July 2020

Drop Debt, Save Lives: Global South Debt and Covid-19

"Our leaders have two choices, you either pay obligations to the bondholders or you buy medicine, food, and fuel for the population"

Vera Songwe
Head of United Nations Economic Commission for Africa

Why debt cancellation is needed to fight Covid-19

The economic shock of the Covid-19 crisis has plunged many lower-income countries further into debt crisis. Oxfam has estimated that the health and economic impacts of Covid-19 could push half a billion more people into poverty.[1]

Countries need to be able to be able to bolster their healthcare systems now, and cope with the social and economic impacts of the crisis. Decades of austerity policies, and promotion of the private sector in public services, have resulted in under-investment in public health in many countries, leaving them with shortage of health workers and lack of medical equipment needed to fight Covid-19. For example, the Central African Republic has just 3 ventilators for almost 5 million people[2], and Malawi has only a quarter of the nurses needed to provide healthcare for all.[3]

Yet, instead of being able to invest every dollar into boosting healthcare systems to defend against the virus, countries are having to use their precious resources to pay off external debt. Right now, sixty-four countries spend more on external debt payments than on public healthcare.

Debt cancellation is urgently needed to help countries cope with the health, social and economic impacts of Covid-19.

The debt crisis before Covid-19

Even before Covid-19, developing country debts had increased significantly since the financial crisis of 2008. Quantitative easing and low interest rates in the Western world led to a large increase in loans to developing countries, as international financiers sought higher returns.

Public external debt payments increased by 85% between 2010 and 2018 in the global south.[4] Of the 70 countries the IMF assess for debt risk, 34 were in debt default or at high risk of being so at the start of 2020, up from 17 in 2013. In December 2019, a World Bank report called this recent surge *'the largest, fastest, and most broad-based in nearly five decades.'*[5] Covid-19 has exacerbated this growing debt crisis and made it even more urgent that action is taken.

The impact of the crisis

The global economic slowdown has collapsed the global price of raw materials like coffee and copper, on which many developing country economies depend. Many countries are also being hit by falling tourism revenues, loss of remittances and other falls in demand for exports.

The pandemic has also given rise to the largest capital outflow from developing countries ever recorded, with more than $100bn flowing out of the global south just in February and March of 2020. This has led to a collapse in speculator confidence in the ability of countries to repay their debts, leading to a dramatic increase in their future borrowing costs and undermining their ability to refinance their debt.

This is coupled with the fact that many developing countries have weak healthcare systems and will need additional funds to combat coronavirus.

Many countries that were already at risk have found that the Covid-19 crisis has pushed them further to the edge or even into default. Argentina, Ecuador or Lebanon were already at risk and the Covid-19 crisis has made the situation worse, these countries are now in default and in negotiations with their creditors. Other countries at risk include Zambia, Gabon, Mozambique and the Republic of Congo.

Specific country examples

Ghana was in deep debt distress even before Covid-19 hit and is due to spend $3.8bn on external debt payments in 2020. It is currently spending almost four times more on servicing its external debt than it is on public healthcare for its people: 39.1% of its government revenue is spent on debt servicing, 10.8% is spent on healthcare.[6]

Central African Republic has 3 ventilators in a country of almost 5 million people.[7] It is due to spend $25 million on external debt payments in 2020 (10% of government revenue).[8] Instead, these resources could be invested in increasing access to clean water and soap, and promoting social protection to those jobless due to the lockdown and the economic crisis.

Zambia's external debt amounts to $950 per person.[9] Every dollar spent on debt is a dollar that could be spent on Zambian citizens' urgent healthcare needs. Instead, the country spends 32.6% of its revenue on debt payments while only 8.8% on health public services.

Who is the debt owed to?

In 2020 alone. According to Jubilee Debt Campaign calculations, the 77 group of poorest countries eligible for the G20 debt suspension are due to spend:

- **$ 18.1bn** on bilateral debt payments to other governments (of which $9bn has been suspended so far)
- **$12.4bn** to multilateral institutions such as the IMF and the World Bank
- **$10.1bn** to external private creditors such as banks and hedge funds

This is a total of **$40.6bn** in 2020 alone.

Payments scheduled for 2021 are:

$16.4bn on bilateral debt payments to other governments

$14bn to multilateral institutions such as the IMF and the World Bank

$13.6bn to external private creditors such as banks and hedge funds[10]

This is a total of $44bn in 2021.

These are resources that, with political will, could be invested in tackling the health crisis, protecting the most vulnerable and financing the economic recovery.

A big difference with the debt crisis of the 1980's and 90's is that private creditors now play a much more significant role. Banks, investment and hedge funds have become big lenders following the 2008 financial crash, with a large portion (for 2018 alone 59.35% of low- and middle-income countries debt) now owed to private institutions.

Debt with private creditors tends to be more expensive and exposed to interest rate volatility. As the present crisis is showing, private creditors are also much more reluctant to engage in debt restructuring and debt relief when a borrowing country faces a situation of debt distress. This is also problematic as when the IMF and other official lenders step in to finance or offer debt relief to the developing countries in debt distress, they are bailing out private lenders.

What action has been taken?

Following campaigning from global civil society, calls for debt relief African Finance Ministers, over 100 former Heads of state, the Pope, the UN Secretary General and many others some debt suspension was announced earlier this year.

On 15 April, G20 Finance Ministers agreed to offer 77 countries a temporary suspension on their debt payments to other governments from May to December 2020.[11] The DSSI (Debt Service Suspension Initiative) has been estimated to potentially save countries a maximum of $11.54bn, but these debt payments will all come due between 2022 and 2024. This means the suspension does nothing to tackle the unsustainable debt levels and that, without further action, countries will face an even bigger debt crisis in 2 years' time.

G20 countries, as well as multilateral institutions such as the IMF or the World Bank, have been calling on private creditors to participate in the initiative on comparable terms. The Institute of International Finance, a lobby group that represents the interests of the private financial sector, agreed on a general term of references for the private engagement in this initiative. But debt suspension provided by private creditors remains voluntary and as at July 2020 not a single lender has offered debt cancellation or suspension.

The G20 also asked multilateral institutions to *"explore the options"* for suspending debt payments. The IMF agreed in April to cancel up to $250 million in debt payments to it for six months for a group of 27 countries amongst the poorest in the world.[12] The World Bank and other multilateral development banks have so far refused to do so.

All in all, the current deal only covers less than 30% of the debt payments eligible countries under the DSSI initiative will be making during these times of extreme need.

Furthermore, many countries in need of debt cancellation have been left out of the initiative.

What more needs to be done?

There are two key moments in 2020 at which further debt suspension or even cancellation could be agreed.

G20 Finance Ministers are meeting 18th - 19th July

It is crucial the G20 leaders stay supportive of taking action on debt and push the private sector and World Bank to do more. They should include more countries in the DSSI, extend the initiative beyond 2020, and scale up their support by offering permanent debt cancellation and not just a postponement of payments.

The IMF and World Bank Annual Meetings and G20 meeting, October

The IMF, WB and G20 will need to make up their mind whether their response to the devastating debt crisis in the global south remains insufficient and ineffective, or they accept the challenge to provide more ambitious, longer term systemic responses to it.

World leaders must agree to:

- The cancellation of debt payments to bilateral lenders and the IMF and World Bank for up to four years[13], and at least until a debt workout process exists. The latter could be paid for by a combination of funds from a Special Drawing Rights issuance, gold sales, use of reserves, and donor grants.
- The cancellation of debt payments to private lenders rather than those lenders be bailed out by IMF loans.
- Introduction of legislation in the UK and New York jurisdictions[14] to prevent a lender suing a government for following the G20 Debt Service Suspension Initiative and suspending debt payment.
- Ensuring unmanageable debt is brought to sustainable levels long term through a fair and transparent process for restructuring and further debt stock cancellation, such as a global debt workout mechanism, and the promotion of binding rules on responsible lending to prevent future crisis.

All countries that need it in the context of the current crisis should receive debt relief, not just those included in the DSSI initiative. This should be decided through an independent and transparent process, that considers not only capacity for payment but also takes development needs, human rights, gender equality and climate vulnerabilities into account, as well as issues of debt (il)legitimacy.

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2. UNOCHA Global Humanitarian Response Plan, Covid-19: UNOCHA, 28 March 2020

3. Oxfam's calculations based on latest WHO

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4. Jubilee Debt Campaign, 2019

5. World Bank, 2019

6. Calculated by Jubilee Debt Campaign from IMF and World Bank sources

7. UNOCHA Global Humanitarian Response Plan, Covid-19

8. IMF and World Bank Debt Sustainability Analysis for Central African Republic, January 2020

9. IMF and World Bank Debt Sustainability Analysis for Zambia, August 2019

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10. These figures are from the World Bank DSSI database

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11. World Bank, 2020

12. IMF, 2020

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13. The African Union has called for cancellation for the next four years

14. The vast majority of international government debt is governed by English or New York law.