# International Relations · GS - II

**Analyse the role of multilateral development banks in supporting countries facing external debt distress. How can bridge financing facilitate economic recovery without aggravating debt vulnerabilities?**

| EXAM YEAR | PAPER | SUBJECT |
|---|---|---|
| DAILY PRACTICE 27/11/2026 | GS - II | International Relations |

| MARKS | WORD LIMIT |
|---|---|
| 15 | ~250 words |

## Answer Hint

**Multilateral development banks, sovereign debt distress, bridge loans, arrears clearance, development finance, debt sustainability, international financial cooperation**

## Model Answer

### Development finance during sovereign debt distress

Countries facing external debt distress often experience a vicious cycle of payment arrears, reduced investor confidence and restricted access to international development financing. Multilateral development banks (MDBs) play an important role in supporting infrastructure, poverty reduction and institutional development, but overdue obligations can restrict access to fresh lending.

### Role of multilateral institutions

1. **Development financing:** Institutions such as the World Bank, Inter-American Development Bank and Development Bank of Latin America and the Caribbean (CAF) provide funding for infrastructure, social development and economic reforms.

2. **Financial credibility:** Regular repayment and compliance with institutional requirements help maintain a country's relationship with multilateral lenders.

3. **Technical assistance:** MDBs support institutional capacity, public financial management and development planning.

4. **Crisis support:** Coordinated international financing can help countries address immediate liquidity constraints and restore access to development resources.

## Bridge loans: Opportunities and risks

Bridge loans can temporarily finance the clearance of arrears, potentially allowing a country to regain eligibility for fresh institutional lending. However, they primarily address liquidity problems rather than underlying insolvency.

If repayment capacity remains weak, additional borrowing can increase debt servicing burdens. Unconditional financing may also postpone necessary fiscal and structural reforms.

## Conditions for sustainable recovery

1. Conduct transparent debt-sustainability assessments before extending new financing.
2. Coordinate creditors to avoid fragmented repayment arrangements.
3. Link longer-term assistance with credible fiscal management and institutional reforms.
4. Protect essential social expenditure during economic adjustment.
5. Strengthen transparency in sovereign borrowing and public debt reporting.

**Conclusion:** Bridge financing can provide temporary relief, but sustainable recovery requires a credible debt-resolution framework, responsible fiscal management and coordinated international development support.