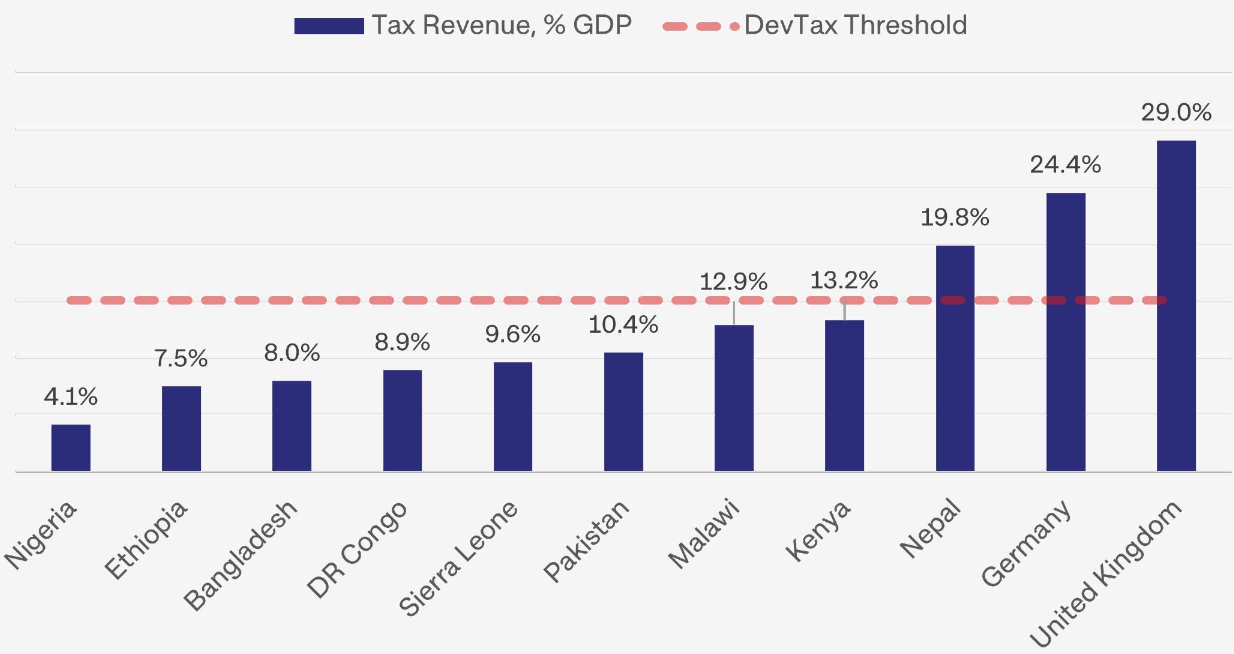
Sovereign debt does not operate in a vacuum. Its impact on social sector spending—particularly on health, nutrition, and protection programmes—is mediated by a country's ability to generate domestic resources. The more a government can raise in taxes, the more flexibility it has to prioritise investments in its people, even in the face of debt obligations. This concept of fiscal space, long discussed in development finance, finds vivid expression in the data presented here.

How much countries collect in taxes relative to the size of their economies—the tax-to-GDP ratio—varies widely. Globally, the median tax-to-GDP ratio is about 22%. For low-income countries, however, the picture is significantly different, with an average tax revenue of just 13.9% of GDP.[48] Yet research by the World Bank highlights a crucial benchmark: a tax-to-GDP ratio of 15%, known as the development tax threshold.[49] Countries that reach this level are far better positioned to invest in essential public services like education, health, and nutrition—investments critical for economic growth and poverty reduction. Maintaining tax revenues above this threshold is also closely linked to progress on the Sustainable Development Goals, including SDG 2 on ending hunger and malnutrition.[50]

Yet among the nine LMICs analysed in this report, the situation is even more severe. As shown in Figure 11[51], in 2022, these countries recorded a median tax-to-GDP ratio of just 9.6%—far below both the global average and the development tax threshold. This revenue gap doesn't just limit their ability to fund essential services—it leaves them highly exposed to the fiscal squeeze of debt, forcing painful trade-offs between debt repayments and investments in areas like health and nutrition.

The World Bank highlights a crucial benchmark: a tax-to-GDP ratio of 15%, known as the development tax threshold. Countries that reach this level are far better positioned to invest in essential public services like education, health, nutrition - investments critical for economic growth and poverty reduction.

Figure 11: Tax Revenue as a Proportion of GDP, 2022



Most LMICs fall below the development tax threshold.

The persistent weakness of tax systems in many LMICs is a major barrier to sustainable funding for social programmes. Countries that fall below the development tax threshold struggle to finance even basic services, lacking the resources needed for vital investments in health, nutrition, and education that drive productivity and build human capital. Where tax revenue is low, governments often turn to external borrowing, not as a tool for development, but as a substitute for a strong public finance system.

Tax capacity is a critical factor in determining whether a country can shield its population from the worst impacts of debt. To better understand this connection, we conducted a detailed analysis using a regression model that captures the relationship between malnutrition, sovereign debt, and tax revenue across the nine low- and low-middle-income countries that are the focus of this report, covering the period from 2000 to 2022.

The analysis relied on two key indices:

- **A Malnutrition Index**, built using core indicators recommended by the WHO—undernourishment, stunting, thinness, and anaemia. This index provides a clear picture of the nutrition status of populations across the nine countries.
- **A Sovereign Debt Index**, constructed using widely recognised measures of debt burden from the IMF and World Bank. These include the debt-to-GDP ratio, interest payments as a share of government revenue, debt-to-export ratio, and debt service to GDP ratio. This approach smooths out fluctuations and provides a consistent measure of debt pressure.

To ensure the analysis accurately captured the impact of debt and tax capacity on malnutrition, the model also controlled for several other critical factors:

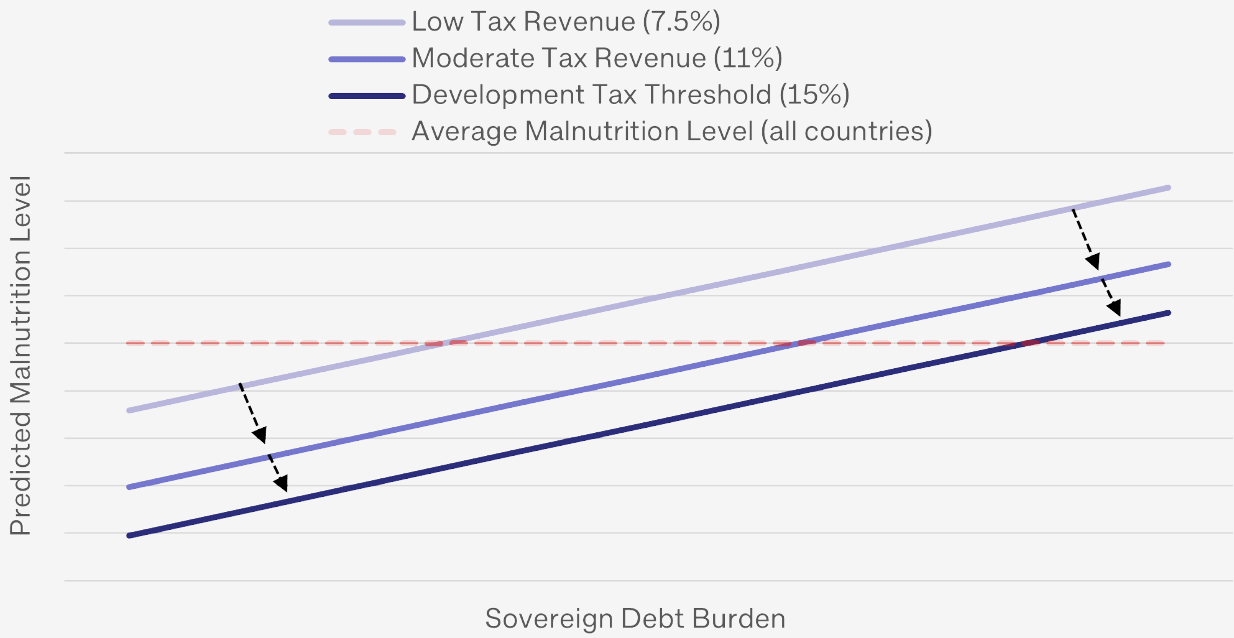
- **Food Inflation:** Reflecting how rising food prices can directly worsen malnutrition by making nutritious diets less affordable.
- **Government Expenditure on Health:** Recognising that public investment in health services is a key determinant of population nutrition and well-being.
- **Nutrition Official Development Assistance:** Capturing the impact of international aid directed specifically at improving nutrition outcomes.

This approach allowed us to isolate the effect of tax capacity on the relationship between sovereign debt and malnutrition. Our findings confirm a critical reality: the human cost of constrained fiscal space is malnutrition. As debt rises, malnutrition increases, most sharply in countries with weak tax systems. However, where tax revenue is strong, the impact of debt is significantly less severe.

The graph that follows illustrates this relationship, showing how predicted malnutrition levels vary across countries with low, medium, and high tax capacity as debt burdens increase.

Our findings confirm a critical reality: the human cost of constrained fiscal space is malnutrition. As debt rises, malnutrition increases, most sharply in countries with weak tax systems.

Figure 12: Predicted Malnutrition Across Debt Burden Levels, by Tax Revenue Capacity



Debt increases malnutrition - but stronger tax systems mitigate the impact.

The graph reveals a clear relationship: as sovereign debt burdens rise, malnutrition worsens, but the impact is not uniform. A country's tax capacity dramatically shapes how severe the effects are:

- **Low Tax Capacity (7.5%)**: In countries where tax revenue is just 7.5% of GDP, malnutrition rates rise sharply with increasing debt. These countries have the weakest financial resilience, struggling to fund essential nutrition and health services as debt payments consume scarce resources.
- **Moderate Tax Capacity (11%)**: Here, the predicted rise in malnutrition is less severe. With a slightly stronger revenue base, these countries can partially shield their populations from the worst effects of debt, maintaining some investment in social services.
- **Development Tax Threshold (15%)**: Countries that meet or exceed this critical benchmark show the greatest resilience. Even as debt grows, their predicted malnutrition rates remain significantly lower. These governments have the fiscal space to protect nutrition, health, and other essential services.

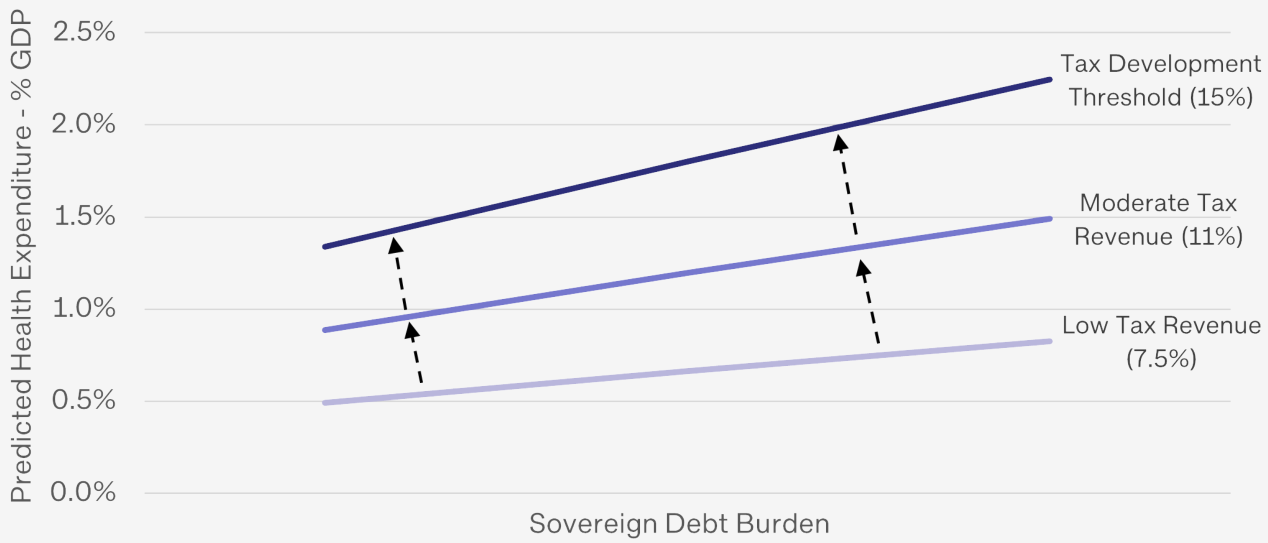
The gap between these lines is not just a statistic—it represents lives and futures. Our analysis finds up to a 10 percentage point difference in malnutrition rates between countries with low tax capacity and those reaching the development tax threshold. If all nine countries in this analysis were to achieve the threshold, that would translate into tens of millions of children and adults who are nutritionally much better off.

Tax revenue doesn't just protect against malnutrition—it also creates the fiscal space needed for broader social investments. Countries that reach the development tax threshold (15%) are far better positioned to fund essential services, from healthcare to education. To examine this effect, we used government health expenditure as a proxy for social spending, given its direct connection to nutrition and overall well-being.

Our analysis models how government health spending changes across three levels of tax capacity—low (7.5%), moderate (11%), and at the development tax threshold (15%)—while accounting for rising debt burdens. The results reveal a clear pattern: as tax capacity grows, countries can maintain significantly higher health spending, even under fiscal pressure. This capacity provides a crucial buffer, allowing governments to protect investments in human development, including nutrition programmes.

Our analysis finds up to a 10 percentage point difference in malnutrition rates between countries with low tax capacity and those reaching the development tax threshold. If all nine countries in this analysis were to achieve the threshold, that would translate into tens of millions of children and adults who are nutritionally much better off.

Figure 13: Predicted Government Health Expenditure Across Tax Revenue Capacity, by Debt Burden Levels



Fiscal strength drives health spending resilience under debt burden.

This analysis shows a clear and consistent pattern: countries with higher tax capacity can better protect health spending, even as debt pressures rise. The three lines in the graph tell a critical story:

- **Low Tax Capacity (7.5%)**: For countries where tax revenue is just 7.5% of GDP, health spending remains minimal, barely exceeding 1% of GDP, even as debt burdens grow. These governments have little room to protect nutrition, health, or other social services, making them highly vulnerable.
- **Moderate Tax Capacity (11%)**: Countries with a slightly stronger tax base fare somewhat better. Predicted health spending rises more steadily, reaching around 1.5% of GDP. While not immune to debt pressures, these countries have enough fiscal space to maintain some level of essential services.
- **Development Tax Threshold (15%)**: Countries that reach this critical benchmark are the most resilient. Even as debt grows, their predicted health expenditure rises to nearly 2% of GDP. These governments can sustain health investments, providing a crucial buffer against the worst effects of debt on public welfare.

The development tax threshold is not just a target—it is a tipping point. Countries that reach or exceed it can maintain significantly higher health spending, even under fiscal stress. But even with stronger tax capacity, health expenditure in most countries remains far below global recommendations. According to the WHO, countries should allocate at least 5% of GDP to public health spending to effectively support development and address crises like malnutrition.[52] Yet, not a single country in this analysis comes close to that benchmark. Strengthening tax capacity is a step toward resilience, but it is not enough on its own —more ambitious commitments to health and nutrition funding are essential.

Nutrition ODA Bridges the Funding Shortfall

Domestic spending alone is often not enough to combat malnutrition, especially in countries with constrained budgets. Our analysis shows that the impact of government health and nutrition spending on reducing malnutrition is significantly amplified when combined with nutrition-specific ODA. Using a regression model that accounts for factors like GDP per capita, debt burden, and government health spending, we explored how varying levels of nutrition ODA influence malnutrition outcomes. The results are clear: where nutrition ODA is higher, domestic spending on health and nutrition has a much stronger impact in lowering malnutrition rates.[53]

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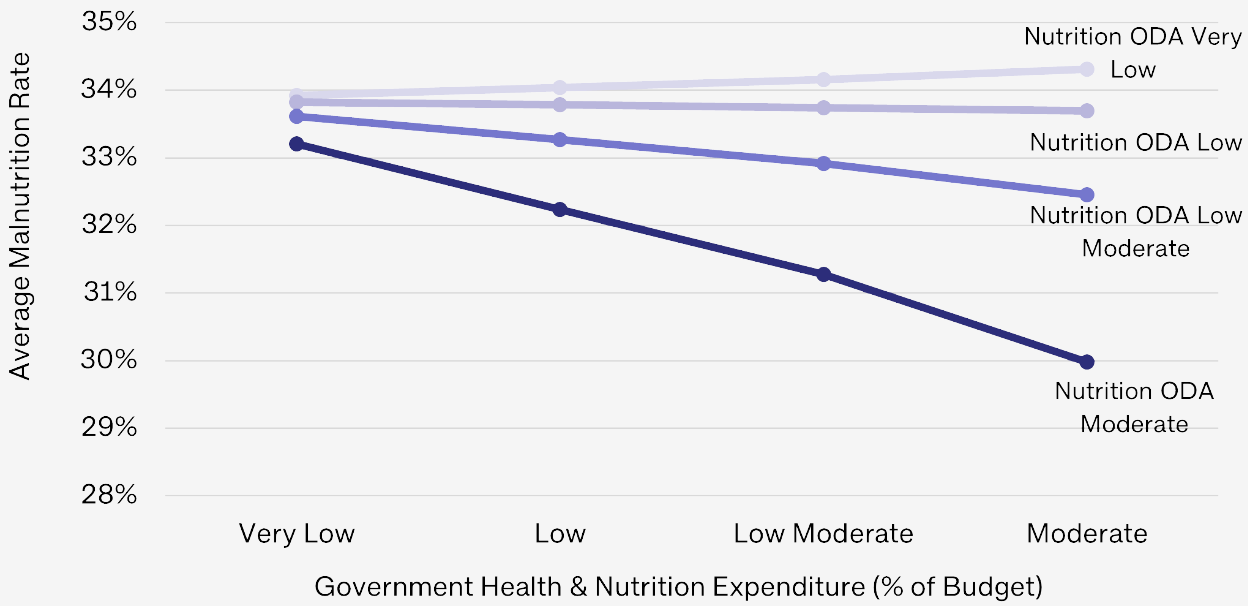
Figure 14: Impact of Government Health Expenditure on Malnutrition Rates, by Nutrition ODA Levels



Combined effort: higher levels of nutrition aid and government spending drive down malnutrition.

This analysis reveals a critical truth: the impact of domestic health and nutrition spending on malnutrition depends heavily on the presence of external support. Among countries with very low levels of nutrition ODA, even substantial increases in government health spending show little impact on malnutrition—the lines are nearly flat. This reflects a harsh reality: without external support, domestic spending alone struggles to drive meaningful change.

However, as nutrition ODA increases, the picture transforms. In countries with moderate levels of nutrition ODA, every rise in domestic health spending is associated with a sharper decline in malnutrition. This reveals a clear synergy: domestic spending becomes far more effective when combined with targeted external support.

The analysis also highlights the importance of reaching the 5% GDP benchmark for health spending, a global recommendation from the WHO. None of the nine countries in this analysis meets that threshold, which severely limits their ability to fund comprehensive nutrition and health programmes. For countries stuck below this level, nutrition ODA becomes even more critical—it provides the boost needed to bridge the gap between current spending and the level required to meaningfully reduce malnutrition.

The message is clear: countries struggling with high debt burdens and limited fiscal space cannot reduce malnutrition through domestic spending alone. To make real progress, they need a combination of stronger domestic investments and robust, targeted international aid.

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The UK's Nutrition Aid Commitment: A Call for Sustained Support

In 2022, the UK's Foreign, Commonwealth & Development Office (FCDO) pledged to allocate £1.5 billion towards nutrition objectives between 2022 and 2030.[54] This commitment aimed to address the nutrition needs of mothers, babies, and children, tackle malnutrition in humanitarian emergencies, and integrate nutrition into the FCDO's broader work .

However, following this pledge, the UK's ODA budget has faced significant reductions. Most recently, the UK government announced further reductions, planning to decrease the ODA budget from 0.5% to 0.3% of GNI by 2027.[55]

These cuts pose a substantial risk to global nutrition efforts. Our analysis underscores the critical role that external support, like the UK's nutrition ODA, plays in enhancing the effectiveness of domestic health and nutrition spending. Without sustained and predictable international aid, countries with limited fiscal space may struggle to make meaningful progress in reducing malnutrition.

Therefore, it is imperative for the FCDO to uphold its £1.5 billion commitment to nutrition. Sustaining this support is not only vital for achieving global nutrition targets but also for ensuring that domestic investments in health and nutrition can have the maximum possible impact.

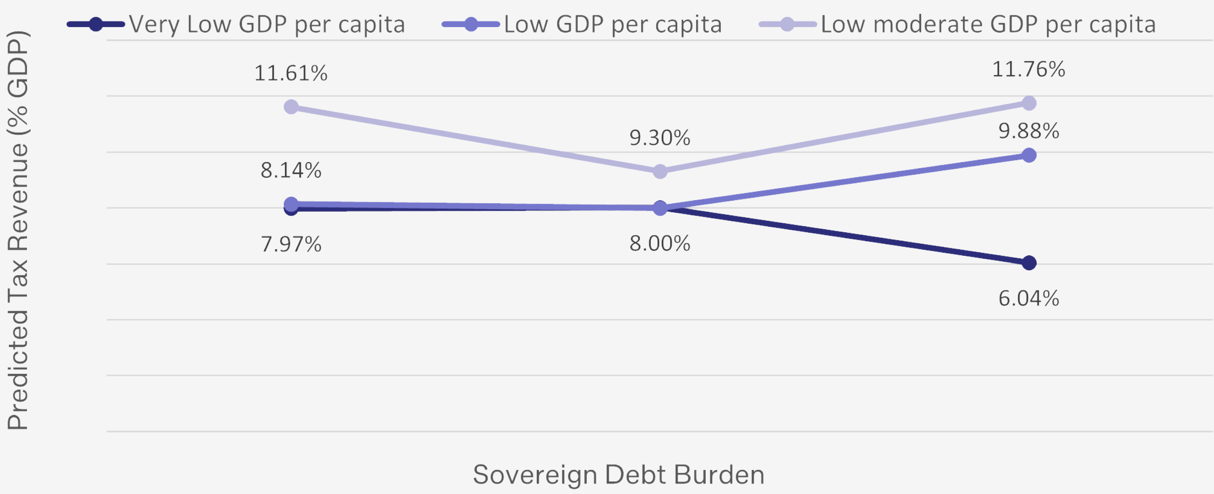
Lower Income Countries Pay the Highest Price for Debt

Debt doesn't hurt all countries equally. For lower-income countries, it's a far heavier burden, dragging down growth and leaving less room for essential services.

Using a simple classification of countries by income—from "very low" (between US$125 and US$480 per person) to "low moderate" (US$766 to US$1,325 per person)—we looked at how rising debt affects their ability to collect taxes.

The findings are clear—and alarming. In countries with the lowest incomes, tax revenue is already fragile, barely reaching 8% of GDP even with manageable debt. However, as debt climbs, that limited revenue shrinks even further, falling to just 6% of GDP. For governments already struggling to fund basic services, rising debt doesn't just hurt, it makes a tough situation even tougher.

Figure 15: Predicted Tax Revenue at Different Levels of GDP Per Capita and Government Debt



Debt pressure squeezes the fiscal space of countries least able to absorb the strain.

For countries with slightly higher incomes—the "low" and "low moderate" groups—the picture is a bit more complicated, but not necessarily better. As debt rises, these countries also see their tax revenue come under pressure, much like their lower-income counterparts. The reasons aren't hard to see: mounting debt often triggers economic instability—slower growth, falling exchange rates, and a shrinking pool of taxable income. Governments trying to keep up with debt payments may end up diverting funds away from areas that could strengthen their economies, like infrastructure, administration, or public services. This can become a downward spiral in fragile fiscal systems—less revenue, more debt, and even less room to invest in progress.

But something different happens among countries with slightly higher incomes. As debt levels climb, their tax revenues initially dip, just like in lower-income countries. However, over time, some of these governments managed to achieve a slight recovery. This suggests they might be using part of their borrowed funds to strengthen tax collection, improve administration, expand tax bases, or tighten enforcement. For them, debt can become a tool for revenue generation, not just a burden.

Yet even this modest resilience remains out of reach for low-income countries, where annual incomes range from US$125 to US$480 per person. For them, rising debt doesn't just reduce tax revenue—it erases it. Their ability to collect taxes crumbles under debt pressure, leaving them with no way to fund essential services or escape the cycle of poverty and debt.

Key Findings

This chapter has explored how sovereign debt, domestic tax capacity, and external support through nutrition-focused ODA jointly shape malnutrition outcomes. The analysis reveals that countries with stronger tax capacity and adequate external support are better positioned to protect health and nutrition investments, even under debt pressure. The following are three key findings:

1. **Tax Capacity Shields Against Debt-Driven Malnutrition:**

   Countries with higher tax revenue relative to GDP are significantly better at protecting nutrition and health spending, even as debt burdens rise. Those reaching the development tax threshold (15% of

GDP) experience a much smaller increase in malnutrition as debt grows, making tax capacity a vital buffer against debt's worst effects.

2. External Support is Essential When Domestic Spending Falls Short:

Government spending on health and nutrition is most effective at reducing malnutrition when combined with nutrition-specific ODA. Countries with moderate levels of ODA see a far greater impact from their domestic spending, while those with low ODA struggle to achieve significant improvements. The UK's FCDO has pledged £1.5 billion for nutrition ODA between 2022 and 2030, but recent cuts to the UK's aid budget threaten this commitment, highlighting the need for sustained, predictable international support.

3. Low Income Countries Bear the Greatest Fiscal Pressure:

Rising debt is most damaging in countries with the lowest incomes, where tax systems are weakest. In countries with GDP per capita between US$125 and US$480, rising debt directly erodes tax revenue, limiting their ability to fund essential social programmes. This creates a vicious cycle—higher debt reduces revenues, and lower revenues mean less capacity to protect health and nutrition.

These findings underscore a clear message: reducing malnutrition in debt-stressed countries demands a balanced strategy—strengthening domestic tax systems while ensuring predictable, well-targeted international support. Without such action, vulnerable populations will remain caught in cycles of hunger, poor health, and stalled development.

Structural Barriers in the Global Debt System

The preceding chapters have shown how debt burdens are constraining the ability of LMICs to invest in nutrition, health, and human development. We've seen how debt servicing now consumes the majority of public revenues in many countries, and how fiscal space for social spending is shrinking even as malnutrition indicators remain stubbornly high. These patterns are not the result of isolated mismanagement or temporary shocks—they point to something deeper. At the heart of the problem lies a global debt architecture that is structurally tilted against borrower countries and development outcomes.

This chapter explores how international financial rules, creditor behaviour, and debt relief mechanisms reproduce what this report terms the doom loop: a negative feedback cycle in which borrowing intended to support development ends up undermining it. From the rising dominance of private creditors, to the slow and fragmented processes for debt restructuring, to the conditionality and austerity embedded in debt relief programmes, the barriers are systemic. They are also deeply political—shaped by decisions about whose claims matter most, and under what terms.

The cases of Kenya and Pakistan offer vivid insights into how these dynamics play out. Both countries have faced mounting debt service obligations, limited access to fair restructuring options, and increasing pressure to cut budgets for essential public services. Their experiences illustrate how global debt systems often leave countries with impossible choices: service their debt and underinvest in nutrition and health, or default and risk exclusion from capital markets.

Global efforts to finance development have long grappled with how to make debt a tool for progress rather than a trap. The International Conferences on Financing for Development (FfD) have been central to this effort, starting with Monterrey in 2002 and leading to the Addis Ababa Action Agenda (AAAA) in 2015—a commitment to responsible lending, transparency, and fair debt restructuring. Yet nearly a decade later, many of these principles remain unmet, and the urgency is growing. With global progress on the SDGs stalling, especially on SDG 2 (Zero Hunger), the 2025 FfD Conference focused on addressing financing gaps, including reforming the international financial

At the heart of the problem lies a global debt architecture that is structurally tilted against borrower countries and development outcomes – debt burdens are constraining the ability of LMICs to invest in nutrition, health, and human development.

architecture underpinning LMICs' access to sustainable sovereign debt. But as most SDGs remain off track, it is clear that without a stronger focus on aligning sovereign debt, fiscal spending, and ODA with sustainable development, billions will remain trapped in poverty and hunger.

Sustainable debt is a concept rooted in these global commitments—it means debt that supports development rather than undermining it. It is debt that a country can repay without sacrificing essential investments in health, education, and nutrition. It is commonly agreed that sustainable debt should be transparently managed, responsibly borrowed, and, when necessary, restructured in ways that protect a country's ability to achieve development goals. For LMICs, this means debt that is a bridge to opportunity, not a barrier to progress.

Sustainable debt is debt that a country can repay without sacrificing essential investments in health, education, and nutrition. For LMICs, this means debt that is a bridge to opportunity, not a barrier to progress.

This chapter takes a closer look at the structural barriers that have locked many LMICs into a cycle of indebtedness and underdevelopment. It asks not only how the system works, but who it works for—and what needs to change to put human development and nutrition at the centre of sovereign debt policy.

The Rise of Private Creditors in Sovereign Debt

Sovereign debt used to be a largely public affair—governments lending to other governments, or through multilateral institutions like the World Bank. But over the past two decades, the landscape has changed dramatically. Today, LMICs borrow more and more from private creditors and non-Paris Club lenders like China. This shift has brought new money, but also new risks, fewer rules, and much less flexibility when things go wrong.

Kenya's debt profile offers a striking example. In early 2025, Kenya issued a Eurobond—a type of loan sold to international investors—worth US$1.5 billion at a steep 9.75% interest rate, the highest it has ever paid.[56] This bond was meant to cover a looming repayment on an earlier loan due that year. While this provided temporary funds and prevented default, it also added to an already heavy debt burden. Kenya now spends two-thirds of its government revenue on debt payments—both interest and principal—with more than half going to private lenders.[57] This leaves little room for critical investments in health, nutrition, or education, even as social needs rise. Kenya is not alone. Across low- and middle-income countries, private creditors, who now hold a growing share of public debt, are rarely required to participate in coordinated debt relief when financial crises hit.

Pakistan's experience with Chinese energy loans illustrates a different but equally concerning pattern. While the interest rates on these loans have been relatively low, they came with rigid and opaque terms. Power purchase agreements guaranteed fixed payments to Chinese-owned plants, even if the electricity wasn't used.[58] That means Pakistan must pay not just for energy, but for unused energy, adding to its debt burden while household electricity bills have soared to the point where they can exceed monthly rent.[59] Worse still, the contracts that underpin these deals are often secret, negotiated behind closed doors and shielded from public oversight.

Both cases show a deeper problem: many of today's creditors operate outside any coordinated or enforceable debt restructuring framework. The Paris Club, once a central hub for official debt negotiations, now plays a limited role. Private creditors, including bondholders and commercial lenders, are not bound to participate in collective relief efforts unless they choose to. And China, now the largest bilateral lender to many LMICs, prefers to negotiate bilaterally, making coordinated solutions harder to reach.

But not all barriers are international. Many of the same problems—opacity, imbalance, and weak accountability—are found within countries. In both Kenya and Pakistan, key respondents raised concerns about the limited transparency in how debt is contracted and the weak role of legislatures in overseeing borrowing decisions. In Kenya, the National Assembly often receives loan agreements with little chance to challenge terms or assess their impact. In Pakistan, major financing deals—especially with bilateral lenders or for infrastructure—are frequently negotiated behind closed doors, with minimal disclosure even to sectoral ministries. This lack of domestic oversight means loans can be signed with little connection to national development priorities and few safeguards to protect critical nutrition, health, or education spending.

Taken together, these external and internal asymmetries mean that debt restructuring is less about finding fair solutions and more about which side can withstand the pressure longer. This dynamic leaves debtor countries at a disadvantage—forced to negotiate piecemeal, postpone decisions, or keep making unsustainable debt payments while their development needs go unmet. Without meaningful creditor coordination or strong domestic oversight, the system rewards delay and punishes countries that try to invest in public welfare.

Efforts to rebalance creditor-debtor dynamics are gaining traction in key jurisdictions. In the United Kingdom, where a significant share of global sovereign debt is governed by English law, lawmakers have debated proposals to require private creditors to participate in debt restructurings.[60] These initiatives respond to growing pressure from African governments and policy institutions, which argue that without legal obligations, private lenders will continue to sidestep relief efforts, leaving health, education, and social protection budgets to bear the cost.[61] While such proposals have yet to gain full government backing, they reflect a growing recognition that fair debt resolution cannot rely solely on voluntary participation from private creditors.

But until such reforms take root, the reality is clear: when creditors set the terms, public goods suffer. Nutrition programmes are paused. Clinics go understaffed. Schools fall into disrepair. And the doom loop between debt and malnutrition tightens.

Debt Programmes and Fiscal Austerity

When the COVID-19 pandemic tipped dozens of countries into fiscal crisis, the international community responded with the G20's Common Framework for Debt Treatments—an initiative meant to bring public and private creditors together to coordinate timely restructuring. But several years on, the results have been underwhelming.

Only four countries—Chad, Zambia, Ethiopia, and Ghana—have entered the Common Framework, despite more than half of low-income countries being at high risk of, or already in, debt distress.[62] That gap speaks volumes. It shows how hard debt relief is to access and the risks countries face simply by requesting it.

Take Kenya and Pakistan. Both are heavily indebted but have stayed out of the Common Framework—not for lack of need, but because entering the process is often seen as a red flag.[63] It can trigger credit rating downgrades, alarm bondholders, and increase future borrowing costs.[64] Understandably, many governments avoid that route, even if it means sacrificing spending elsewhere.

Even when countries do enter the process, relief can take years. Ethiopia joined in early 2021 but only reached a preliminary restructuring deal in 2024.[65] In the meantime, its public finances were strained and essential services like healthcare, education, and nutrition support came under pressure. These are not just bureaucratic delays—they're lost years in the fight against poverty and malnutrition.

A major part of the problem lies in how debt sustainability is assessed. The IMF's Debt Sustainability Analysis (DSA) is the key tool for determining whether a country qualifies for restructuring and how deep that relief should be. But the framework tends to ask whether a country can keep repaying, not whether it should, especially when the trade-offs involve cutting essential services.

This disconnect is not lost on policymakers. In both Kenya and Pakistan, respondents voiced frustration that debt is labelled "sustainable" simply because payments are being made, regardless of what's being sacrificed to meet them. There's little room in the analysis to consider how servicing debt undermines nutrition, health, or education. As one Kenyan expert put it, "We're being praised for staying current on repayments, even while malnutrition is rising." This kind of accounting misses the point—and leads to policies that prioritise creditors over people.

Meanwhile, the DSA also gives limited attention to domestic debt, even though it accounts for the bulk of borrowing in many LMICs.[66] The result is a mismatch between how financial stress is measured and how it's experienced.

Even the IMF has begun to recognise this gap. In a recent progress report, it acknowledged that while many countries technically meet debt sustainability thresholds, high interest costs and short refinancing periods are still "crowding out space" for investment in health,

In Kenya and Pakistan, respondents voiced frustration that debt is labelled "sustainable" simply because payments are being made, regardless of what's being scarified to meet them. 'We're being praised for staying current on repayments, even while malnutrition is rising.'

education, and infrastructure.[67] In other words, staying current on repayments doesn't mean the debt is harmless—it just means the costs are being passed on to the people who can least afford them.

Gaps in Responsible Lending Practices

While IMF programmes are a required component of the Common Framework, many countries, like Pakistan and Kenya, have also turned to the Fund for financial support outside that process. In both cases, the consequences of these programmes extend far beyond fiscal targets. Austerity has become a structural feature of global debt management and a major obstacle to development.

The logic behind austerity is familiar: restore fiscal discipline, reduce deficits, and rebuild investor confidence. But in practice, especially in LMICs, it often means cutting budgets in the areas most vital to human development—health, education, food systems, and social protection.

Pakistan provides a striking example. The country has entered 24 IMF programmes—more than any other. Each one has required deficit reduction measures like eliminating subsidies, raising taxes, and slashing public spending. In 2024, a $7 billion agreement led to sharp reductions in social budgets, just as child malnutrition was rising.[68] Nutrition and health programmes were among the first to be squeezed.[69]

Kenya has faced similar pressure. Under an IMF-backed fiscal plan, the government froze public hiring, cut development spending, and raised VAT on essential goods. These steps may have reassured creditors, but they've also pushed nutrition programmes to the margins, even as hunger levels increase.[70] For low-income households, accessing basic food and health services has become harder, not easier.

These decisions aren't made in a vacuum. They are shaped—and often constrained—by global financial systems. To access financing or regain market confidence, countries must prioritise repayment. The message is clear: governments must prove they can pay their creditors before investing in their citizens.

And it's not just about reduced spending. In both Kenya and Pakistan, key respondents described how austerity destabilises fragile delivery systems. Nutrition programmes, often donor-funded and short-term, become "soft targets" during fiscal tightening. Even when funds are approved, delays and fragmentation—especially at the local level—mean frontline services go under-resourced. This volatility erodes trust and blocks progress.

The ripple effects are evident. In Kenya, counties struggle to maintain nutrition initiatives due to unpredictable and delayed transfers. In Pakistan, provincial health departments have faced disbursement delays that reduce their ability to deliver core services like child wasting treatment or micronutrient support. The result isn't just smaller budgets—it's weaker systems, lower coverage, and missed opportunities to protect vulnerable people.

This creates a policy trap. Austerity may balance the books in the short term, but it undermines the long-term foundations of development. Undernourished children struggle to learn and thrive. Fragile health systems buckle under pressure. And the future costs of inaction only rise.

To its credit, the IMF has begun talking about the need to protect "social spending floors" in programme design.[71] But those floors often remain too low and too vulnerable to cuts when budgets tighten. On the ground, austerity continues to hit the sectors that matter most to vulnerable communities.

Breaking this cycle means rethinking fiscal responsibility. Yes, stability matters—but so does investment in people. Debt relief and financial support must be designed to help countries rebuild without dismantling the systems that nourish, educate, and care for their populations.

Making Debt Work for Development

Nearly a decade ago, the international community came together in Addis Ababa with a bold aim: to build a financing system that would support the Sustainable Development Goals. The Addis Ababa Action Agenda (AAAA) recognised that too many countries were trapped in debt cycles that stifled development. It called for more responsible lending and borrowing, greater transparency, and stronger international cooperation to prevent debt from derailing progress on poverty, health, education, and nutrition.[72]

The AAAA laid down the right principles. It placed sovereign debt squarely within the development conversation. It recognised that borrowing is often necessary—and even desirable—when used to finance human capital, infrastructure, and resilience. It also acknowledged what many countries had long known: there was no predictable, fair, or inclusive way to deal with debt distress.

However, the AAAA was not a binding agreement, and progress since 2015 has been uneven. Private creditors have continued to operate largely outside coordinated frameworks. Multilateral initiatives—like the Common Framework—have been slow, limited in scope, and risky to access. And countries facing debt distress still must choose between protecting essential social spending and maintaining creditor confidence.

For many LMICs, the outcome has been a familiar one: repayments continue, while nutrition programmes are frozen, public health budgets are cut, and development targets drift further out of reach. The doom loop has not been broken; it has been deepened.

But there are signs of a shift. Recent UN-led discussions have outlined a range of proposals reflecting many of the reforms long advocated by debtor countries and development experts. These include improving debt transparency, enhancing accountability, and rebalancing creditor power in restructuring negotiations. Such proposals suggest that political will for meaningful change may finally be taking shape.[73]

Seizing this moment will require more than words. With more than half of low-income countries facing high debt risk, and with hunger and malnutrition rising in many of them. If the global community is serious about fixing the system, now is the time to act.

Emerging Proposals for Debt System Reform

For years, reforming the global debt system has felt like a distant goal —always discussed, rarely delivered. But that's beginning to change. With debt distress spreading across the developing world and political pressure building, some long-standing proposals are finally gaining traction. While the system is still far from fair or functional, the building blocks of a better approach are starting to come into view.

One of the most promising developments is the growing recognition that debt transparency and coordination need real enforcement mechanisms. Proposals have emerged to create an independent expert group to strengthen principles for responsible lending and borrowing. This group would focus on developing practical tools and ensuring that these principles are consistently applied across the full debt cycle, from loan issuance to repayment and restructuring.[74]

A second pathway is the call for a centralised global debt data registry, likely to be housed at the World Bank. Today, debt information is scattered across institutions, often delayed, and riddled with gaps, especially for loans involving private and non-Paris Club creditors. A single, public registry would improve transparency and help borrowing countries make more informed decisions and hold lenders accountable.[75]

There is growing interest in innovative debt instruments that can unlock fiscal space while directly supporting development outcomes. One example is the debt-for-nature swap, such as the US$500 million deal between Gabon and The Nature Conservancy, which allows countries to repurchase bonds at a discount and redirect savings toward conservation.[76] Countries like Kenya, Nigeria, and Pakistan have already or are currently exploring similar transactions. However, the model need not be limited to environmental goals. In Kenya, key respondents proposed debt-for-nutrition swaps as a way to channel relief into hunger reduction, school feeding, or stunting prevention. These outcome-linked instruments could help ensure that debt restructuring not only improves fiscal health but also delivers measurable gains in human development. While still rare and complex, efforts are underway to make such tools easier to scale and adapt.[77]

Momentum is also building to reform how debt sustainability is assessed. The IMF and World Bank are being urged to revise their frameworks to better reflect countries' development goals, climate risks, and investment needs, not just repayment capacity. There's even a push to create public alternatives to credit rating agencies, which have

Reforming the global debt system is finally gaining traction. There is a growing recognition that debt transparency and coordination need real enforcement mechanisms. There is a call for a centralised global debt data registry and growing interest in innovative debt instruments that can unlock fiscal space while directly supporting development outcomes.

long been criticised for penalising countries that seek debt relief, regardless of the long-term developmental rationale.[78]

These reforms won't fix everything. But they signal a growing willingness to challenge the status quo—and to recognise that debt relief must be more than a technical exercise. It must create room for governments to invest in people's well-being, starting with food, health, and education.

The next chapter presents a set of targeted recommendations that build on these ideas—proposals designed to ensure that the evolving global debt system supports nutrition and development outcomes.

Key Findings

This chapter explores the structural barriers preventing LMICs from achieving sustainable debt management and protecting essential social investments such as nutrition and health. It highlights how private creditors dominate debt markets, how delayed and complex restructurings prolong crises, and how weak enforcement of lending standards undermines accountability.

1. **Private Creditors Dominate LMIC Debt:**

   LMICs increasingly rely on private and non-Paris Club creditors not bound by coordinated debt relief mechanisms. This lack of accountability means that in crises, private lenders are often last to negotiate, prolonging fiscal distress and limiting resources for essential social spending.

2. **Debt Relief is Slow, Risky, and Costly:**

   The G20 Common Framework for Debt Treatments is designed to offer coordinated relief but is slow, hard to access. Countries fear entering the process due to credit downgrade risks and drawn-out negotiations, further delaying access to vital funding.

3. **Weak Enforcement of Responsible Lending Standards:**

   Despite global commitments to transparency and responsible lending, there are few mechanisms to enforce these standards. Debtors lack leverage, and private lenders face little pressure to align with global principles, leaving LMICs vulnerable to opaque terms and unsustainable debt burdens.

Recommendations: Breaking the Doom Loop Between Debt and Malnutrition

Across the nine countries examined in this report, one pattern is clear: sovereign debt is increasingly shaping the conditions under which malnutrition persists or worsens. The impacts go beyond shrinking fiscal space. High debt servicing costs also contribute to economic volatility, currency depreciation, rising food and fuel prices, and reduced household purchasing power—each of which can drive undernutrition, particularly among vulnerable populations. At the same time, debt-related austerity policies are weakening the delivery of frontline services, delaying nutrition interventions, and disrupting essential safety nets. Taken together, these dynamics are fuelling a destructive cycle in which debt undermines and creates a doom loop that disproportionately threatens child nutrition and survival.

Sovereign debt is increasingly shaping the conditions under which malnutrition persists or worsens.

Reversing this cycle requires action on multiple fronts. Governments must be supported to maintain nutrition programs even during fiscal consolidation. Creditors and lenders must be willing to relieve unsustainable debt burdens and take responsibility for ensuring their actions do not undermine efforts to combat malnutrition. And the UK—given its development priorities, legal jurisdiction over many sovereign debt contracts, and leadership in global health—has both the influence and the obligation to help drive this agenda forward.

The recommendations below offer a roadmap. They are grounded in the evidence presented in this report, and designed to align debt policy with improved nutrition outcomes in countries facing debt stress. Each set of proposals contributes directly to the UK's development priorities strategy by supporting the fiscal, structural, and institutional conditions needed to combat undernutrition and promote human development.

Protect Nutrition Investments During Debt Restructuring and Fiscal Adjustment

In debt-stressed countries, austerity is often the default response—frequently at the expense of nutrition. As documented in this report, countries like Pakistan and Kenya have implemented IMF-backed fiscal consolidation measures that led to cuts or delays in nutrition programmes, despite high and rising malnutrition rates. Key respondents described nutrition as a "soft target" in budget decisions—underprioritised and underprotected compared to other sectors.

While some IMF programmes now include social spending floors, they are typically too broad to safeguard nutrition specifically. Yet undernutrition undermines not just health outcomes but long-term economic resilience—making its protection a development necessity.

To align sovereign debt responses with the UK's FCDO's commitments to support improved nutrition:

- **Integrate nutrition-specific and nutrition-sensitive spending floors** into all IMF and World Bank-supported programmes and debt restructuring agreements, with clear monitoring and reporting mechanisms.
- **Encourage partner governments to ring-fence nutrition budgets** during fiscal adjustment, particularly in high-burden subnational areas.

These actions would help ensure that fiscal consolidation does not come at the cost of children's survival and growth, and that debt policy supports, rather than undermines, national nutrition goals.

Deploy ODA to Sustain Nutrition Gains in High-Debt Environments

In many debt-stressed countries, donor funding remains the primary source of support for nutrition programmes. This report shows that in LMIC contexts, government allocations are often insufficient or delayed due to debt servicing demands—placing essential nutrition services at risk. The UK's EDP strategy committed to sustained investment in nutrition, with a focus on strengthening systems and reaching the most vulnerable. In high-debt settings, this commitment must translate into smart and strategic use of ODA.

To protect nutrition gains and maintain service delivery under fiscal pressure:

- **Prioritise nutrition-focused ODA for countries in or nearing debt distress**, targeting high-burden populations and geographies where fiscal space is constrained.
- **Invest in pooled, flexible financing mechanisms** that stabilise nutrition services during fiscal volatility and support long-term

system resilience. Advocate for broad support of a global financing facility for combating malnutrition such as the Child Nutrition Fund (CNF).

These measures will allow the UK to reinforce national nutrition efforts even where domestic budgets fall short, ensuring that debt-related austerity does not derail progress on undernutrition. They also strengthen the delivery systems needed to achieve UK development priorities in fragile and fiscally constrained environments.

Promote Debt Transparency and Creditor Accountability for Nutrition Protection

A core message in this report is that opaque borrowing practices and fragmented creditor arrangements are making it harder for countries to safeguard essential services like nutrition. In both Kenya and Pakistan, key respondents described how loan agreements were often negotiated with little public oversight, resulting in obligations that crowd out nutrition investment. At the same time, private creditors—who now hold a large share of LMIC debt—operate outside coordinated restructuring frameworks and face no obligation to share the burden when crises hit.

Improving transparency and accountability can help prevent borrowing decisions that undermine national nutrition priorities. The UK, as a leading development actor and home to many private creditors under English law, has a key role to play.

Recommended actions:

- **Strengthen Voluntary Disclosure and Transparency Commitments,** advocating for the UK government to promote a Debt Transparency Charter for private creditors, encouraging them to publicly disclose loan terms, interest rates, and conditions related to sovereign debt in LMICs.
- **Champion global efforts to establish public debt registries**, including information on how debt servicing obligations interact with nutrition and social sector budgets.

These reforms are essential to ensuring that future borrowing decisions do not deepen undernutrition—and that debt relief processes support, rather than stall, development.

Link Debt Relief to Measurable Nutrition Outcomes

Debt relief offers a critical opportunity to restore fiscal space—and when linked to development outcomes, its benefits directly reach those most in need. As this report shows, there is often no guarantee that savings from debt restructuring are directed toward nutrition, even in high-burden countries. In Kenya, key respondents suggested piloting debt-for-nutrition swaps, recognising the potential to align fiscal and human development goals.

To maximise the developmental return on debt relief:

- **Support the design and piloting of debt-for-nutrition swaps**, building on successful models in the climate and conservation sectors. These instruments could target specific national goals such as reducing stunting or expanding school feeding programmes.
- **Promote the inclusion of nutrition-related benchmarks in debt restructuring agreements**, with donor-backed incentives that reward governments for measurable improvements in nutrition outcomes.

These tools would enable countries to use debt relief not only to stabilise their economies, but also to accelerate progress on undernutrition. For the UK, they offer a practical mechanism to link macroeconomic assistance with nutrition commitments ensuring that fiscal recovery translates into healthier, better-nourished populations.

Reform Debt Sustainability Assessments to Reflect the Cost of Malnutrition

The frameworks used by the IMF and World Bank to assess debt sustainability have significant influence over when and how countries access debt relief. Yet, as this report highlights, these assessments rarely account for the social costs of debt servicing, including reduced investment in nutrition. In LMICs debt is often deemed "sustainable" even when governments have cut nutrition budgets and scaled back essential services.

This disconnect undermines the credibility and fairness of debt policy. If Debt Sustainability Assessments (DSAs) continue to ignore the development trade-offs governments face, they risk reinforcing the very problems they aim to solve.

To align debt assessment tools with the UK's development and nutrition priorities:

- **Advocate for the IMF and World Bank to revise DSA frameworks** to reflect the opportunity cost of debt servicing—specifically underinvestment in nutrition, child health, and social protection.
- **Support the inclusion of social investment thresholds and vulnerability-sensitive metrics** within DSAs, helping to ensure that assessments capture the real-world consequences of fiscal pressure on human development.

These changes are essential to ensuring that debt sustainability is defined not only by repayment capacity, but by a country's ability to invest in the well-being and nutrition of its people.

Resources

Glossary

Sovereign Debt and Economic Management Terms

Austerity: Policy measures aimed at reducing government budget deficits through spending cuts or tax increases, often negatively impacting development programmes like nutrition, health and education.

Bilateral Lenders: Loans provided by one government to another.

Common Framework for Debt Treatments: A G20 initiative for coordinating debt relief for developing countries.

Currency Depreciation: A decrease in the value of a country's currency relative to foreign currencies.

Debt Distress: A situation where a country struggles to meet its debt obligations.

Debt-for-Nutrition Swap: An agreement where debt payments are reduced in exchange for investments in nutrition programmes.

Debt Relief: Measures taken by agreement between creditors and a debtor nation to reduce or reschedule a country's debt payments.

Debt Restructuring: Modifying the terms of a country's existing debt to provide relief or improve sustainability.

Debt Servicing: The payment of interest and principal on a country's debt obligations.

Debt Sustainability: The ability of a country to meet its debt obligations without requiring debt relief or defaulting.

Debt Sustainability Analysis (DSA): An IMF and World Bank assessment of a country's capacity to repay its debt, considering economic, fiscal, and social factors.

Debt-to-GDP Ratio: A measure comparing a country's total debt to the size of its economy.

Debt Trap: A situation where a country must borrow more just to service its existing debt.

Development Tax Threshold: A minimum tax-to-GDP ratio of 15% identified as necessary for sustainable development.

Doom Loop: A destructive cycle where rising debt burdens lead to spending cuts in essential social sectors.

Eurobond: A bond issued in a currency not native to the country where it is issued.

Exchange Rate Risk: The potential for losses due to changes in currency exchange rates.

External Debt: Debt owed by a country to foreign lenders.

Fiscal Consolidation: Policies aimed at reducing government deficits and debt accumulation.

Fiscal Space: The financial capacity of a government to allocate resources to priority areas, especially to development programmes like nutrition, health and education.

Indexed Debt Data: Debt data presented in a way that allows for comparison over time, typically using a base year.

International Monetary Fund (IMF): A global organisation that works to achieve sustainable growth and prosperity for all of its 191 member countries, including providing financial support and advice.

LMIC (Low- and Middle-Income Countries): Countries classified by the World Bank based on gross national income per capita, including low-income and middle-income economies.

Multilateral Lenders: International organisations such as the World Bank and the IMF that provide credit to countries.

Non-Paris Club Creditors: Bilateral creditors, other than those within the Paris Club, that developing countries must negotiate with to secure debt relief.

Official Development Assistance (ODA): Financial support provided by governments for development projects in other countries.

Paris Club: An informal group of 22 creditor nations, primarily developed countries, that work together to find solutions for debt difficulties faced by developing countries.

Private Creditors: Non-governmental lenders, including banks, bondholders, and institutional investors.

Social Spending: Government expenditures on nutrition, health, education, social protection, and related services.

Sovereign Debt: Money borrowed by a country's government from domestic or international lenders.

Sovereign Debt Index: A composite measure of debt pressure using indicators such as debt-to-GDP ratio, interest payments as a share of revenue, debt-to-export ratio, and debt service to GDP ratio.

Sustainable Debt: Debt that can be serviced without compromising a country's development goals.

Tax-to-GDP Ratio: The ratio of a country's total tax revenue to its Gross Domestic Product (GDP).

Malnutrition and Nutrition Terms

Anaemia: A condition characterised by a deficiency of red blood cells or haemoglobin, often due to iron deficiency.

Diet Affordability: The ability of households to afford a healthy, nutritious diet based on their income.

Food Insecurity: The lack of reliable access to sufficient and nutritious food.

Food Security: A state in which all people have access to sufficient, safe, and nutritious food to maintain a healthy life.

Healthy Diet: A diet that provides essential nutrients, energy, and a balance of food groups for overall health.

Hunger: A condition where individuals do not have enough food to meet their daily energy needs.

Malnutrition: A condition resulting from insufficient, excessive, or imbalanced nutrient intake.

Malnutrition Index: A composite measure of nutritional status using indicators of undernourishment, stunting, thinness, and anaemia.

Micronutrient Deficiency: A lack of essential vitamins and minerals required for health.

Nutrition Indicators: Measures used to assess nutritional status, such as stunting, wasting, and anaemia.

Nutrition Official Development Assistance (ODA): Financial support for nutrition-specific and nutrition-sensitive interventions.

SDG 2 (Zero Hunger): A United Nations Sustainable Development Goal aimed at ending hunger and achieving food security.

Stunting: Impaired growth and development in children due to chronic undernutrition.

Thinness: A condition characterised by low body mass index (BMI) for age, indicating insufficient body weight for height.

Undernourishment: A state in which individuals are unable to consume enough food for a healthy, active life.

Undernutrition: A condition characterised by insufficient intake of calories or nutrients.

Wasting: Low weight-for-height, indicating acute malnutrition.

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Annex 1: Kenya Case Study

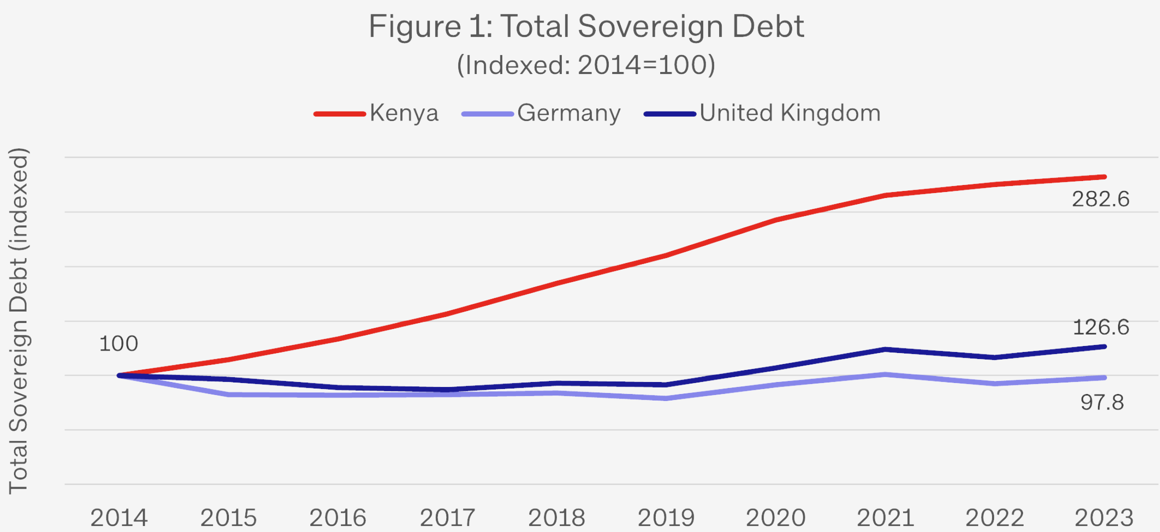
Kenya's Debt Burden: A Threat to Nutrition and Development

Introduction

Kenya, one of Africa's most diversified economies, has long been viewed as a regional leader. With over 55 million people, a growing urban middle class, a thriving tourism industry, and a vibrant entrepreneurial culture, its economic potential is clear. Yet despite these strengths, Kenya still faces persistent structural inequalities, significant poverty, and increasing fiscal vulnerabilities. In recent years, the country's rising sovereign debt has significantly constrained its ability to provide essential public services, particularly in nutrition and health.

Sovereign debt—the total amount a government owes to external and domestic creditors—is a crucial financing tool, enabling governments to invest in infrastructure, stimulate economic growth, and enhance public services. Kenya has actively used debt to fund ambitious development projects, such as roads, energy infrastructure, and railways, aimed at driving economic expansion. However, multiple external factors have significantly amplified the country's debt challenges. High global interest rates have sharply increased borrowing costs, while depreciation of the Kenyan shilling has inflated the expense of repaying foreign-held debt. Additionally, economic shocks like the COVID-19 pandemic have disrupted trade, reduced government revenue, and forced Kenya into further borrowing to maintain vital services.

By June 2024, Kenya's sovereign debt reached US$80.4 billion—a 10% increase in just one year.[1] But this rise isn't simply a reflection of development needs. As shown in Figure 1, Kenya's debt has grown much faster than that of high-income countries like Germany and the United Kingdom.[2] The chart



Kenya's debt has nearly tripled since 2014, far outpacing high-income countries such as Germany and the UK.

uses an index (with 2014 set to 100) to show relative growth over time—making it easier to compare countries regardless of their starting debt levels. While Germany's debt stayed flat and the UK's rose modestly, Kenya's debt index climbed to 282.6, meaning it has nearly tripled over the past decade. This growing gap highlights Kenya's increasing fiscal vulnerability, driven by borrowing to service existing debt, rising global interest rates, a recent credit downgrade, and ongoing economic shocks.[3]

The repercussions of Kenya's debt crisis extend beyond economic metrics—they directly undermine efforts to combat malnutrition and hunger. Malnutrition occurs when individuals do not receive sufficient nutrients needed for healthy growth and development. Hunger, similarly, reflects limited access to adequate, nutritious food. In Kenya, these twin challenges manifest as widespread malnutrition and inadequate access to diverse, nutritious diets. Addressing these issues lies at the heart of Sustainable Development Goal 2, which aims to end hunger, ensure food security, and improve nutrition through sustainable agricultural practices.[4] However, Kenya's escalating debt has severely constrained public funding for nutrition initiatives, leaving these critical programmes increasingly reliant on unpredictable donor support. Moreover, the debt burden has contributed to currency depreciation and higher inflation, driving up food prices and sharply reducing household purchasing power. As nutritious food becomes increasingly unaffordable, millions face heightened vulnerability to food insecurity.

But what does this crisis look like beyond the statistics? For Beatrice, a single mother raising three children in Mathare—one of Nairobi's largest informal settlements—it's a daily struggle to make ends meet. Each morning brings difficult choices: how to stretch her limited earnings as maize flour prices double, cooking oil becomes a luxury, and the school feeding programme that once provided her eldest with lunch is no longer running.

Her youngest, Grace, is noticeably smaller than other toddlers. Her eldest often goes without breakfast because there simply isn't enough food to go around. Though Beatrice picks up casual work when she can, rising food prices mean her wages no longer cover the basics. Each month, she buys less—

fewer vegetables, no eggs, almost no milk. She knows her children aren't getting enough, but with prices climbing faster than her income, she has no good options.

For Beatrice, Kenya's debt crisis isn't abstract. It's the thin porridge on the table, the bare shelves at the clinic, and the constant fear that her children's hunger won't ease.

To fully grasp the implications of this crisis, we consulted government officials, economists, nutrition specialists, and civil society leaders across Kenya. Their experiences highlight the profound human impact of Kenya's debt burden—families increasingly struggling to afford sufficient, nutritious food. This case study explores how Kenya's growing sovereign debt directly worsens food insecurity and malnutrition, outlining key policy recommendations to address these intertwined fiscal and humanitarian challenges. To provide a clear picture, we sourced debt and malnutrition data from government and multilateral institutions, making comparisons to Germany and the United Kingdom for context.

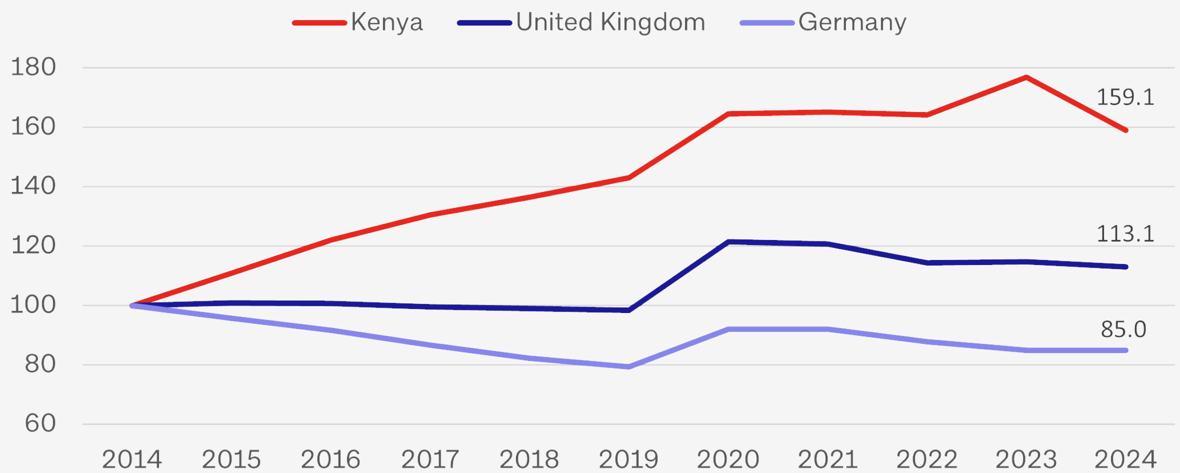
Kenya's debt situation: rising debt and shrinking fiscal space

The weight of debt is felt long before it appears on a budget sheet. It is seen in crowded clinics with too few nurses, in classrooms where textbooks are shared, and in homes where a mother stretches a thin bowl of porridge to feed her children. In Kenya, debt is more than a fiscal dilemma—it is a daily struggle. Conversations with economists, health workers, and local leaders describe a country caught in a cycle where borrowing funds development, but debt servicing drains the resources needed to maintain those achievements. For families in neighbourhoods with people living in poverty, while roads and railways are built, the basics of life become harder to afford.

One of the clearest ways to understand Kenya's rising debt burden is by looking at its debt-to-GDP ratio—how much the country owes relative to the size of its economy. This ratio helps show whether debt is growing in line with economic capacity or outpacing it. Figure 2 shows a sharp divergence: Kenya's debt-to-GDP ratio has surged, with the brief

Figure 2: Growth in Sovereign Debt (% GDP), 2014-2024

(Indexed: 2014=100)



Kenya's debt-to-GDP ratio has surged nearly 60% since 2014, while Germany's fell and the UK's rose only slightly.

2023-2024 retreat largely explained by Kenya shilling appreciation that lifted nominal GDP relative to debt; Germany and the United Kingdom remained relatively stable.

By 2024, Kenya's indexed debt had risen to 159.1—nearly 60% higher than in 2014—compared to 113.1 for the UK and 85.0 for Germany.[5] Kenya's steep rise is more than a technical shift; it reflects mounting fiscal stress and a deepening reliance on borrowing to stay afloat.

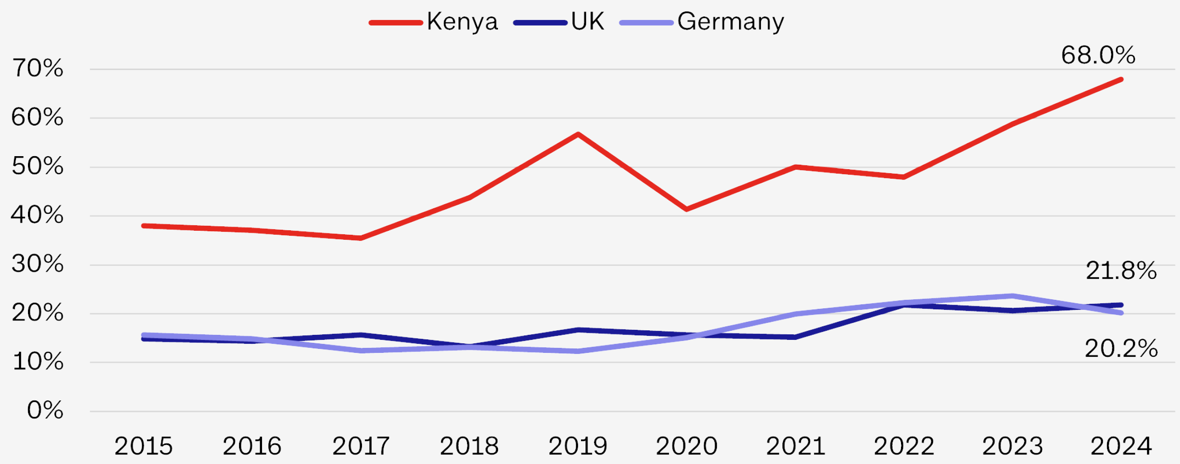
Debt is not just about how much a country owes—it is about what it costs to maintain that debt. This is captured in debt servicing costs—the payments a government makes to cover both principal (redemption) and interest, whether on domestic or external debt. Figure 3 shows the crushing burden of debt servicing in Kenya, measured as a percentage of government revenue.

Unlike high-income countries like the UK and Germany, where debt servicing remains below 25%, Kenya's has surged to 68% in 2024.[6] For every 100 shillings the government collects, 68 go to debt payments, leaving little for essential services like health, education, and nutrition. Representing debt servicing as a share of revenue reveals how much fiscal space is consumed by past borrowing instead of future investment. For Kenya, this means a constant struggle to meet obligations while sacrificing development—a stark contrast to Germany and the UK.

Understanding whether a country's debt is sustainable means looking beyond the total amount owed. The International Monetary Fund (IMF) provides specific benchmarks, focusing on external debt because it is the most vulnerable to currency depreciation and global shocks. The IMF advises that a country's debt-to-GDP ratio should remain below 55%, external debt service should not exceed 15% of export earnings, and debt servicing should consume no more than 18% of government revenue.

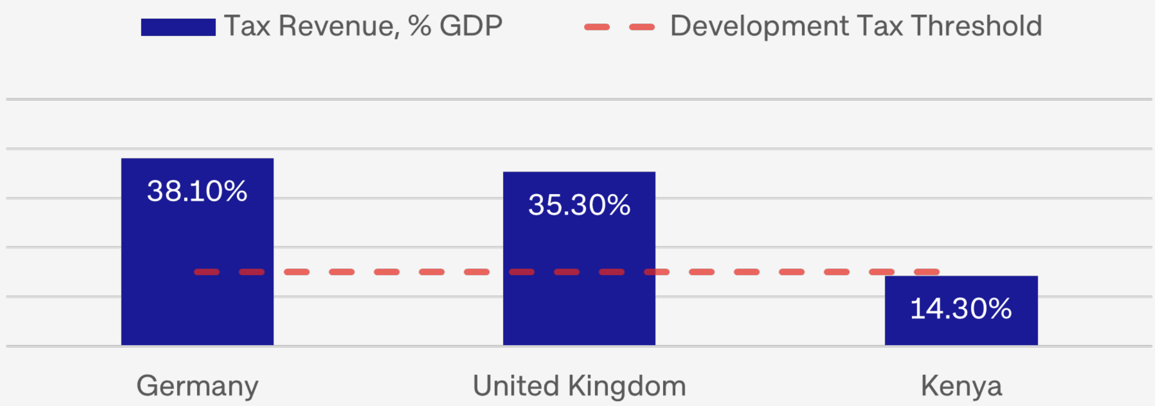
Kenya has breached all three of these thresholds, reflecting a debt profile widely viewed as unsustainable. This view is not just held by international organisations—it is echoed by experts across Kenya. In interviews, financial analysts described a country trapped in a cycle of borrowing to cover fiscal gaps, rising interest payments, and the erosion of essential services. The government struggles to balance debt

Figure 3: Debt Servicing Costs (% Government Revenue)



Kenya now spends a striking 68% of its government revenue on debt service, compared to just 21.8% in the UK and 20.2% in Germany—highlighting the widening gap between low- and high-income countries' fiscal pressures.

Figure 4: Government Tax Revenue Relative to the Development Tax Threshold (2023)



Germany and the UK exceed the development tax threshold, while Kenya falls far below it—highlighting stark differences in government revenue capacity.

repayment with public investment, leaving critical sectors underfunded.

Beneath Kenya's rising debt lies a crisis of costly borrowing. Of the country's external debt—55% of the total—nearly a quarter is owed to private creditors. Yet this relatively small share accounts for 58% of external debt servicing. These are not concessional loans, but short-term, high-interest commercial debts. One common type is government bonds—a way for governments to borrow money from investors, promising to pay it back later with interest. Because Kenya is seen as a risky borrower, investors demand high returns: the country pays 9.5% interest on its bonds, compared to just 3% for Germany. Respondents described this as a structural injustice—where lower income countries pay more to borrow simply because of low credit ratings. The result is a debt burden amplified by a global financial system that forces the those experiencing poverty to pay the highest prices.

While the cost of borrowing is a constant pressure, Kenya's ability to raise revenue remains limited. The IMF and World Bank highlight the importance of a development tax threshold—defined as the minimum level of tax revenue (15% of a country's GDP) needed to fund essential public services like healthcare, education, and nutrition. Yet, as Figure 4 shows, Kenya remains below this benchmark, collecting just 14.3% of GDP in 2023. In contrast, Germany and the United Kingdom collect 38.1% and 35.3%, respectively, giving them far greater fiscal space to invest in public services.[7]

Respondents also noted that while tax rates have risen, the tax base itself has not expanded enough, with a reliance on a narrow pool of taxpayers, many already overburdened. "Tax increases without broadening the base only deepen inequality," one expert explained, highlighting that Kenya's tax system has not captured the vast informal sector where much of the economy operates.

Yet even when Kenya approaches the threshold, most revenue is quickly consumed by debt servicing. This creates a paradox. Kenya collects enough to fund essential services, but much of it goes to repay past debts rather than invest in future development. As a result, the government taxes its citizens but cannot provide adequate healthcare, education, or social protection.

This paradox is clearest in Kenya's shrinking capacity to fund public services. As debt servicing consumes a growing share of revenue, the government must choose between repaying creditors and supporting essential sectors. Policy experts consistently described debt as a silent force undermining health, education, and nutrition. Clinics are understaffed, maternal and child health programmes are scaled back, and community nutrition projects struggle to survive.

To restore fiscal stability, the IMF has imposed austerity—spending cuts, tax increases, and a focus on reducing the fiscal deficit. But for ordinary Kenyans, these policies mean hardship. Higher taxes shrink household incomes, while spending cuts reduce services. For Beatrice, this is a daily struggle. She once relied on a school feeding programme to ensure her children received a nutritious meal. But with funding cut, that programme ended. Rising food prices, driven by currency depreciation and tax hikes, force her to choose between buying vegetables or cheaper staples. Milk, once a staple, is now an occasional luxury.

But the impact of debt is not confined to families like Beatrice's—it is a national crisis. Public sector wages stagnate, infrastructure projects stall, and social programmes are cut. Kenya's dependence on costly commercial borrowing has created a refinancing cycle, borrowing at high rates to repay existing debt. Policymakers face stark choices: raise taxes, cut spending, or borrow more, each worsening the crisis.

Resolving this crisis begins with debt relief and restructuring—extending repayment periods, lowering interest costs, and shifting from expensive commercial loans to concessional financing. Greater transparency in debt management is essential to prevent further unsustainable debt. Most importantly, the government must be able to protect social spending, especially in health, education, and nutrition. For Beatrice and millions like her, resolving Kenya's debt crisis is not just an economic issue—it is a matter of survival.

The impact of Kenya's debt on nutrition and health outcomes

Kenya's escalating debt burden has severely impacted food security, health, and nutrition, with nearly 70% of government revenue consumed by debt servicing. This financial strain has forced difficult trade-offs, most visible in the decline of essential social services. Nutrition programmes—once a lifeline for vulnerable families—have been sharply reduced. School feeding initiatives have been scaled back, maternal and child nutrition services face chronic shortages, and community programmes struggle as donor funding dwindles. For families like Beatrice's, these cuts are a daily reality. Her children's school, which once provided free nutritious meals is no longer able to do so.

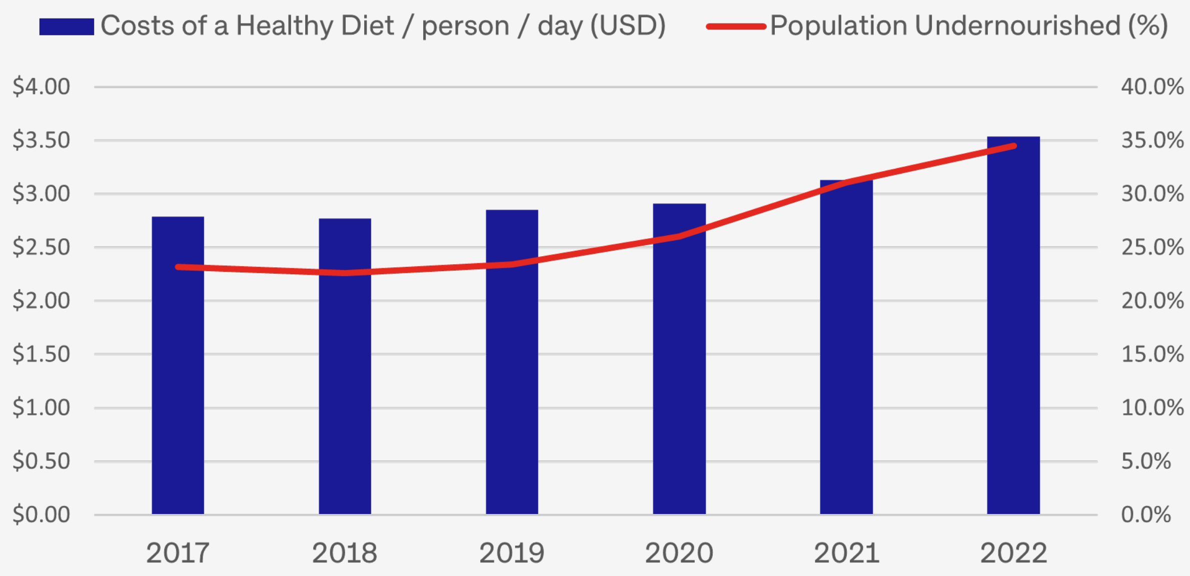
The consequences are reflected in Kenya's worsening nutrition indicators. Most days, Beatrice's children eat little more than porridge, with fresh vegetables a rare luxury. But it's not just her children who suffer. Like 28.7% of women in Kenya, compared with just 13.6% in the UK, Beatrice has anaemia, leaving her weak and exhausted.[8] This micronutrient deficiency is more than a health issue—it limits her ability to work, care for her children, and maintain her own well-being.

Malnutrition in Kenya is not just a matter of food quantity, it is about quality. Across the country, many families suffer from "hidden hunger", where diets lack essential vitamins and minerals. This hidden hunger weakens immunity, increases vulnerability to illness, and stunts the growth of young children. Among children under five, 18.4% experience stunting—a form of malnutrition that permanently impairs physical and cognitive development.[9] But in households experiencing poverty, this rate rises to 37%, reflecting a deep link between poverty and poor nutrition.[10] For Beatrice, who struggles to afford even basic food, the idea of a balanced, nutritious diet is a distant dream.

The crisis isn't only about having enough food—it's about being able to afford a nutritious diet. Between 2020 and 2022, the price of a healthy diet rose by 22%, from US$2.90 to US$3.54 per person per day.[11] As prices for staples like maize, cooking oil, and vegetables rise, most households are priced out—80% of the population cannot afford a healthy diet.[12] For Beatrice, this means stretching thin porridge to feed her children or skipping meals herself. As Figure 5 shows, these rising costs have contributed directly to a growing nutrition crisis: the share of Kenyans who are undernourished has surged, reaching 34.5% in 2022.[13]

Kenya's heavy reliance on food imports makes it especially vulnerable to price shocks. Over 80% of the country's land receives inadequate rainfall, limiting domestic agricultural productivity. As a result, Kenya depends on imported staples like maize and wheat, making food prices highly sensitive to currency fluctuations and global trade disruptions. This dependence has been worsened by the depreciation of the Kenya shilling and tax increases on food products—policies introduced under IMF austerity measures aimed at stabilising government finances. For Beatrice, this means a cruel irony—the less she can afford, the more prices

Figure 5: Cost of a healthy diet and proportion of population undernourished in Kenya



Between 2020 and 2022, the price of a healthy diet rose by 22%, from US$2.90 to US$3.54 per person per day. During the same period, undernourishment increased significantly, highlighting the growing affordability crisis.

rise. Each visit to the market is a reminder of her shrinking options.

Kenya's reliance on donor-funded nutrition programmes has left families like Beatrice's vulnerable to financial instability. Budget cuts announced in 2025 by the US and UK Governments—the main funders of these initiatives—have put some programmes at risk of closure, including a local nutrition programme that once provided Beatrice with fortified flour and counselling for her children. With limited domestic funding and shrinking external support, nutrition services have become erratic, leaving millions exposed.

The crisis extends beyond immediate hunger. Beatrice's youngest daughter, Grace, has grown lethargic and sick more often, signs of malnutrition that reflect a broader national emergency. A severely malnourished child is 11 times more likely to die from infectious diseases such as pneumonia than a well-nourished one.[14] Chronic under-investment in nutrition hampers cognitive development, reduces workforce productivity, and stunts economic growth, while increasing healthcare costs and burdening an already strained system.

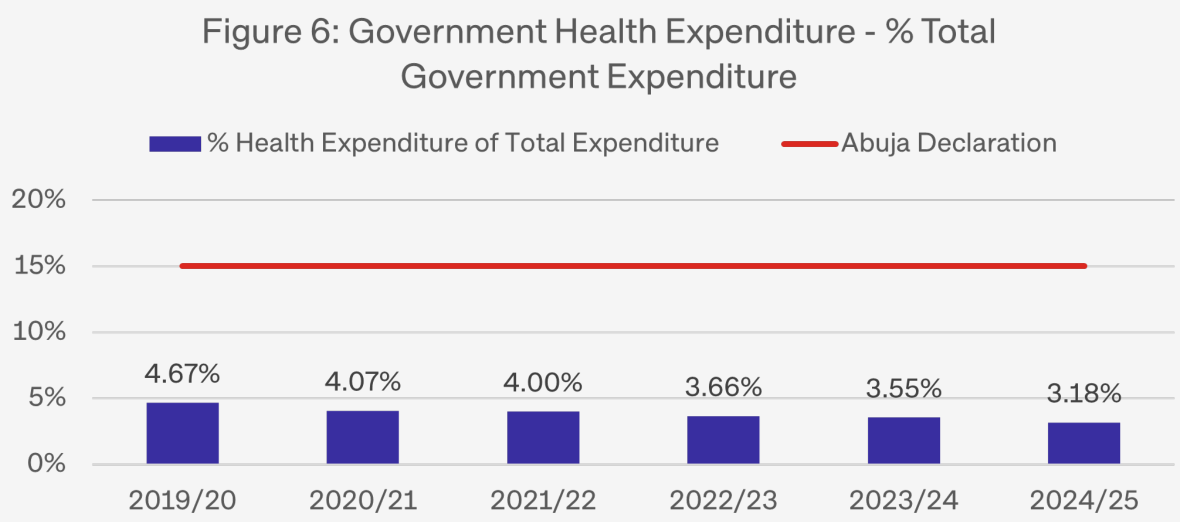
If the debt doom loop continues to force prioritisation of debt repayments over essential investments in health and nutrition, future generations are at risk of being locked in a destructive cycle of deepening poverty and poor nutrition prospects. For Beatrice and millions like her, this debt crisis is a matter of survival.

Governance and transparency issues in debt management and the impact of austerity

Kenya's debt crisis is more than a financial issue—it's a daily burden for citizens like Beatrice. While the government negotiates complex loan agreements, families grapple with rising food prices, service cuts, and the harsh effects of austerity. Weak governance, lack of transparency in borrowing, and externally driven austerity have turned debt into a matter of survival.

A key concern is the lack of transparency in debt agreements, particularly with commercial lenders and bilateral creditors. Without parliamentary oversight, many loans are misaligned with Kenya's development needs. For families like Beatrice's, the consequences are immediate. After a recent commercial loan deal, she saw prices spike on essentials like flour, cooking oil, and vegetables. Though unaware of the loan's terms, she still bears its cost—felt daily at the market.

These governance challenges are worsened by austerity measures linked to debt restructuring deals with the IMF and other lenders. The 2024 IMF programme—an update of the 2021 agreement—demands spending cuts and increased tax revenue.[15] Though tax hikes were paused after public protests, cuts to government spending have severely affected health and nutrition services. Despite provisions meant to protect social sectors, rising debt payments have drained funding from these critical programmes.

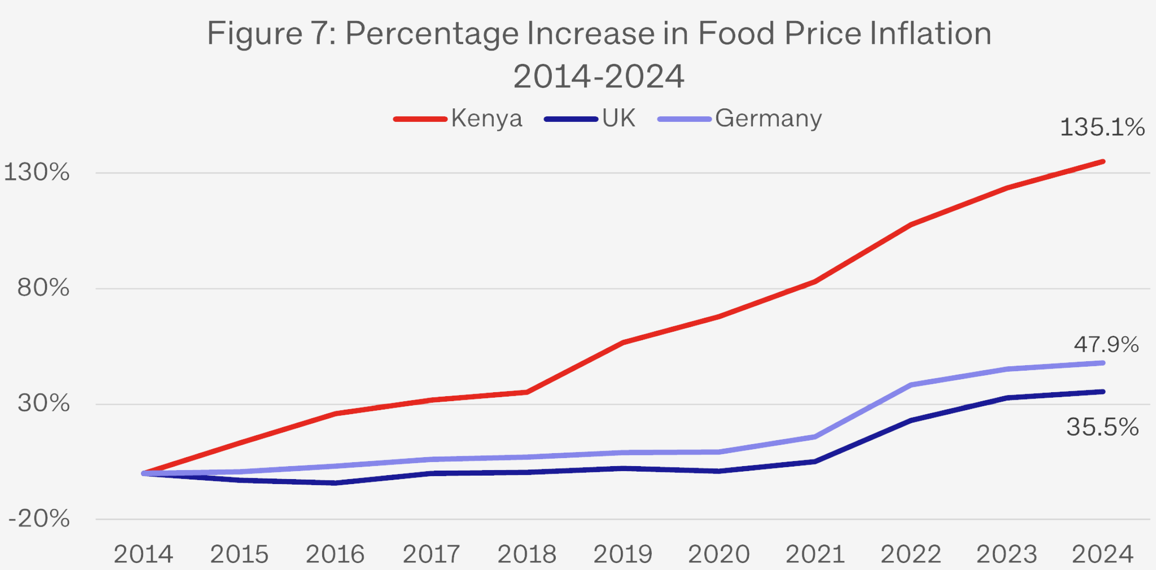


Kenya's health sector expenditure as a proportion of total national government expenditure is declining.

Health spending illustrates this decline. Despite government commitments to protect health funding, debt servicing has taken priority. As shown in Figure 6,[16] health sector spending now falls well below the government's previous commitment of 15% of the national budget— a target established under the Abuja Declaration, where African Union member states pledged to allocate at least 15% of their annual budgets to health. In contrast, the UK allocates over 20% of its total government expenditure to health, enabling it to better meet the health and nutrition needs of its citizens. This declining investment leaves essential services underfunded, undermining efforts to protect public health.

Debt-driven austerity has contributed to the sharp increase in the cost of living in Kenya, making nutritious food increasingly unaffordable. As shown in Figure 7, over the past decade, food prices in Kenya have surged by 135.1% —far outpacing the UK's 35.5% and Germany's 47.9%.[17] This steep rise has left Kenyan households spending an average of 42% of their income on food, compared to just 9% in the UK.[18] For many families, providing a healthy diet is now out of reach.[19]

The debt crisis has crippled Kenya's ability to use fiscal measures to stabilise food prices or enhance access to nutritious foods. Rising debt servicing costs consume government revenue,



Kenya's food prices have soared far more than in the UK or Germany—rising by 135.1% between 2014 and 2024, pushing basic nutrition further out of reach.

leaving little room for targeted subsidies or food security initiatives. Instead of protecting consumers, tax measures imposed under the IMF programme—such as levies, which are government-imposed taxes or charges, on agricultural inputs and staple foods—have further driven up prices, reducing access to affordable, nutritious options.

Global financial institutions play a powerful role in shaping Kenya's debt landscape. When credit rating agencies downgrade a country's score, they signal higher risk to investors. As a result, lenders demand higher interest rates to offset that perceived risk. For Kenya, recent downgrades have made it harder and more expensive to borrow from international markets, effectively pushing the country toward costly commercial loans with shorter repayment periods and higher interest rates. This dynamic is especially stark for African nations, which often face steeper borrowing costs than peers in other regions with similar debt levels—a structural inequality that limits access to affordable financing for essential social investments.

Rising debt burdens and increased austerity have created a doom loop where the government is forced to prioritise repayments over essential investments in nutrition, health, education, and social protection. For families like Beatrice's, this means shrinking support and fewer opportunities: the local youth programme that offered tutoring and meals may close and rising transport costs make clinics unreachable. Each debt deal brings uncertainty—what will be lost next? Her story reflects a national reality: as debt repayment takes priority, essential safety nets continue to unravel.

Photo credit: Tucker Tangeman on Unsplash

Recommendations for debt relief and nutrition investment in Kenya

Kenya's rising debt burden has sharply constrained funding for essential social services, especially nutrition and food security. As debt servicing costs climb, the government faces a stark choice between repaying creditors and investing in health, education, and nutrition. This pressure deepens food insecurity, worsens malnutrition, and heightens child and maternal health risks. Without urgent action, prioritising debt payments over social spending will entrench poverty and undermine human development.

Embedding nutrition protections in fiscal frameworks, linking debt relief to development outcomes, and restoring targeted official development assistance (ODA) can help reverse this cycle. Achieving this requires coordinated action by creditors, the Government of Kenya, international financial institutions, and donors. The UK, as a key global development partner, can advance these efforts by promoting fair lending, responsible debt management, and greater support for nutrition-focused programmes.

Recommendation 1

Prioritise and sustain nutrition-focused ODA through trusted partners

Kenya's heavy debt burden has severely constrained domestic funding for nutrition, with nearly 70% of government revenue consumed by debt servicing. The UK, as a major development partner, should prioritise nutrition-focused ODA to protect vulnerable populations from the impacts of debt-driven austerity—an investment that prevents far greater costs from worsening malnutrition and poor health outcomes.

- **Direct ODA to nutrition programmes through trusted partners:** The UK should continue to channel ODA through trusted partners ensuring that essential services like maternal and child health, school feeding, and community nutrition continue even when domestic funding is limited.

- **Maintain and protect UK ODA for nutrition:** Protect nutrition ODA and direct ≥20% to nutrition-specific programmes—including multiple micronutrient supplements (MMS) and treatment including ready-to-use therapeutic foods (RUTF)—to tackle deficiencies and maternal and child malnutrition. Early investment averts larger future costs in health, productivity, and human capital.

Recommendation 2

Strengthen governance, transparency, and accountability in debt management

Debt transparency and accountability are essential for preventing unsustainable borrowing and ensuring responsible debt management. The UK should lead in bilateral and multilateral forums to promote clear, accountable debt management frameworks that protect social sector spending, including health and nutrition.

- **Promote full transparency in debt agreements:** The UK should advocate for clear disclosure of all loan terms, repayment schedules, and borrowing conditions. This transparency will help Kenya establish stronger oversight mechanisms, including parliamentary review of sovereign debt agreements, ensuring debt does not undermine funding for essential services.

- **Embed nutrition protections in debt agreements:** The UK should use its influence in the IMF and World Bank to ensure fiscal programmes include budget protections for essential nutrition services, such as maternal and child health, school feeding, and community nutrition. This safeguards nutrition funding, even during fiscal adjustments.

- **Ensure debt policies account for social impact:** The UK should advocate for IMF and World Bank debt frameworks that measure sustainability not just by financial metrics but by their impact on health, nutrition, and social well-being. Debt relief and restructuring should prioritise maintaining essential services.

Recommendation 3 Link debt restructuring and relief to measurable nutrition outcomes

Debt relief for Kenya should directly support nutrition, transforming financial savings into improved health outcomes. The UK, both bilaterally and through multilateral forums, should promote debt relief measures that protect maternal and child health, food security, and nutrition.

- **Implement debt-for-nutrition swaps:** The UK should advocate for debt swaps where relief is directly channelled into nutrition programmes and food security, such as maternal health services, school feeding, and community nutrition. This approach maintains essential services even when domestic funding is constrained.

- **Ensure nutrition-linked conditions in debt agreements:** Debt restructuring should include conditions that protect funding for critical social services, with measurable benchmarks like reduced stunting rates or expanded maternal nutrition coverage. These benchmarks create transparency and accountability, ensuring debt relief leads to real health gains.

Conclusion: a call to action

Kenya's debt crisis is more than a fiscal challenge—it is a humanitarian emergency. As debt servicing consumes nearly 70% of government revenue, the government is forced to choose between repaying creditors and investing in health, nutrition, and education. For families like Beatrice's, this means fewer school meals, empty clinic shelves, and a constant struggle to afford basic food. It is a crisis measured not just in shillings but in missed meals, untreated illnesses, and stunted growth.

But this crisis is not inevitable. With the right policies and international support, Kenya can break free from the cycle of debt-driven austerity. The UK and other international partners have a unique opportunity to advocate for debt relief measures that protect social spending, promote transparency in sovereign borrowing, and support Kenya's efforts to strengthen its nutrition and food security programmes. These efforts should include nutrition-linked debt relief, transparent loan agreements, and sustained support for essential nutrition services through trusted partners.

For Kenya, resolving the debt crisis is not just about balancing the books—it is about safeguarding the health, growth, and potential of its citizens. A coordinated, policy-driven approach that ensures financial stability while protecting investments in human capital is essential to breaking the cycle of debt-driven austerity and its devastating impacts on nutrition and public health.

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informed INTERNATIONAL

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Annex 2: Pakistan Case Study

Trapped in the Doom Loop: How Sovereign Debt is Squeezing Pakistan's Capacity to Tackle Malnutrition

Introduction

Pakistan, a country of 250 million people, stands at a critical crossroads, facing a profound debt crisis that severely undermines its ability to fund essential public services like health, education, and nutrition. This fiscal predicament has created a devastating cycle, where increasing sovereign debt not only consumes government revenues but also erodes the very systems designed to support human development. Central to this challenge is the fact that servicing Pakistan's domestic and external debt—including repayments of both interest and principal—now exceeds total government revenue. By 2024, debt servicing costs surged alarmingly to 115.8% of government revenue, forcing Pakistan into a dangerous loop of continuous borrowing simply to repay existing debts.[1]

Around one in five people in Pakistan is directly affected by malnutrition, a stark reflection of the profound human costs of the nation's economic difficulties.[2] For Zainab, a mother in rural Punjab, this national crisis translates into daily struggles. She spends most of her day trying to secure enough food to nourish her two-year-old son, Arham. Prices for basic staples have soared, and public nutrition services have withered. Previously, regular community health worker visits are now irregular, and local clinics frequently lack essential supplies. Zainab's daily hardships highlight a broader systemic failure driven by financial constraints resulting from Pakistan's burgeoning debt burden.

Photo by Annie Spratt on Unsplash

This case study draws upon insights gathered through key respondent interviews and secondary data to closely examine the interplay between sovereign debt and malnutrition in Pakistan. Interviews with government officials, economists, nutrition specialists, and civil society leaders provide critical perspectives on how debt dynamics constrain the government's ability to deliver essential services. These insights, combined with macroeconomic and social data, offer a deeper understanding of the gravity of Pakistan's current fiscal and social crisis.

At the heart of this analysis lies the concept of a doom loop—a dangerous, self-reinforcing cycle where increasing debt burdens reduce fiscal space, erode investments in critical sectors such as nutrition and health, lead to deteriorating social outcomes, and ultimately undermine the prospects for economic growth and recovery. This case study seeks to clearly illustrate how this doom loop operates and its tangible impacts on Pakistan's vulnerable populations.

The implications of Pakistan's debt crisis are severe, particularly regarding nutrition and human development outcomes. Despite Pakistan's status as a flagship country under the UK's Ending Preventable Deaths strategy (EPD)[3], now transitioned into the Healthy Women, Children and Newborns (HWCN), recent declines in UK Official Development Assistance (ODA) have further compounded the strain on social services. Historically, the UK has significantly supported nutrition programmes through partners such as UNICEF and the World Food Programme (WFP). However, recent reductions in these contributions have undermined critical services, highlighting the essential relationship between international support, debt management, and human development.

Addressing this crisis demands urgent, coordinated action. The findings and recommendations presented here aim to break this detrimental cycle, underscoring the critical need for strategic debt relief, strengthened fiscal management, and renewed international collaboration to safeguard Pakistan's vulnerable populations from malnutrition and poverty.

Pakistan's Escalating Sovereign Debt Burden

Over the past decade, Pakistan's sovereign debt has grown substantially, driven by recurring fiscal deficits, balance of payments challenges, and increasing borrowing costs. This rise has placed enormous pressure on the country's already limited fiscal space and has contributed to deepening economic vulnerability.

Figure 1 provides a comparative illustration of how Pakistan's total sovereign debt has increased since 2014.[4] To facilitate comparison between countries with vastly different economic sizes, the data in this graph is presented as an index. Indexing sets the 2014 value to 100 for each country, allowing the reader to observe relative growth over time rather than absolute values. This method illustrates how rapidly debt has increased in percentage terms, regardless of the starting level, and is particularly useful for highlighting divergent trends. In this uncertainty—what will be lost next? Her story reflects a national reality: as debt repayment takes priority, essential safety nets continue to unravel.

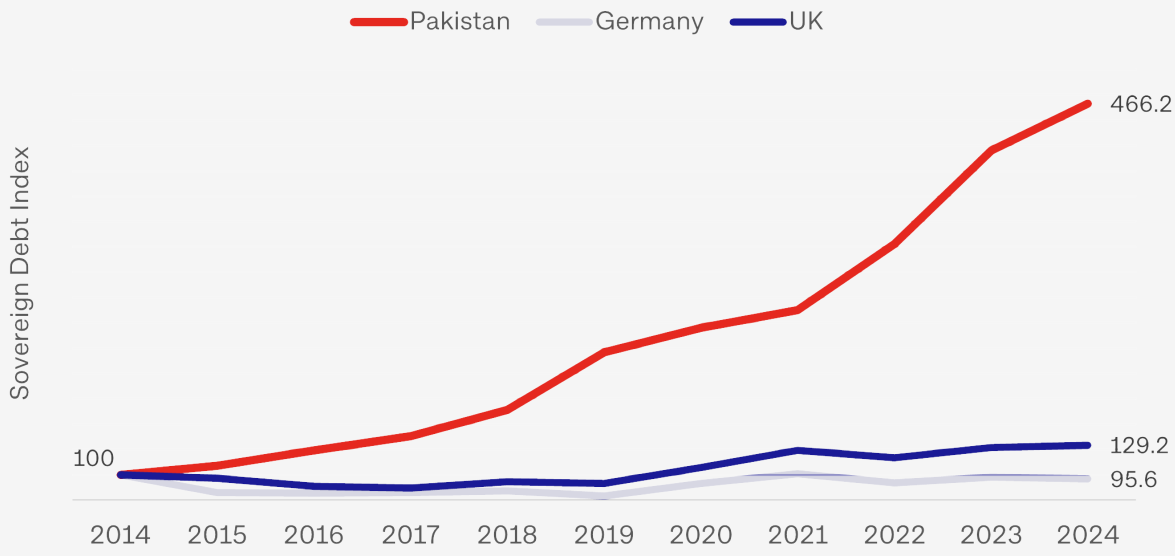
While total debt figures reveal the absolute rise in borrowing, a more telling indicator of sustainability is the ratio of debt to gross domestic product (GDP). GDP reflects the overall size of an economy, and comparing debt to GDP gives a sense of whether a country's income can support its borrowing. Figure 2 presents this comparison using an indexed format, where each country's debt-to-GDP ratio is set to 100 in 2014.[5] This illustrates how the ratio has evolved over time relative to the base year. An index value of 143 for Pakistan in 2023, for example, indicates that the debt-to-GDP ratio has grown by 43% since 2014. This means that debt is increasing far faster than the economy's ability to generate income to service it—an unsustainable trajectory that signals deepening fiscal stress. Meanwhile, in Germany and the UK, debt-to-GDP ratios have remained relatively stable, reflecting greater alignment between debt accumulation and economic growth.

Key respondents noted that Pakistan's rising sovereign debt has not translated into better public services or human development. Instead, borrowing is often politically driven, funding short-term infrastructure or recurrent spending with little lasting benefit. Debt growth has not been matched by higher domestic revenue or reforms to improve transparency and accountability.

Concerns also centre on debt structure: a large share is owed externally to bilateral and multilateral creditors, while heavy reliance on costly, short-term domestic borrowing heightens liquidity risks. This mix complicates debt management and leaves Pakistan especially vulnerable to shocks like currency depreciation or rising global interest rates.

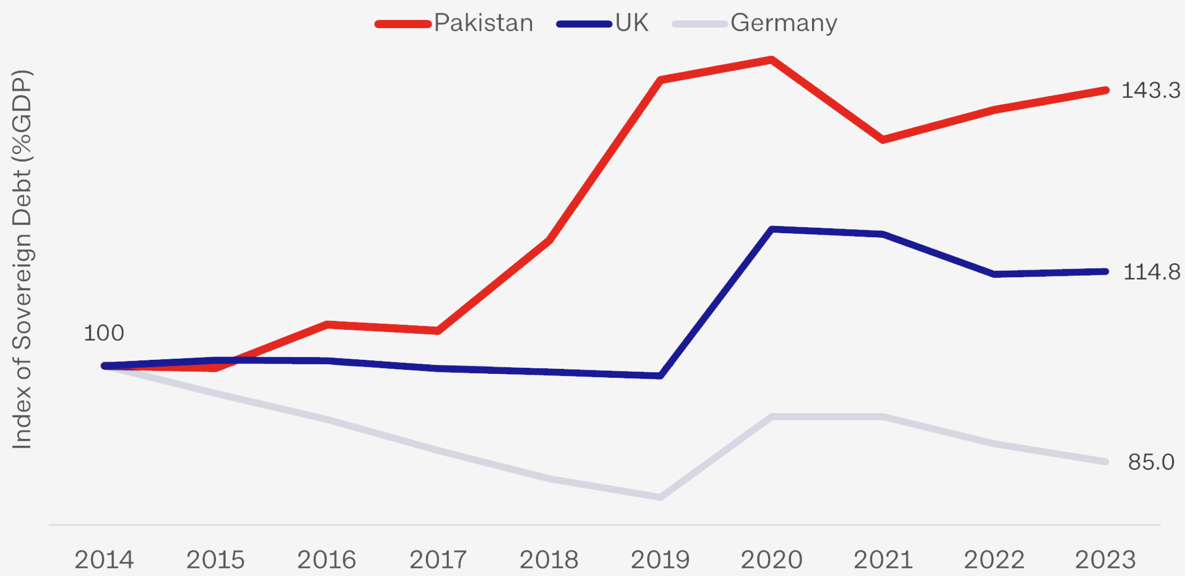
In this context, the prospects for sustained investment in health, education, and nutrition look increasingly fragile. As debt obligations grow and economic growth lags behind, Pakistan is locked in a fiscal pattern where inadequate resources undermine public services, and poor development outcomes in turn exacerbate economic instability—a cycle that reinforces itself and limits future progress. This is the essence of the doom loop at the heart of this case study.

Figure 1: Growth in Total Sovereign Debt
(Indexed: 2014=100)



Pakistan's sovereign debt has surged by 366% since 2014, far outpacing the UK and Germany.

Figure 2: Change in Sovereign Debt as a % GDP, 2014-2023
(Indexed: 2014=100)



Pakistan's debt-to-GDP has risen over 40% since 2014 - debt far outpacing growth and deepening fiscal pressure.

Borrowing to Repay: The Debt Servicing Crisis

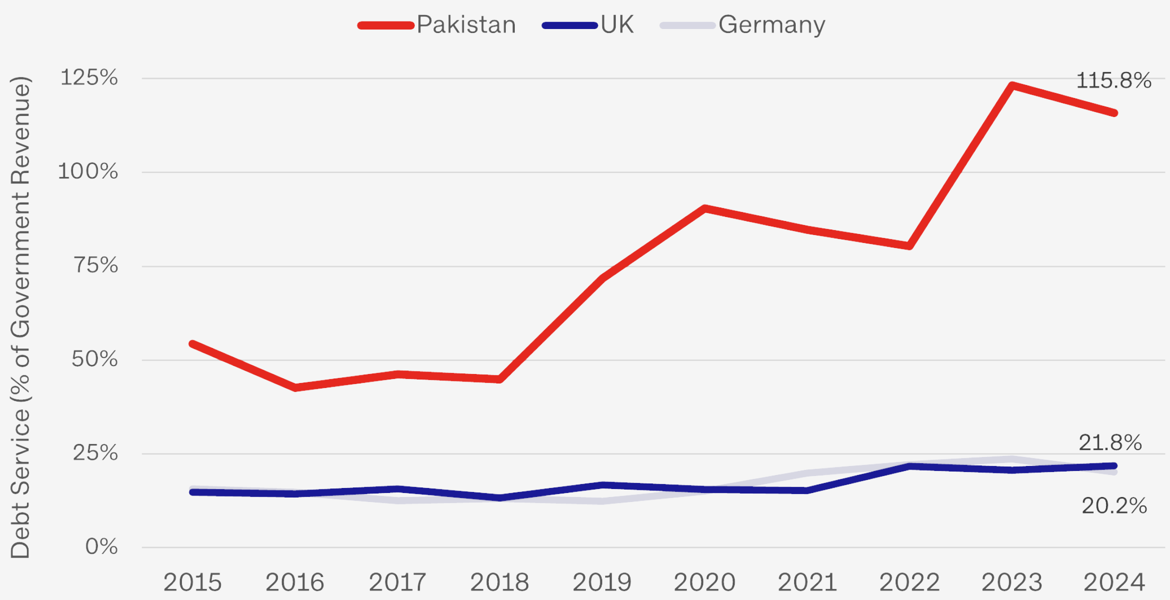
The most immediate manifestation of Pakistan's unsustainable debt trajectory is the mounting cost of debt servicing—the payments made to cover both the interest and principal on existing loans. When these costs rise faster than the government's ability to generate revenue, they place extraordinary pressure on national budgets. In Pakistan's case, this pressure has reached a breaking point.

As shown in Figure 3, debt servicing now consumes more than the government's total annual revenue.[6] By 2023, servicing obligations had soared to 115.8% of government revenue, a level that far exceeds that of many high-income countries. For comparison, Germany and the United Kingdom maintain debt servicing burdens of approximately 21.8% and 20.2% respectively. This means Pakistan is not just using all of its revenue to service debt—it must borrow more simply to keep up with existing repayments.

This debt spiral has immediate consequences. When governments allocate more money to creditors than they collect in revenue, it forces difficult trade-offs. In Pakistan, this has meant deprioritising investments in public health, education, and nutrition—sectors essential for breaking cycles of poverty and vulnerability. For families like Zainab's, the fallout is clear: under-resourced clinics, broken supply chains, and rising out-of-pocket costs for even the most basic nutritional and health services.

Adding to the burden is the structure of Pakistan's debt. A large share of servicing costs come from high-interest, short-maturity domestic instruments that must be frequently refinanced. But the burden of external

Figure 3: Pakistan's Rising Debt Servicing Burden Compared to the UK and Germany (2015–2024)



Pakistan's debt servicing now exceeds its total government revenue — and has more than doubled since 2018.

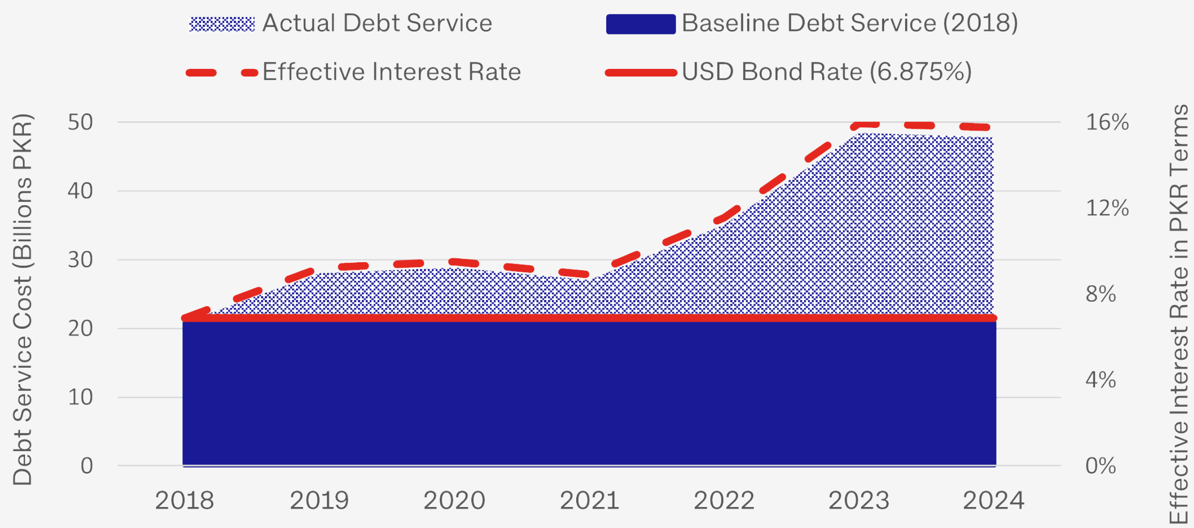
debt is especially volatile. Because external debt is often denominated in foreign currencies—most commonly US dollars—Pakistan must spend more in its own currency to repay loans when its currency depreciates.

Figure 4 illustrates this dynamic using the example of a 10-year US$-denominated bond issued by Pakistan in 2018 with a coupon rate of 6.875%.[7] While the initial cost of the loan may have appeared manageable, the depreciation of the Pakistan rupee has significantly increased the amount the government must pay in local currency to meet its interest obligations. In effect, the real—or effective—interest rate in rupee terms has more than doubled since 2018.

To unpack this, Figure 4 shows both the fixed US$-denominated interest rate and the rising cost of servicing that same loan in Pakistani rupees. As the rupee has weakened—from 0.0082 US$/PKR in 2018 to just 0.0036 in 2024—the local currency cost of repaying external debt has surged.[8] This means that even though the interest rate on paper has not changed, the government must allocate substantially more rupees each year to cover the same dollar-denominated interest. By 2024, the additional cost from currency depreciation alone amounts to nearly 28 billion PKR or US$100 million—an enormous increase relative to the original annual obligation.

This figure is not just technically significant—it carries deep human consequences. The 28 billion rupee increase in debt servicing costs is more than three times the entire 2024 budget for Pakistan's National Multisectoral Nutrition Programme to Reduce Stunting and Other Forms of Malnutrition.[9] In other words, the fiscal pressure caused by currency-driven debt escalation is directly competing with—and eclipsing—critical national

Figure 4: Annual debt service on Pakistan's $2.5B USD bond, adjusted for exchange rate depreciation



Currency depreciation has more than doubled the rupee cost of Pakistan's external debt.

investments in child health and nutrition. Redirecting even a portion of these excess costs toward nutrition could significantly accelerate efforts to reduce stunting and improve health outcomes for millions of children.

Respondents described this situation as a compounding trap. As the rupee weakens, external debt becomes more expensive to service, which consumes a larger share of the budget, further limits fiscal space, and often requires more borrowing. This reinforces the debt spiral, with social sectors and vulnerable populations bearing the brunt of the consequences.

The implications of this crisis are not theoretical. The inability to invest in essential services today translates into higher rates of malnutrition, preventable illness, and lost economic potential tomorrow. Without a significant course correction—including strategic debt relief, improved debt management, and protection of essential social spending—Pakistan's debt servicing burden will continue to derail its development progress and undermine the well-being of its people.

Fiscal Constraints are Undermining Responses to Malnutrition and Hunger

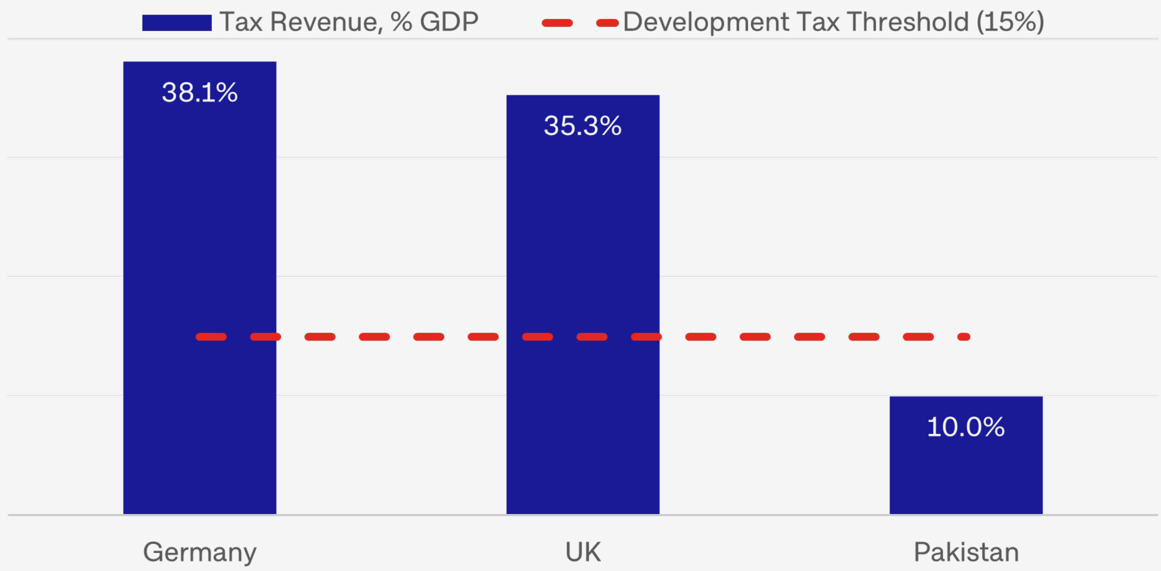
As Pakistan's debt servicing costs continue to escalate, the fiscal space available for essential government functions has become increasingly constrained. While the state continues to operate and deliver basic services, its ability to adequately fund critical sectors such as health, education, and nutrition is severely limited. This is not a case of complete fiscal paralysis, but rather one of distorted priorities—where survival-level debt obligations consume such a large share of the budget that little remains for human development.

This squeeze on public resources is clearly reflected in the country's tax revenue performance. Figure 5 illustrates that Pakistan's tax revenue as a percentage of GDP consistently falls well below the 15% threshold that international institutions regard as the minimum required to finance fundamental development objectives.[10] In 2023, Pakistan collected just over 10% of GDP in taxes—one of the lowest rates in South Asia.[11] This tax shortfall significantly constrains the government's ability to invest in long-term improvements to health and nutrition.

The health sector, in particular, has borne the brunt of these constraints. Public health expenditure as a percentage of GDP remains one of the lowest globally.[12] As shown in Figure 6, Pakistan spends far less than the World Health Organization's recommended benchmark of 5% of GDP to achieve universal health coverage.[13] For Pakistan, the figure has hovered between 1% and 2%, well below the level needed to support even basic

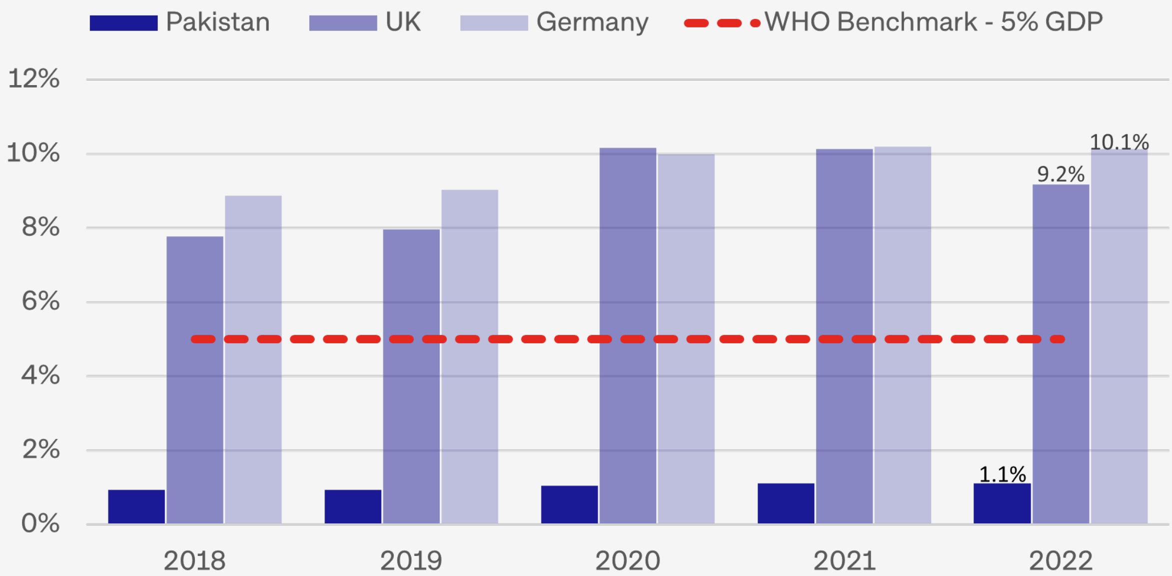
Photo by Haseeb Jamil on Unsplash

Figure 5: Tax Revenue as a Share of GDP Compared to Development Threshold (2023)



At just 10% of GDP, Pakistan's tax revenue lags far behind international norms, undermining fiscal space for health and nutrition.

Figure 6: Government Health Expenditure (%GDP), 2018-2022



Public investment in health—used here as a proxy for nutrition and other social services—remains far below international levels, underscoring barriers to equitable development outcomes in Pakistan.

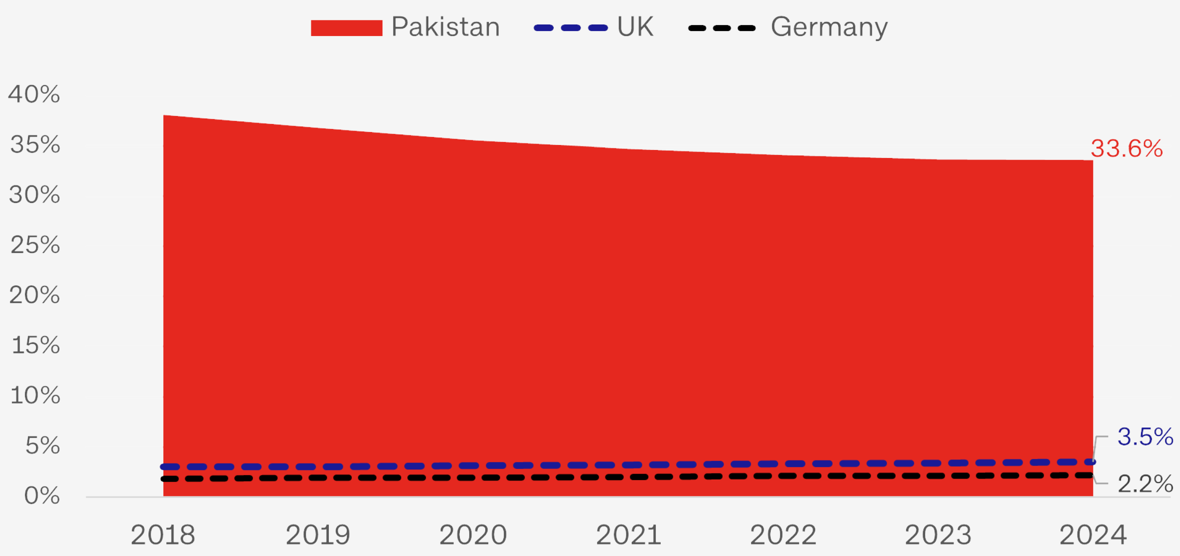
health infrastructure, let alone the additional services required to address malnutrition.

The consequences of this chronic under-investment are evident in the country's persistent malnutrition rates. Stunting among children under five remains alarmingly high and has shown little improvement over recent years. Figure 7 reveals that stunting rates in Pakistan have stagnated between 2018 and 2024, remaining more than ten times higher than those in high-income countries like Germany and the UK.[14] The failure to reduce stunting reflects the broader failure to invest in maternal and child nutrition programmes and address the social determinants of health.

Respondents echoed these concerns, expressing frustration that essential services are deprioritised in national budgeting processes. Several noted that even when funding is allocated to health and nutrition, it is often insufficient, fragmented across programmes, or plagued by delays. For families like Zainab's, this means continued reliance on inconsistent and under-resourced public services, with long-term consequences for child development, educational outcomes, and economic productivity.

Pakistan's collapsing fiscal space is not simply a financial issue—it is a matter of survival and equity. The erosion of health and nutrition budgets does not just undermine development goals; it undermines the right of every child to grow, learn, and thrive. Unless fiscal space is urgently protected and prioritised for social investment, the long-term human costs of today's budgetary choices will be profound and irreversible.

Figure 7: Stunting prevalence among children under 5 years, 2018-2024



Pakistan's child stunting rate is over 30%—a persistent public health challenge.

UK ODA Cuts and the Erosion of Nutrition Programmes

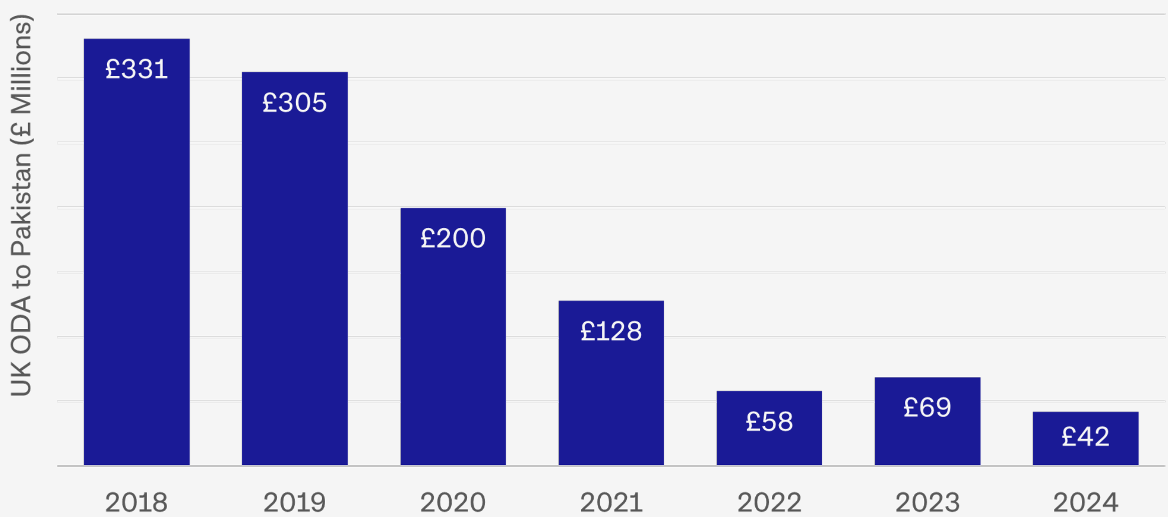
The United Kingdom has long positioned itself as a global leader in advancing nutrition, health, and poverty reduction, particularly through its EPD strategy. Pakistan, identified as a flagship country within this strategy, has historically been a significant recipient of UK development assistance, benefiting from both direct bilateral funding and support through multilateral institutions.

Until recently, the UK contributed to Pakistan's nutrition and health systems through a range of channels. These included bilateral programmes such as the Evidence for Health (E4H) initiative, as well as multilateral support to UNICEF, WFP, and the World Bank.[15] These investments played a vital role in sustaining essential services, particularly for women and children affected by malnutrition.

However, in recent years, this commitment has declined dramatically. Figure 8 shows the trajectory of UK bilateral ODA to Pakistan between 2018 and 2024.[16] ODA refers to government support designed to promote the economic development and welfare of developing countries. Over this six-year period, UK bilateral ODA to Pakistan fell by nearly 90%—a staggering decline for a country facing severe nutrition challenges. This sharp reduction in funding has had wide-reaching consequences for programme implementation, service continuity, and institutional partnerships at both federal and provincial levels.

The downward trend in UK support to Pakistan mirrors a broader shift in the UK's international development priorities. As shown in Figure 9, the UK's total ODA has steadily declined relative

Figure 8: Trends in UK Bilateral Overseas Development Assistance to Pakistan, 2018–2024



UK bilateral ODA to Pakistan has declined by nearly 90% between 2018 and 2024, reflecting shifting priorities and funding constraints.

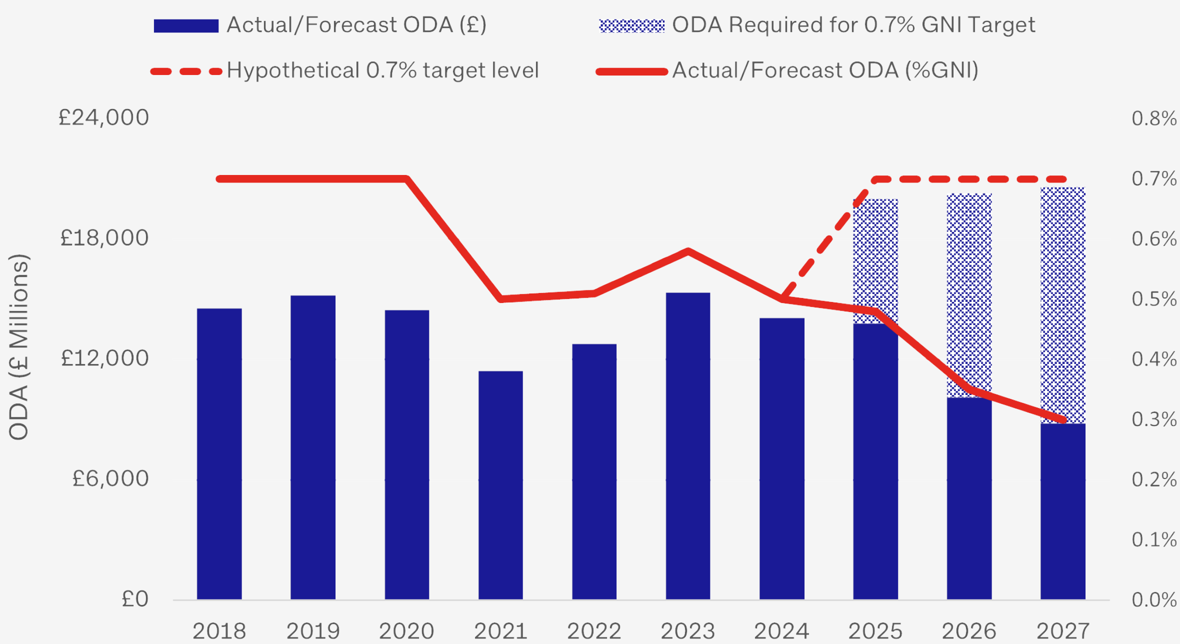
to its national income. In 2015, the UK passed legislation committing to allocate 0.7% of Gross National Income (GNI) to ODA—a benchmark recognised internationally as the minimum standard for donor responsibility.[17] However, this commitment has not been upheld. In 2021, the UK reduced the target to 0.5%, and in 2025, the government announced further cuts to ODA, leaving it at just 0.3% of GNI by 2027.[18]

Figure 9 shows this decline in two ways: the solid bars illustrate the actual and projected levels of UK ODA in pounds sterling, while the red line indicates the percentage of GNI allocated to ODA each year. The dotted bars represent the hypothetical amount that would have been required to maintain the 0.7% commitment. The growing gap between actual ODA and the 0.7% benchmark makes clear that the UK's retreat from its statutory commitment is not temporary but long term—raising serious concerns for countries like Pakistan that have historically relied on UK development assistance.

The ODA funding reductions have had an immediate and direct impact on programme implementation. UK bilateral ODA with a nutrition focus fell by about 73% between 2019 and 2023 when measured by total nutrition spend—declining from roughly £1.9 billion to about £0.5 billion.[19] With deeper ODA reductions signaled in 2025, this downward trend in nutrition spending is likely to persist. For Pakistan, this means tighter financing for proven interventions, heightening the risk of service interruptions in high-burden districts just as needs remain acute.

These cuts come at a time when Pakistan's domestic fiscal capacity is at its weakest. With debt servicing costs exceeding total revenue and government spending on health and

Figure 9: UK ODA Compared to 0.7% GNI Target, 2018–2027 (Actual and Forecast)



The gap between actual and 0.7% GNI-targeted ODA widens significantly from 2025, reflecting long-term funding constraints for UK development assistance.

nutrition among the lowest globally, the withdrawal of UK support risks collapsing critical gains. Respondents in Pakistan emphasised that the donor community—particularly the UK—has filled essential gaps in service delivery where government efforts fall short. They expressed concern that reduced external assistance would lead to further programme fragmentation, weakened coordination, and increased vulnerability among women and children.

The UK's retreat not only undermines progress on Sustainable Development Goal 2 (Zero Hunger) but also directly contradicts the ambitions of its own commitments to ending preventable maternal, child, and newborn deaths. Reinvesting in Pakistan's health and nutrition systems, especially through flexible and sustained financing for multilateral partners, is not simply a development priority—it is a moral and strategic imperative.

Photo by S. Laiba Ali on Unsplash

Recommendations for debt relief and nutrition investment in Pakistan

The findings of this case study point to a dangerous cycle where Pakistan's rising debt burden and servicing costs are eroding the country's ability to invest in nutrition, health, and human development. This fiscal squeeze has been exacerbated by declining external support, particularly from the UK. In order to interrupt this cycle, it is essential to reduce debt burdens, protect essential social spending, and ensure that debt restructuring and development strategies are better aligned with the goal of reducing malnutrition and hunger.

Recommendation 1

Safeguard Nutrition Spending in Debt and Fiscal Agreements

The UK government and its international partners should ensure that future debt restructuring and fiscal reform agreements involving Pakistan include binding protections for essential nutrition spending. As outlined in this case study, Pakistan's debt servicing costs now exceed total government revenue, leaving minimal fiscal space for investment in child health and nutrition. The UK, as a leading voice in the IMF and other financial institutions, should advocate for spending floors on maternal and child nutrition to be embedded within these programmes. Transparent monitoring mechanisms should accompany these safeguards to ensure that fiscal reforms do not erode the delivery of critical services to the most vulnerable.

Recommendation 2

Restore and Sustain UK ODA for Nutrition Through Trusted Multilateral Channels

Pakistan, is an important regional and strategic partner to the UK, and the UK should renew its financial support for nutrition in Pakistan. This case study has shown that UK bilateral and multilateral aid—including contributions to UNICEF and WFP—have declined sharply in recent years, despite Pakistan's high malnutrition burden and flagship status within UK global health policy. The UK should prioritise multi-year, flexible funding through trusted multilateral partners to ensure continuity of critical services. Investment should focus on high-burden districts, reinforce national strategies, and address gaps left by reduced domestic spending capacity.

Recommendation 3

Link Debt Relief to Measurable Improvements in Nutrition

Pakistan's debt challenges offer an opportunity to pilot innovative financing models that directly tie debt relief to improved development outcomes. Debt-for-nutrition swaps—where creditors agree to reduce debt in exchange for commitments to fund nutrition programmes—could provide a targeted and accountable mechanism to boost investment in human capital. As demonstrated in this case study, rising debt has crowded out social spending, and malnutrition rates have remained stagnant. Relief mechanisms should be linked to clear, measurable targets, such as reduced stunting rates or expanded coverage of community-based nutrition interventions, and include transparent reporting and evaluation components to ensure effectiveness.

Conclusion: a call to action

Pakistan's struggle with rising debt and declining fiscal space illustrates a stark global reality: that the cost of borrowing, when left unchecked, can overwhelm a state's ability to meet the basic needs of its population. In Pakistan, this burden has fallen disproportionately on those least able to bear it. As frontline services have been hollowed out and nutrition programmes underfunded, vulnerable communities have faced growing hardship.

The evidence presented in this case study highlights a dangerous feedback loop. High debt servicing costs are crowding out investment in essential services, while the lack of social investment undermines long term economic growth and resilience, necessitating further borrowing. This is the doom loop that must be broken.

Yet, Pakistan's case also offers opportunities for reform and leadership. By embedding nutrition protections in fiscal frameworks, ensuring sustainable debt relief, including by linking debt relief to development outcomes, it is possible to reverse this cycle. These solutions require coordinated action from creditors and lenders, the Government of Pakistan, international financial institutions, and donors, particularly the UK, given its historic role and stated policy priorities.

For mothers like Zainab, these reforms are not abstract policy shifts—they represent a lifeline. What is at stake is not just economic stability, but the health, growth, and dignity of the next generation.

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Cover photo by Rushi Shah on Unsplash

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Endnotes

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