New CAFOD analysis shows the impact UK debt action could make in the face of the damaging British aid cuts Maria Finnerty, Lead Economist, CAFOD

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Summary

- **According to new analysis from CAFOD, action to address the global debt crisis could produce net gains across water, sanitation, education and health – even in the context of dramatic aid cuts**, which were announced by the UK government one year ago today.
- Action to reduce debt payments for low-income countries at 10% of revenue would unlock new funds – delivering major gains in water and sanitation, restoring and growing school enrolment, and protecting health systems.
- Reversing aid cuts and action on debt must go hand in hand. Reducing debt payments from today's average of 18% of government revenue to 10% would trigger a "sovereign dividend" that would: **triple** the gains in water and sanitation compared to losses from UK aid cuts; **fully reverse** the fall in school enrolment; and **protect health systems** from collapse, saving hundreds of thousands of lives.

CAFOD's Analysis

The damage inventory from Britain's 2025 aid cuts makes for grim reading. 2.9 million fewer children in school, twelve million more people without access to clean water and sanitation, and more than 600,000 additional deaths from preventable diseases are the projected results of cuts to the UK aid budget.

Research from the University of St Andrews and Debt Justice UK shows that, if debt servicing costs for low-income countries were reduced to a more sustainable level of around 10% of government revenue, abundant fiscal space would be created. CAFOD's analysis shows that these new funds could be employed to dwarf losses from UK aid cuts across health, education, and water and sanitation.

In water and sanitation, the gains would be nearly threefold. Whilst 12 million people lose access due to Britain's aid cuts, reducing debt servicing costs to around 10 per cent of government revenue could provide 11 million people with clean water and 23 million with basic sanitation – 34 million in total.

In education, the numbers are equally compelling. The 2.9 million children pushed out of school by aid cuts would be matched by 3 million additional students along with 251,000 newly recruited teachers. Not only would the decline be arrested; enrolment would grow.

In the healthcare sector, while the gains are significant, they serve to mitigate rather than fully offset the loss of highly specific vaccine programs – but they provide a more sustainable long-term funding model. The St Andrews research shows that a 10% cap would save approximately 43,500 lives annually (38,000 children and 5,500 mothers) by allowing governments to fund their own health systems. Aid cuts remove

vaccines, but high debt servicing removes hospitals and doctors. By ensuring 80% of LICs do not see their health spending collapse, debt relief provides the "floor" that prevents the health crisis from spiralling further.

The power of the UK to act

Due to the City of London's role as a global financial centre, 90 percent of debt owed to private creditors by the world's poorest countries is governed by English law. Under existing rules, these private lenders are allowed to charge extortionate interest rates on the grounds that there is a risk that they may not get paid back in full – and yet insist on being paid in full when these risks materialise. Instead of cooperating in debt relief negotiations, they can take legal action against debt-distressed countries in UK courts.

The case of South Sudan illustrates the system's predatory logic. In 2024, a for-profit bank sued the country through UK courts whilst its citizens faced starvation, prioritising interest payments over humanitarian catastrophe. British courts, applying English law, ruled in favour of the bank.

Britain has the power to act and a precedent for doing so. In 2010, Parliament passed the Debt Relief (Developing Countries) Act, compelling private creditors to cooperate in debt relief for the poorest countries. The legislation worked. A subsequent government review found no adverse consequences for the UK economy – on the contrary, lending through London tripled in the following years.

That legislation is now outdated, creating an urgent need for a new Debt Justice Law compelling profitable private lender to cooperate in debt relief negotiations. The mechanics are straightforward: make loan enforceability in British courts contingent upon reasonable participation in negotiations.

The UK's influence goes beyond domestic legislation. As a major shareholder within the IMF and World Bank, and with the recent announcement that the UK will assume the G20 Presidency in 2027, the government has a historic opportunity to show leadership in building fair and functional rules and structures to govern global debt.

Full statistics

Water and Sanitation: Gains are Nearly 3x the Losses from UK Aid Cuts

The most decisive evidence that debt relief outweighs aid cuts is found in the Water, Sanitation, and Hygiene (WASH) sector. The number of people gaining access through a 10% debt cap significantly exceeds the number losing access due to the cuts.

- The Negative Impact (UK Aid Cuts):
    - Save the Children estimates that UK aid cuts will leave 12 million people without access to clean water or sanitation.
- The Positive Impact (10% Debt Service Cap):

    - The St Andrews research finds that if debt service payments were capped at 10% of revenue, 11 million people would gain access to clean water and 23 million people would gain access to basic sanitation.
    - Total Gained: 34 million people.
- The Net Result:
    - The 34 million people gaining access through debt reform is nearly three times higher than the 12 million losing access due to UK aid cuts. In this sector, debt action completely eclipses the negative impact of the withdrawal of UK aid.

Education: A Net Positive for School Enrolment

In the education sector, reducing debt servicing to 10% creates enough fiscal space to reverse the "lost learning" caused by aid cuts, creating a net increase in global student numbers.

- The Negative Impact (UK Aid Cuts):
    - Save the Children projects that 2.9 million fewer children will be in education compared to 2019 levels due to the cuts.
- The Positive Impact (10% Debt Service Cap):
    - The St Andrews research calculates that capping debt service at 10% would allow 3 million additional children to attend school.
    - It would also fund the recruitment of 251,000 additional teachers.
- The Net Result:
    - Even after accounting for the 2.9 million children pushed out of school by aid cuts, the 10% debt cap would fill those places and add a further 100,000 students to the global roll. Debt action effectively neutralizes the UK aid cut in education, preventing a generational decline in enrolment.

Healthcare and Survival: A Critical Mitigation

While aid cuts to specific commodity programs result in high immediate projected losses, debt relief provides the structural funding necessary to keep health systems functioning.

- The Negative Impact (UK/Global Aid Cuts):
    - ONE Campaign warns of 606,000 fewer deaths averted (over 5 years) and 37.9 million fewer immunizations due to cuts to specific disease programs.
    - The World Bank warns that 80% of low-income countries will see health spending drop by 2030.

- The Positive Impact (10% Debt Service Cap):
    - The St Andrews research shows that a 10% cap would save approximately 43,500 lives annually (38,000 children and 5,500 mothers) by allowing governments to fund their own health systems.
- The Net Result:
    - While the "lives saved" figure from debt relief (approx.. 217,000 over 5 years) is lower than the projected loss from the specific Gavi cuts (606,000), debt relief addresses the World Bank's structural warning.
    - Aid cuts remove vaccines, but high debt servicing removes hospitals and doctors. By ensuring 80% of LICs do not see their health spending collapse, debt relief provides the "floor" that prevents the health crisis from spiralling further.

Summary

The statistics confirm that the financial burden of debt servicing (currently averaging 18% of revenue) is a primary driver of resource scarcity.

By reducing this burden to 10%, the international community could trigger a "sovereign dividend" that:

1. Triple-offsets the loss of water and sanitation access caused by UK aid cuts (34m gained vs 12m lost).
2. Fully reverses the decline in school enrolment (3m gained vs 2.9m lost).
3. Mitigates the loss of life from health aid cuts, while preventing the systemic collapse predicted by the World Bank.

Sources

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