

DEBT PAUSE CLAUSES CONFRONT THEIR FIRST DISASTER: FROM HURRICANE BERYL TO BROADER POLICY MOMENTUM



BRIEF

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About the Centre for Disaster Protection

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KEY MESSAGES

- Notable progress has been made in the provision and adoption of debt pause clauses, especially among small island developing states. However, they are currently not widespread across all borrowers and creditors.
- Scaling up the adoption of debt pause clauses remains a high priority on the international policy agenda, including at the Fourth International Conference on Financing for Development in July 2025.
- These clauses were triggered for the first time in 2024, since being pioneered by Grenada in 2015. Two Caribbean small island states – Grenada, and St. Vincent and the Grenadines (SVG) – used them to defer debt payments to bondholders and the World Bank, respectively, after being hit by Hurricane Beryl.
- In both cases, the pause clauses provided timely and reliable liquidity relief. Each government also used them as part of a broader risk financing strategy that included other pre-arranged financing instruments, some of which provided substantial payouts after Beryl.
- The Government of Grenada's absence from international capital markets since adopting debt pause clauses, coupled with limited adoption among private sector creditors, means there is still significant uncertainty regarding the potential unintended consequences of triggering these clauses. Concerns primarily centre on their impact on pricing and market perception.

Given that pause clauses are one option in an evolving toolkit for building fiscal resilience, and the empirical evidence remains limited, this paper makes the following recommendations:

- i. All creditors offering pause clauses should clearly communicate to borrowers and the wider public what types of crises and losses the clause is designed to trigger for. Where parametric triggers are used, creditors should publish information on the trigger structure along with a statement of what the triggers are intended to proxy (e.g. GDP impact, number of people affected, or the cost of the government's response to the shock) to facilitate understanding, learning and accountability.
- ii. Governments, with support from development partners, need to develop the capabilities to assess the potential benefits, costs and risks of using pause clauses given their specific objectives and context, and to make informed decisions.
- iii. Multilateral development banks (MDBs) should carefully assess the costs and benefits of offering pause clauses to their borrowers relative to other interventions they could potentially offer, particularly if doing so requires building liquidity buffers or using scarce donor funds to cover costs. When MDBs offer multiple instruments for managing disaster risks, they should aim to maximise complementarities between them.
- iv. Creditors considering a veto mechanism that could block a deferral request should establish clearly defined, pre-agreed rules for its use. These rules should be transparent to help manage expectations and minimise reputational risks.
- v. All stakeholders should identify the conditions likely to be critical for the effective use of pause clauses (such as debt transparency) and ensure that clause design and implementation promote these conditions without placing excessive burdens on borrowers.

1. INTRODUCTION

This policy brief provides an update on a relatively new instrument in the pre-arranged financing¹ toolkit, debt pause clauses (also known as climate resilient debt clauses, natural disaster clauses or hurricane clauses). It builds on the Centre for Disaster Protection’s earlier publication on these clauses (Mustapha et al., 2023) and recent technical discussions (CRDC WG, 2025). These clauses are designed to give the sovereign borrower (henceforth “the borrower”) the option to defer its debt payments (interest and/or principal) to the creditor for a pre-agreed period, following the occurrence of a pre-defined event. These events are typically severe exogenous shocks outside the control of the borrower – such as geophysical hazards, climate-related shocks, pandemics and epidemics – for example, hurricanes exceeding a certain wind speed or the government’s official declaration of a national emergency. The key features of these clauses are summarised in Box 1.

Importantly, the creditor composition of external debt typically includes three broad categories, each of which face different challenges in offering pause clauses.

- **Official bilateral creditors:** A government (or government entity) that lends to another government.
- **Multilateral creditors:** International financial institutions such as the IMF, the World Bank or regional development banks that lend to their member countries. These creditors enjoy preferred creditor treatment (PCT) in relation to their sovereign lending, meaning that they are expected to be repaid even if the borrower restructures private or bilateral debt.
- **Private creditors:** Commercial lenders and bondholders that lend to governments on commercial terms determined by market forces.

Scaling up the adoption of debt pause clauses remains a priority on the international policy agenda. The final draft of the Outcome document of the Fourth

BOX 1: KEY FEATURES OF A DEBT PAUSE CLAUSE

1. A debt pause clause and its terms are pre-agreed in a debt contract before the deferral event occurs. This is essential so that triggering the deferral is not seen as a type of default or ex-post restructuring, which would otherwise potentially hurt the credit rating of the borrower or creditor or have adverse legal consequences. The deferral events covered, corresponding triggers and terms of deferral need to be clearly specified in the debt contract and adhered to by the borrower. Importantly, some creditors allow borrowers to amend existing debt contracts to include the clause (but only before a deferral event occurs).

2. A debt pause clause is not triggered automatically when a pre-defined event occurs; the borrower must formally request it. This discretion is important, as most debt contracts limit the number of times a borrower can trigger the clause over their duration.

3. A debt pause clause provides a deferral that is net present value neutral. The triggering of the debt deferral does not cancel the debt payments and should not result in financial losses for creditors. This is typically achieved by maintaining the original final maturity date of the debt, and/or accruing additional interest on deferred interest until it is fully repaid.

4. The size of relief provided by triggering a debt pause clause depends on the amount of outstanding and disbursed debt covered by the clause, as well as other parameters. In the case of the World Bank and Inter-American Development Bank (IDB), relief is limited by restrictions on the clause being triggered within a certain time period before the first amortisation date or the maturity date. A borrower must also be current on its previous loan payments at the time of deferral request, with no arrears owed to the creditor.

5. Triggering a debt pause clause is not considered an event of default by credit rating agencies. The clauses are part of the pre-agreed terms and conditions of the debt instrument, and lenders know upfront the set of events under which they can be triggered. Any deferral needs to comply with the terms and conditions in the transaction documents.

1 Pre-arranged financing refers to financial mechanisms secured in advance of a crisis; instruments such as contingent loans, contingent grants, debt pause clauses and insurance, which activate automatically when specified triggers are met, ensuring rapid and predictable financial support. It differs from financing arranged aftershocks like most international assistance which tend to be highly discretionary and unpredictable.

International Conference on Financing for Development, published in June 2025, continues previous calls for various creditors to scale up “climate resilient debt clauses and debt pause clauses, where appropriate, to ensure the possibility of debt service suspension during times of crises, disasters and shocks” (United Nations, 2025). Although not yet widespread, there have been some critical advancements in the design and implementation of these clauses since they rose to prominence in 2022 via the Bridgetown Initiative. Several actors currently offer the clause (Inter-American Development Bank, World Bank, United Kingdom, Canada, France and Spain) or are planning to offer the clause (Australia, African Development Bank, European Bank for Reconstruction and Development, and the Asian Development Bank). The World Bank also broadened the scope of its clause to include a wider range of disasters.

Purpose and structure of this brief

Prior to Hurricane Beryl in 2024, no borrower had ever triggered a debt pause clause from any creditor, whether official bilateral, multilateral or private.

This policy brief has two aims. First, to highlight what we have learnt (and not learnt) about debt pause clauses from their use in responding to the devastating impacts of **Hurricane Beryl** in Grenada and St. Vincent and the Grenadines. It is not intended to be a comprehensive evaluation of these clauses. Second, to provide an

update on debt pause clauses more broadly, based on various policy developments since the Centre’s earlier publication (Mustapha et al., 2023).

With respect to Beryl, we answer the following three questions:

- i. Did the debt pause provide **timely and reliable liquidity relief to the borrower** following the deferral request?
- ii. Did the fiscal space created by the deferral help to **finance disaster response and recovery**?
- iii. Will the triggering of debt pause clauses in response to Beryl pave the way for **widespread adoption across borrowers and creditors**?

Section 2 provides a brief overview of the impact of Hurricane Beryl on Grenada and SVG and the subsequent budgetary response by their respective governments. Section 3 assesses the timeliness and reliability of these clauses triggering when needed. Section 4 investigates the effectiveness of the deferral in financing disaster and recovery. Section 5 discusses the challenges and opportunities in scaling up these clauses. Section 6 concludes with the key lessons learnt and policy recommendations for ensuring that pause clauses are an effective instrument for arranging finance ahead of shocks.

2. BERYL'S IMPACT ON GRENADA AND ST. VINCENT AND THE GRENADINES

Hurricane Beryl formed as a tropical storm on 30 June 2024 and intensified into a major Category 5 Hurricane within 48 hours. Between 1 and 4 July, it impacted several Caribbean islands including Grenada, St. Vincent and the Grenadines, Barbados, Saint Lucia and Jamaica. The greatest damage occurred in SVG and Grenada, where Beryl made landfall as a Category 5 storm.

While most of their populations were spared from the worst effects of the storm, Grenada's northernmost island of Carriacou and SVG's southern Union Island experienced catastrophic levels of damage. The World Bank's rapid damage assessment estimated total economic damage in SVG of around USD230 million, or 22% of GDP. In Grenada, this figure was USD219 million, or approximately 16.5% of GDP (Rashmin et al., 2024a; 2024b). These estimates indicate the significance of Beryl's impacts.

Although an unfortunate event, Hurricane Beryl also became an important milestone in advancing the debt pause policy agenda, for two reasons:

- 1. Rolling out debt pause clauses:** It expedited the adoption of these clauses in the Caribbean, with the World Bank signing the clauses with six countries² (including Grenada and SVG) as Beryl approached and intensified to a Category 4 hurricane (World Bank 2024).
- 2. Triggering debt pause clauses:** Debt pause clauses were triggered for the first time by two countries and for two different types of creditors. SVG paused its payments of USD3 million to the World Bank, while Grenada paused interest payments of USD12.5 million to bondholders due on 12 November 2024 and 12 May 2025.³

Furthermore, to support relief and recovery efforts, the Governments of SVG and Grenada also enacted supplementary budgets⁴ of approximately USD50 million and USD100 million respectively (Government of St. Vincent and the Grenadines 2024; Government of Grenada 2024a). Substantial portions of these budgets – 40% for SVG and 64% for Grenada – were covered by Beryl-related payouts from a suite of other pre-arranged financing instruments that each government had put in place prior to the disaster (Figure 2). This included:

- **Caribbean Catastrophe Risk Insurance Facility (CCRIF) payouts:** Both governments received payouts from their parametric insurance policies with their regional risk pool, CCRIF. Grenada received USD44 million⁵ – its first CCRIF payout – while SVG received USD1.8 million.
- **Contingent disaster loan disbursements:** Only Grenada had a contingent loan from the World Bank (known as a Catastrophe Deferred Drawdown Option (Cat DDO)) in place at the time of Beryl (approved in 2020). This provided USD20 million in concessional funding under IDA terms. SVG previously had a Cat DDO, but this was drawn down in 2021 following the eruption of the La Soufrière volcano and not renewed until 2025.
- **Contingencies fund:** SVG used USD18.5 million from its self-insurance Contingencies Fund, whereas Grenada did not access its Contingency Fund to finance Beryl activities (Government of Grenada, 2025a).

The experiences of Grenada and SVG demonstrate the importance of using debt pause clauses as part of a multi-layered country disaster risk management system, alongside other pre-arranged financing instruments. Moreover, these pre-arranged financing instruments

2 The World Bank was in the process of rolling out these clauses even before Beryl.

3 These payments were added to the bond's lump sum "principal" payments due pro rata at the bond's maturity in 2030.

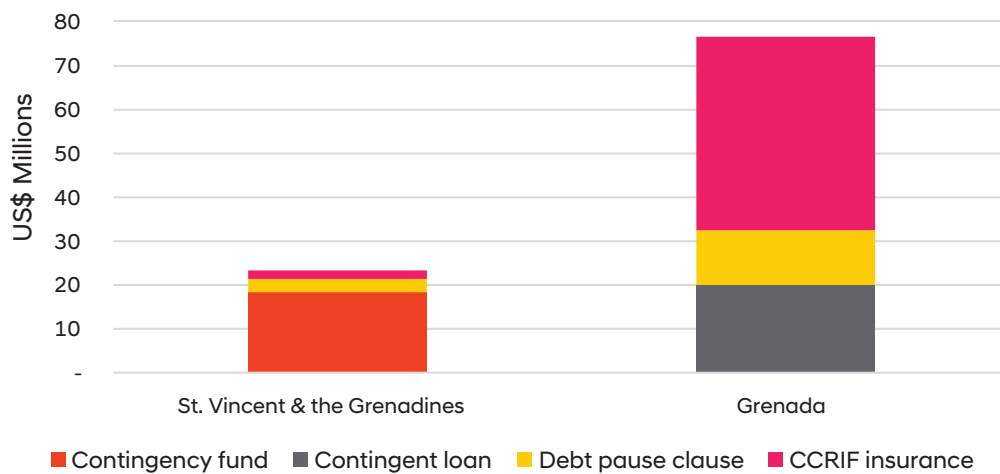
4 Changes to the budget are authorized by the legislature through a supplementary budget. It is generally required when allocations for the government's expenditure cannot be found within the existing budget appropriation. Budget reallocations from triggering the debt pause clauses are not included in the supplementary budget.

5 State-owned water and electricity companies received a catastrophe insurance payout of USD11.5 million from CCRIF.

provided immediate liquidity support to both governments, helping contain the hurricane’s impact on their debt levels⁶ and reduce budget volatility (IMF, 2024; 2025). In fact, the deferral of its bond payments does not appear to have adversely affected Grenada’s key debt sustainability metrics (Government of Grenada 2025b; IMF 2025).

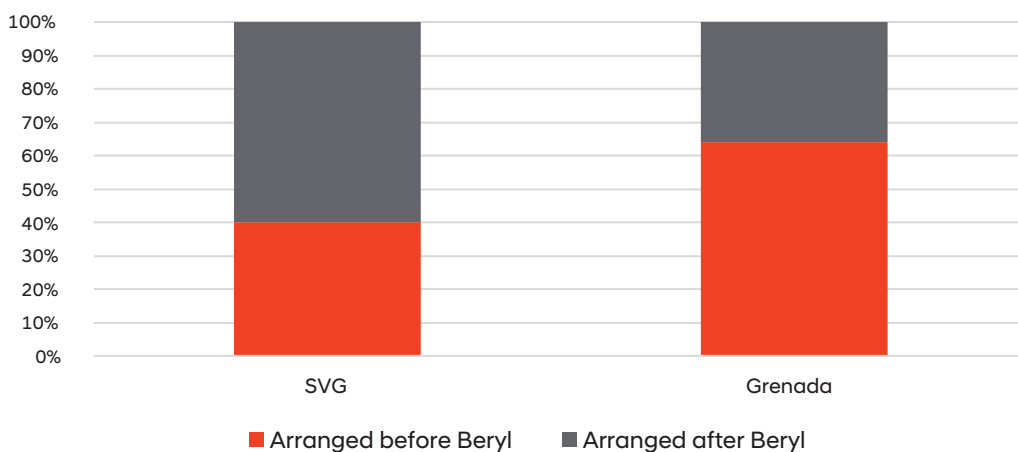
Note: The amount of liquidity relief from these clauses could have been greater if a larger proportion of the debt stock had included them (see creditor composition of external debt service in Annex). However, in the absence of publicly available disaggregated debt service projections, it is not possible to estimate the size of the deferral at the time of Beryl had these debt clauses applied to the entire external debt stock. Furthermore, we cannot say whether either government would have triggered all eligible clauses.

Figure 1: Payouts from pre-arranged financing instruments for Beryl response and recovery



Source: Caribbean Times, 2025; Government of St. Vincent and the Grenadines, 2024; Government of Grenada 2024a; IMF 2025

Figure 2: Share of supplementary budgets financed using instruments arranged before Beryl



Source: Caribbean Times, 2025; Government of St. Vincent and the Grenadines, 2024; Government of Grenada 2024a; IMF, 2025

6 Grenada remains in public debt distress due to large and longstanding unresolved arrears to official bilateral creditors. However, both external and public debt, are assessed as sustainable, as the country retains the capacity to meet its current and future debt service obligations without requiring debt relief or accruing additional arrears (IMF, 2025).

3. TIMELINESS AND RELIABILITY OF DEBT PAUSE CLAUSES

Effective pre-arranged financing is timely and reliable. To ensure an instrument provides support when it is needed, it must be triggered at an appropriate time for the actions it is intended to fund. Most pre-arranged financing instruments provided by international actors – contingent disaster loans from the multilateral development banks and catastrophe insurance from the regional risk pools like CCRIF – are typically intended to provide short-term liquidity and cover the cost of immediate response and recovery. They are rarely expected to cover longer-term, more costly actions such as reconstruction, which MDBs tend to finance via investment loans that are approved after the event. Most pre-arranged financing instruments are therefore designed to trigger and payout quickly after a pre-agreed event. The speed of the decision-making process – from the country’s request to trigger the clause to the provider’s confirmation that conditions are met – is therefore critical.

The Centre’s research finds that most pre-arranged financing instruments from international financial institutions have a proven track record in providing timely payouts that are highly valued by governments (Mustapha and Benson, 2024). Some contingent disaster loans and grants from the MDBs, for example, have disbursed within 48 hours of a government’s request. Even catastrophe insurance payouts from CCRIF, which require more complex calculation and verification from third parties, have generally been disbursed within 14 days of an eligible event.

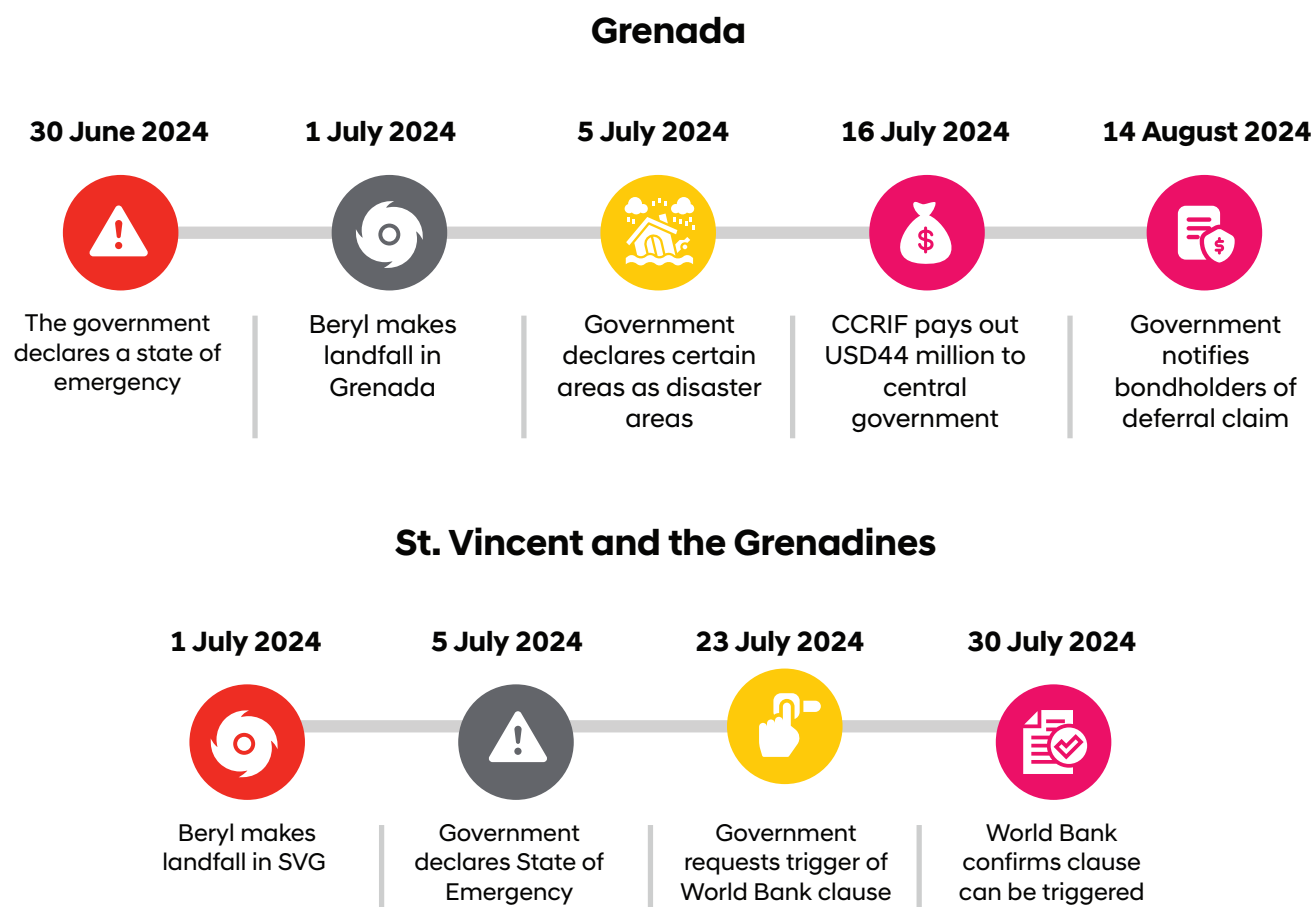
Importantly, the timeliness of the liquidity relief from a debt pause is enhanced by the fact that it does not directly rely on money flowing in from a third party,

such as a MDB or insurance provider. A debt pause is essentially the government reallocating its own budget from one area of planned expenditure to another: for example, from planned interest or principal repayments to unplanned emergency relief and recovery. In fact, budget reallocations are often an old friend for fiscally constrained governments dealing with an unexpected shock. The key advantage of using a debt pause clause is that budget reallocation is ‘financed’ by pausing debt payments, rather than cutting other vital spending, such as infrastructure, which could exacerbate the economic fallout of a disaster. Debt pause clauses can therefore give governments precious breathing space when they urgently need it. The key implicit assumption is therefore that the country had sufficient fiscal space to pay the creditor prior to the event. A debt pause clause is likely to be of limited use in countries already facing deeper debt sustainability issues prior to the disaster. However, if adopted at scale, it could help prevent a temporary liquidity crisis⁷ from becoming a sovereign default and protracted debt crisis.

The experiences of Grenada and SVG shows that debt pause clauses can provide liquidity relief in a timely manner (Figure 3). The World Bank notified the SVG government that its deferral was approved within seven days of its request, and within 30 days of the event. Given Grenada’s use of parametric trigger linked to its CCRIF policy rather than a Declaration of Emergency, it had to wait for CCRIF’s report before it could submit a request to the bondholders. Although this was received within two weeks of the event, the Government of Grenada then notified bondholders on 14 August 2024 that the deferral conditions were met and it was triggering the clause (Government of Grenada, 2024b). This is within five weeks of receiving notification from CCRIF and within seven weeks of Beryl making landfall.

⁷ A liquidity crisis relates to a short-term cash flow problem when the government’s available liquid assets are insufficient to meet its maturing debt obligations and it cannot rollover its debt obligations with creditors. However, the debt is not considered unsustainable.

Figure 3: Timeline in triggering debt pause clause after Beryl



However, it is important not to generalise from only two cases, especially as various actors, including other MDBs and private creditors, are still exploring how to structure these clauses, including choosing appropriate triggers. Poorly designed triggers risk preventing pause clauses from being activated when needed. The wider pre-arranged financing space offers numerous examples of parametric triggers failing (based on modelled event data to measure the intensity of an event) (Mustapha and Benson, 2024; Lung, 2020; Meenan 2020). Addressing potential points of failure in advance, for example, pre-agreeing secondary triggers for a primary parametric trigger, is critical to ensuring that pause clauses provide timely and reliable relief.

All creditors offering these clauses should also ensure that the kinds of losses the clause is designed to trigger

for are clear to both the borrower and the wider public. Where parametric triggers are used, creditors should publish information on the trigger structure along with a statement of what the triggers are intended to proxy (such as GDP impact, number of people affected or the cost of the government’s response to the shock). Currently, most providers of parametric instruments tend to share insufficient public information to facilitate external assessment of trigger quality or to allow for external verification of trigger activation (Mustapha and Benson, 2024). A third-party opinion should be sought from an impartial actor to assess whether the trigger meets an agreed set of good practices, especially for new instruments. Like any other pre-arranged financing instrument, well-designed triggers are essential for debt pause clauses to provide timely liquidity relief.

4. USING DEBT PAUSE CLAUSES TO FINANCE RESPONSE AND RECOVERY

The primary objective of debt pause clauses is to free up government resources to finance disaster response and recovery efforts (World Bank 2024; PSWG, 2022). As discussed above, the debt deferrals for Grenada and SVG effectively provided liquidity relief in a timely manner. However, not much can currently be said beyond this in terms of what was financed by that relief. This is the norm for most sovereign-level instruments that arrange financing ahead of shocks.

With a few exceptions, most pre-arranged financing instruments provided to governments by international financial institutions are designed to provide budget-like support, largely giving governments complete discretion in using funds to cover public expenses with little to no reporting requirements (Mustapha and Benson, 2024). This is in contrast to explicitly earmarking money for specific expenditures in a contingency plan (as in the case of catastrophe insurance payouts from the African Risk Capacity), or requiring the government to show receipts as proof (as in the case of IDB's contingent disaster loan via its Contingent Credit Facility). Despite the limited line of sight to beneficiaries, budget support offers several potential advantages that may lead to a more effective disaster response in some countries. In particular, channelling funds completely through a country's own system can increase country ownership and make it easier to align support with the government's priorities.

Furthermore, onerous reporting requirements and excessive earmarking are likely to be frowned upon given the nature of the deferral. As explained in Box 1, creditors are repaid in full and do not incur a loss (or in technical terms, the relief is net present value-neutral). The deferral differs from the debt forgiveness provided under previous debt relief initiatives.⁸ In addition, requiring governments to report on how each deferred dollar is spent can be a tedious and inefficient process,

especially if the amount of relief is small compared to other sources of pre-arranged finance⁹, as was the case for both Grenada and SVG (see Figure 1). Relatedly, it may even discourage countries from taking up and triggering these clauses if the conditions are seen as so overly intrusive and onerous they are ultimately not worth the effort.

That said, scaling up debt pause clauses without considering a government's capacity to effectively plan and respond to disasters is short-sighted and a potential missed opportunity. Importantly, the IMF and World Bank created a fairly straightforward Fiscal Monitoring Framework for G20 Debt Service Suspension Initiative (DSSI) that allowed the world's poorest countries to suspend repayment of official bilateral credit from May 2020 to December 2021. Spending was monitored by requiring beneficiary governments to use their existing public financial management (PFM) reporting systems to report on their COVID-related expenditure at a fairly aggregate level (as described in Box 2).

However, there is significant variation in the quality of public financial management instruments, systems and processes across countries. A review of the disaster resilience of PFM systems in the Caribbean,¹⁰ conducted by the World Bank, revealed weaknesses in existing systems and practices. In particular, fiscal responses to disasters are often neither strategic nor efficient, and emergency finance procedures are often undocumented, ad hoc, coincidental and sometimes inefficient (April and Zrinski, 2021). Strengthening PFM systems is therefore essential for some governments to effectively use pre-arranged financing instruments to enhance their preparation, response and resilience to disasters.

Recognising the importance of strengthening governments' systems, the IDB has linked its pause clause with its

8 The Heavily Indebted Poor Countries Initiative and related Multilateral Debt Relief Initiative programs have relieved 37 participating countries of more than USD100 billion in debt.

9 Some of the regional risk pools, including CCRIF, require governments to self-report on the use of payouts within six months of receipt. However, these are not always received within six months, nor are the details independently verified (Mustapha and Benson, 2024).

10 This included Antigua and Barbuda, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Lucia, Saint Vincent and the Grenadines, and Suriname.

BOX 2: FISCAL MONITORING FRAMEWORK FOR THE G20 DEBT SERVICE SUSPENSION INITIATIVE

The G20 group of countries create the Debt Service Suspension Initiative to help the world's poorest countries cope with the fallout of the COVID-19 crisis. It did this by offering 73 eligible countries a temporary suspension of 'official sector' or government-to-government debt payments from May 2020 to December 2021. Importantly, the debt payments covered are not forgiven but delayed, with a repayment period of five years and a one-year grace period. Although the DSSI provided net present value-neutral debt deferrals, like the debt pause clauses, the key difference between the two is timing. The DSSI was arranged after a disaster (the COVID-19 pandemic) had occurred, whereas debt pause clauses are arranged before disaster strikes.

The DSSI required that countries use the fiscal space created to increase social, health or economic spending in response to the crisis. The monitoring framework created by the World Bank and IMF largely involved monitoring aggregate spending, consisting of the following two elements:

1. A commentary which included information on the economic impact of the COVID-19 pandemic, governments' response to the crisis, and financial support received from international financial institutions and bilateral lenders. It also presented the measures countries had undertaken to strengthen domestic accountability and transparency arrangements, including tracking COVID-19-related spending.
2. A fiscal table which showed data on revenue and spending aggregates, debt service, and COVID-19-related policy measures undertaken by the authorities (for prevention and containment of the crisis, and to provide support to households, businesses, state-owned enterprises and government entities). It also reported priority spending aggregates, such as spending on health, education, and the social protection system or social assistance, and estimates of revenue losses due to policy measures.

Source: Adapted from IMF and World Bank, 2021

Contingent Credit Facility (CCF) loan. The CCF loan in turn requires that countries have a programme in place to strengthen their broader disaster risk management (DRM) capacities. No debt pause clauses from any other creditor, including the World Bank, is currently designed in this way. This is despite the World Bank's main pre-arranged financing instrument, Development Policy Loan with Cat DDO, also requiring a mandatory disaster risk management

programme to strengthen a country's disaster preparedness and response. Importantly, the World Bank previously stated that its pause clause will be positioned "in the risk layering above CAT DDOs that may trigger for relatively lower severity events", but has not made this link explicit like the IDB (World Bank, 2024).

In fact, SVG did not have a World Bank Cat DDO in place when it triggered its World Bank debt pause clause following Beryl: its first Cat DDO had closed in 2023. Since Beryl, the World Bank has approved a Cat DDO for SVG of USD20 million in April 2025 (World Bank, 2025). To access the funding, the government has introduced a series of reforms aimed at strengthening disaster preparedness. These include adopting a national disaster management policy that empowers communities and creating systems to improve the tracking and transparency of disaster-related and climate finance. The current lack of an explicit link between the World Bank's debt pause clause and its Cat DDO is a potentially missed opportunity given the growing uptake of Cat DDOs, especially amongst IDA countries.

Among all creditor types, MDBs are best placed to incentivise countries to strengthen their disaster preparedness, including strengthening country systems for accounting and tracking disaster-related expenditure in general. MDBs have the mandate, resources and technical expertise, so it is important to harness these strengths and complementarities for the benefit of the entire crisis financing system.

Furthermore, creditors offering pause clauses are likely to emphasise the need for greater debt transparency, particularly regarding the composition of creditors and the share of the debt stock and payments covered by these clauses. Given they do not benefit from preferred creditor status like MDBs, some official bilateral and private creditors are concerned that deferred payment could be used to repay other creditors that do not offer these clauses rather than to finance the disaster response and recovery. If the borrower eventually defaults, the deferred payments would be included in a debt restructuring, thereby creating a de facto junior status of claims including debt pause clauses and resulting in incremental credit risk for these creditors (Graves et al., 2024). Widespread adoption of these clauses by all creditors will help reduce this risk. Ultimately, all stakeholders should identify the conditions likely to be critical for the effective use of pause clauses, and ensure their design and implementation of these clauses take these into account without placing excessive burdens on the borrower.

5. OPPORTUNITIES AND CHALLENGES IN SCALING UP DEBT PAUSE CLAUSES

Beryl provided two important data points where none existed before. It showed that debt pause clauses can trigger and are not just window dressing in a government’s strategy to build its fiscal resilience. The World Bank also amended its debt pause clause in November 2024 to a softer trigger which broadens the scope of eligible events beyond the previously specified parametric triggers of earthquakes and tropical cyclones to include droughts, floods and health emergencies. However, despite their successful triggering in two countries, larger critical questions remain unanswered for effectively scaling up these clauses, particularly among the regional development banks as well as the private sector creditors.

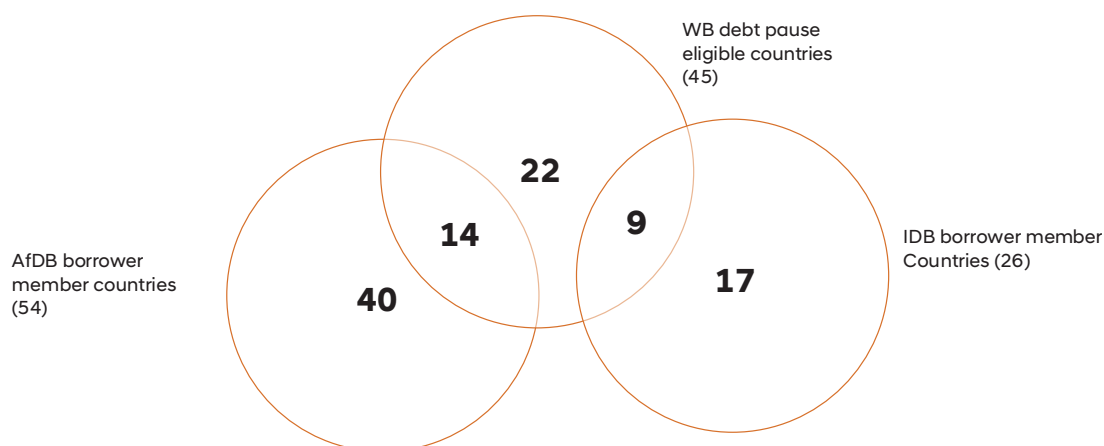
Multilateral development banks

The World Bank’s clause is currently available to only 30% of its borrower member countries. Regional development banks such as the African Development Bank (AfDB) and the Caribbean Development Bank¹¹ have more concentrated portfolios, with risks likely to be highly correlated across their member countries (Cravero et al., 2025). Unlike the World Bank, these banks may find it more difficult to justify offering these clauses to

some borrowers but not all, given the greater similarity in income levels and other development indicators across their memberships. Among the 54 AfDB and 24 IDB borrower member countries, all of which are also World Bank members, only 26% and 35% respectively are currently eligible for the World Bank’s debt pause clause (Figure 4).

These supply-side barriers are not insurmountable. Potential solutions can help protect banks’ balance sheets, such as setting a maximum deferral limit per country or creating liquidity buffers. However, the costs and benefits of these mitigation strategies need to be carefully evaluated, especially if they are less cost effective than alternative pre-arranged financing solutions that MDBs and donors could support directly (for example, providing highly concessional contingent disaster loans or grants) or indirectly (for example, paying insurance premiums for risk transfer products). Governments and their development partners need to understand which financing instruments or approaches represent the best use of public resources to help governments reduce the protection gap ahead of disasters. This first requires understanding the added value that the borrower, the creditor and donors hope to gain from the use of pause clauses.

Figure 4: AfDB and IDB borrower member countries eligible for World Bank debt pause clause



11 An analysis of CDB’s portfolio and the region’s vulnerability to climate events found that the possibility of debt pause clauses being triggered at sufficient scale to negatively impact CDB’s liquidity position cannot be discounted.

There are also some unanswered questions on the demand side. As of March 2025, 20 of the 45 eligible countries have debt pause clauses in their World Bank loans (World Bank, 2025b). Given that governments do not have to pay to include these clauses from the World Bank, and that coverage has expanded to a wider range of shocks, it is critical to understand what is holding back uptake. In some cases, it may be that the World Bank is not a major creditor, or either the borrower or the World Bank may prefer using other instruments to respond to emergency needs in that country. As noted above, debt pause clauses are also likely to be of limited use to borrowers with deeper debt sustainability issues requiring comprehensive debt treatment.

Private creditors

It is even trickier to scale up debt pause clauses amongst private sector creditors, particularly bondholders. Various demand and supply side issues remain unresolved, particularly the potential impact on pricing and market sentiments (Mustapha et al., 2023; Graves et al., 2024).

Besides Grenada, only two other governments – Barbados and Bahamas – have included pause clauses in their debt from private sector creditors (CRDC WG, 2025). Both did so as part of a debt swap transaction, not as part of a regular debt issuance. Moreover, the Government of Grenada is not a regular issuer of sovereign bonds on the international capital market. It has not returned to the market since its 2013–2015 debt restructuring, during which the government introduced a debt pause clause (referred to as a ‘Hurricane Clause’) as part of a debt exchange offer. Grenada has also not received another international credit rating since 2012 (Government of Grenada, 2023). Thus we can currently say very little about how deferring payments to bondholders might affect a government’s cost of borrowing on the international capital market. This uncertainty, combined with the fact that several emerging markets, such as Mexico and Chile, already have sophisticated disaster financing strategies and instruments in place (Evans, 2023) may reduce the perceived benefits of including these clauses in their regular bond issuances.

On the other hand, the attractiveness of the clauses may be enhanced by the increased willingness of some private

creditors to move away from specific, objective triggers towards a broader pause clause that governments can use to respond to a wider range of external shocks (CRDC WG, 2025). Outreach to ratings agencies is currently underway to assess their reactions to a broader pause clause, given their previous emphasis on the importance of a clear description of verifiable events that trigger deferrals. Concerns about potential opportunistic or abusive triggering of the clause may also be mitigated by giving the bondholders a veto right, as included in Barbados’ debt pause clause. This allows a 15-day period for holders of at least 50% of the principal amount of the bonds to block the deferral request. While this may undermine the reliability of the deferral, such a blocking mechanism may help to make the clause more acceptable to the market. However, clear rules for exercising this veto should be established, such as the specific circumstances under which a creditor can block the deferral.

A broader pause clause can draw on lessons learned from other precautionary instruments, like the IMF’s Flexible Credit Line and Precautionary Liquidity Line. These precautionary lending arrangements are available to qualifying countries and provide rapid access to Fund resources in the event of external shocks or a worsening global environment. Despite the evidence that these precautionary instruments generally lead to a significant decline in sovereign spreads and that drawdowns have had no adverse market impact (IMF 2023), their uptake has been constrained by various factors. These include the cost, lack of understanding of the instruments, and a perception that accessing these arrangements may signal economic weakness. Similar concerns are likely to hold back demand for pause clauses in international bond issuances, particularly for countries struggling to maintain their access to international capital markets.

Ultimately, both borrowers and their private sector creditors need greater clarity on the potential benefits and costs of debt pause clauses vis-à-vis other available options. It is particularly important to ensure that including these clauses in bond contracts is perceived as a means of enhancing fiscal resilience rather than a sign of weakness, and thus does not lead to higher borrowing costs or reduced market confidence. This will not happen overnight and requires a concerted effort from a wide range of actors, including through initiatives such as the recently launched bondholder working group under the London Coalition on Sustainable Sovereign Debt.

6. KEY INSIGHTS AND POLICY RECOMMENDATIONS

Debt pause clauses are a welcome addition to the toolkit of pre-arranged financing instruments. In a world of limited fiscal space, shrinking aid budgets and growing disaster risk, many lower-income and vulnerable countries are being urged to take the lead in building their resilience to shocks and ensure sustainable growth. With the support of their development partners, governments must put financing and plans in place before disasters happen, and without undermining their longer-term debt sustainability.

The Caribbean's experience with Hurricane Beryl shows that integrating pause clauses in debt instruments from different types of creditors can be useful in providing timely and reliable relief during crises. However, there is currently little evidence on what the fiscal space freed up by the debt pause was used for. This characteristic is shared with most instruments that provide governments with assistance in the form of general budget support. Furthermore, the costs and benefits for borrowers of debt pause clauses compared to other potential solutions are not clear, especially since the value added is likely to vary depending on the borrower's circumstances.

Based on the lessons learnt from Beryl, as well as the various unanswered questions highlighted above, the policy recommendations are:

1. Be fully transparent about the type of crises covered and the trigger structure

All creditors offering debt pause clauses should clearly communicate to the borrower and the wider public the types of crises the clause is designed to trigger for (even if a broader pause clause is used). Trigger design is a balancing act of addressing the preferences and requirements of all parties, technical feasibility, and operational considerations. Where parametric triggers are used, creditors should publish information on the trigger structure along with an explanation of what the triggers are intended to proxy (e.g. impact on GDP, number of people affected or government response costs). This facilitates understanding, learning and accountability, and better expectation management.

Good trigger design also includes addressing potential points of failure upfront, for example by pre-agreeing secondary triggers.

2. Strengthen borrower capacity for informed decision-making

Governments, with support from development partners, need to develop the capabilities to assess the potential benefits and risks of using pause clauses to achieve their objectives in light of their disaster risk profile, existing financing instruments, creditor composition and debt vulnerabilities. This includes having access to the most recent evidence relating to the use of these clauses. It is particularly important that a borrower understands the share of debt stock that could potentially include these clauses, and the likely relief provided given the probability of events covered and debt service projections. A borrower may wish to create and maintain a targeted level of protection from these clauses, triggering them only when the size of the deferral meets the target. The borrower should also have processes and systems in place to quickly assess the potential negative impact of the deferral and revised repayment schedule on its debt sustainability. Building governments' capacity in each of these areas is likely key for governments to make informed decisions on adopting and triggering debt pause clauses.

3. Ensure MDBs assess value and integrate pause clauses with their other instruments

Given the potential cost of offering pause clauses, MDBs should clearly articulate their value relative to other interventions they could offer. Before offering or expanding the use of such clauses, MDBs should carefully assess the potential benefits for their borrower member countries, the impact on their balance sheets, and the cost-effectiveness of any risk mitigation strategies (e.g. building liquidity buffers or using donor funds to cover costs). In the context of shrinking aid budgets, there is increasing emphasis on demonstrating effective resource use and accountability to donors and taxpayers, especially when trialling new approaches.

MDBs offering multiple instruments for managing disaster risks should not offer pause clauses in isolation and should instead aim to maximise complementarities. For example, by explicitly linking the MDB's pause clause to its other instruments that strengthen government systems and capabilities for disaster planning and response. IDB's approach of linking its debt pause clause to its contingent disaster loan, CCF, means the former can benefit from the latter's programme of reforms.

4. Clearly define and disclose rules around creditor veto rights

When pause clauses include a creditor veto right that could block a requested deferral, there should be clear, pre-agreed rules for exercising it. In particular, these rules should specify the circumstances and factors that can lead to a blocked deferral, and be made publicly available. Transparency can help manage reputational risks for creditors.

5. Agree and follow common principles that promote responsible design and use of debt pause clauses

All stakeholders should ensure the design and implementation of pause clauses reflect the conditions necessary for them to be used effectively. This may include requirements to improve debt transparency, report on government spending on disaster response and recovery, or publish the impact of the deferral on debt sustainability. Such requirements should not be onerous and, where possible, should be standardised across creditors. To facilitate this standardisation, borrowers and creditors should agree on a set of common principles and guidelines to support the responsible design and implementation of debt pause clauses.

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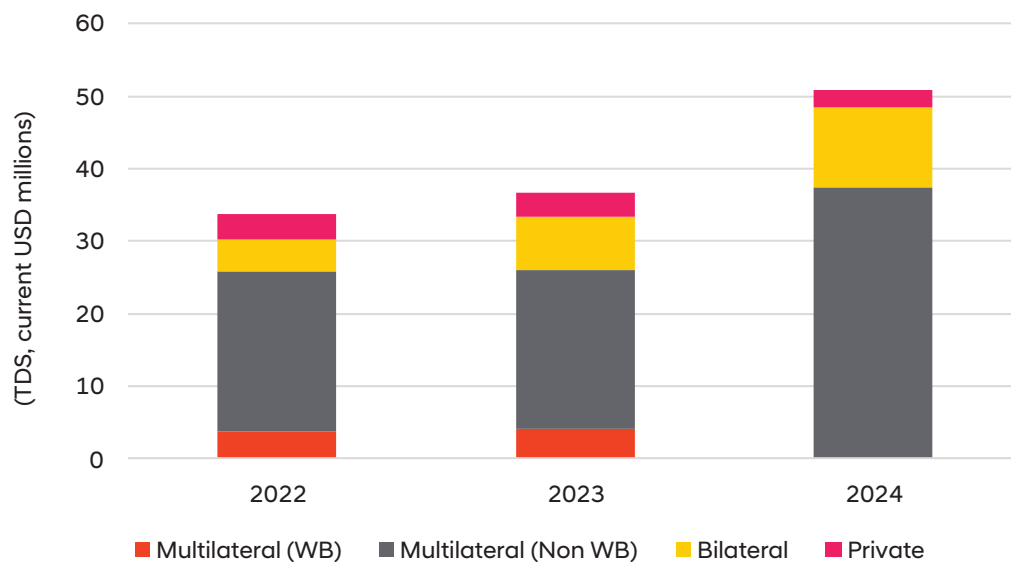
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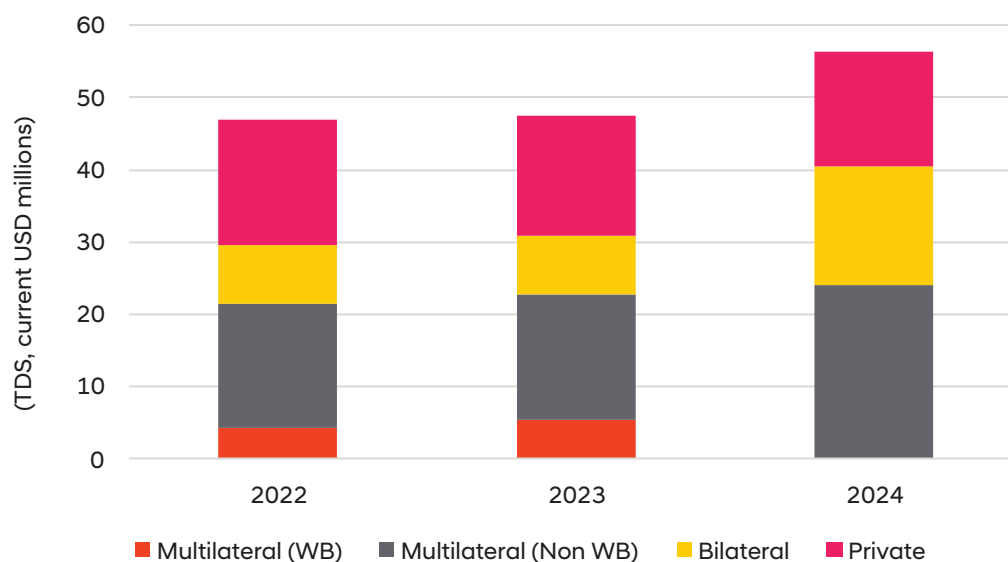
ANNEX

Figure A: Creditor composition of St. Vincent and the Grenadines' external debt service (Public and publicly guaranteed), 2022-2024



Source: World Bank. International Debt Statistics, Accessed on 06/06/2025

Figure B: Creditor composition of Grenada's external debt service (Public and publicly guaranteed), 2022-2024



Source: World Bank. International Debt Statistics, Accessed on 06/06/2025

Note: Grenada's private creditors includes only bonds.

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