

'Don't turn the clock back': Analysing the risks of the lending boom to impoverished countries

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Background

Over the last forty years, the removal of regulations on lending has driven devastating debt crises affecting people on every continent. The Latin American and African debt crises of the 1980s and 1990s were followed by the East Asian Financial crisis of the late 1990s, the Russian and Argentine defaults at the turn of the century, and the European debt crisis in the late 2000s. Failure to cancel unjust and unsustainable debts continues to increase poverty and inequality around the world.

Large debt payment burdens have dramatic impacts on poverty and inequality. Debt crises in the 1980s, 1990s and 2000s caused two or more 'lost decades of development'. In sub-Saharan Africa, the number of people living in extreme poverty (on less than \$1.25 a day) increased from 205 million in 1981 to 330 million by 1993.¹

Following global campaigning against the injustice of developing country debt, \$130 billion of debt has been cancelled for 35 countries through the Heavily Indebted Poor Countries (HIPC) initiative. This has saved billions of dollars every year, and led to millions more people having access to healthcare and education.

However, many developing countries were excluded from this scheme because they were considered 'not poor enough' or 'not indebted enough', and others that benefited from the scheme once again face punitive and unsustainable levels of debt. Today, countries across the global South continue to suffer from high debt payments. Countries particularly affected include Jamaica, El Salvador, Pakistan, Tunisia and the Philippines.

Furthermore, we are now witnessing a new boom in lending to developing countries. External loans to low income countries increased by 75 per cent between 2008 and 2012.² Loans to sub-Saharan African governments more than doubled over the same period of time.

Summary

This research paper examines the possible implications of the continuation of the current lending boom for 43 developing countries over the next decade in terms of their ability to service those debts and the knock-on impacts for the provision of basic public services and other critical state functions. Of the 43 countries in this study, 23 have received debt relief under the Heavily Indebted Poor Countries initiative and Multilateral Debt Relief Initiative, between 2000 and 2012.³

¹ The percentage increase was from 51.5 per cent of the population to 59.4 per cent. World Bank Global Development Finance database.

² Calculated from World Bank World Development Indicators database.

³ Under the HIPC initiative countries had to be both very heavily indebted and classed as a 'low income' country to be eligible. To qualify for some debt relief, governments had to follow IMF and World Bank economic policies such as privatisation, trade liberalisation and removal of agricultural subsidies. On completing the HIPC initiative, countries had some debts owed to multilateral institutions and other governments cancelled. In 2005, the Multilateral Debt Relief Initiative was created, which stated that when countries qualified for HIPC debt cancellation, they would get 100% of debts owed to the IMF and World Bank from pre-2003 loans cancelled. So far, 35 countries have completed HIPC and MDRI, getting almost \$130 billion of debt cancelled between them.

It draws on data on developing country debts published by the World Bank and IMF and investigates what could happen to debt payments across these 43 countries over the next decade under three scenarios:

Scenario 1: IMF and World Bank predictions of continuous high economic growth

Scenario 2: IMF and World Bank estimates of one economic shock over the next decade

Scenario 3: Lower economic growth than the standard IMF and World Bank prediction

The research finds that:

- There are significant (greater than 5 percentage points of government revenue) increases in the proportion of government revenue spent on debt payments under all three scenarios.
- 11 countries (26%) will still face significant increases in debt payments even if IMF and World Bank predictions of continuous high economic growth over the next decade are met.
- This number of countries facing significant increases in debt payments will rise to 25 countries (60%) if IMF and World Bank estimates of one economic shock over the next decade are met.
- On the alternative scenario of lower, but still substantial economic growth, 29 countries (67%) have significant increases in debt payments.

If current lending to these countries was sustainable, it would be expected that over time, debt payments as a proportion of government revenue would *fall*, as investments funded by debt generate revenue to repay the loan and interest. Where debt payments are instead rising significantly over the medium term, it suggests that lending is unsustainable.

Of the 43 countries in this research, 25 have had some debts cancelled under the Heavily Indebted Poor Countries initiative and Multilateral Debt Relief Initiative. Of these, debt payments will reach the same or higher than before debt cancellation over the next decade in:

- 7 countries (28%) if IMF and World Bank predictions of continuous high economic growth over the next decade are met.
- 13 countries (52%) if IMF and World Bank estimates of one economic shock over the next decade are met.
- 16 countries (64%) if growth is lower than IMF and World Bank predictions, but still substantial.

The median average for the 43 countries shows a general trend of rising debt payments as a percentage of government revenue across all three scenarios. The average relative debt payment burden increases by between 85 per cent and 250 per cent, depending on growth rates and frequency and extent of any economic shocks.

For the 43 countries in this study, total lending to them has increased from \$11.4 billion per year in 2009 to \$18.5 billion in 2013, an increase of more than 60 per cent. Of this lending over those five years, 50 per cent has come from multilateral institutions such as the IMF, World Bank and African Development Bank. A further 33 per cent has come from other governments, leaving 17 per cent of lending from the private sector.

Whilst public institutions are responsible for 83 per cent of lending to the countries in this study, their share of debt payments will not be quite as high because of the lower interest rates on public debts compared to those on loans from the private sector.

Moreover, two key areas are not covered by the analysis in this research, because they are not fully reported on in the IMF and World Bank data. External debt owed by the private sector is not fully included in IMF and World Bank analyses, despite the fact that runaway private sector debt has been at the root of a number of recent debt crises, including the East Asian Financial Crisis and the European Debt Crisis. In addition, payment obligations created by Public-Private Partnerships are not monitored by the IMF and World Bank even though they have the same or greater fiscal impact as direct government borrowing.

This paper concludes that, because of the very real risk of new debt crises in the developing world being created, urgent measures are needed to make lending more responsible and to create fair and transparent ways of dealing with debt crises if they do arise. By signalling that reckless lenders would not be bailed out, such measures would also help to reduce the chance of crises occurring in the first place. In particular, we recommend that the UK government should:

- 1) Commit that all UK bilateral aid will remain as grants, not loans.**
- 2) Shift bilateral aid money away from sources which give loans such as the World Bank and IMF, towards sources which give grants.**
- 3) Require all lenders funded by the UK, including UK Export Finance, the World Bank and IMF, to sign up to responsible lending guidelines, including public scrutiny of loan terms before contracts are signed.**
- 4) Support the creation of a fair, transparent and independent process for resolving sovereign debt crises, to show banks they won't be bailed out for reckless loans.**
- 5) Support the creation of debt sustainability assessments which are conducted independently of creditor and debtors, take into account the meeting of basic needs and public services, and apply to all countries.**
- 6) Introduce policies to support developing countries in increasing their tax revenues, including by preventing the loss of revenue through tax avoidance and evasion.**

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1. Background to the data

This research uses IMF and World Bank Debt Sustainability Assessments to investigate possible debt payment burdens on 43 developing country governments over the next decade. It uses debt sustainability assessments completed and published within the last year (August 2013 to August 2014), which have been done for 43 countries in total.⁴ Estimates of what could happen to debt payments across these 43 countries over the next decade are given for three scenarios:

Scenario 1: IMF and World Bank predictions of continuous high economic growth

Scenario 2: IMF and World Bank estimates of one economic shock over the next decade

Scenario 3: Lower economic growth than the standard IMF and World Bank prediction

These assessments provide the only forward looking data available on the debt payments of impoverished countries. However, the IMF and World Bank are themselves large lenders, and so have an inherent conflict of interest when conducting debt sustainability assessments. This research uses their assessments not because we think they are the right bodies to be assessing debt levels – they clearly cannot be independent when doing so – but because they are the only assessments that can be compared across countries.

The IMF and World Bank are meant to conduct debt sustainability assessments for all countries eligible for loans from the IMF's Poverty Relief and Growth Trust.⁵ These contain estimates of what external debt service payments will be for the said country over coming years, based on various assumptions about the rate of lending to the country, economic growth, export growth and changes in government revenue collection.

The study looks in particular at projected debt payment levels for the 43 countries, rather than other figures such as total debt owed. Debt payments, of both interest and principal, are the true burden arising from a debt. How much a government is and will actually be spending on debt payments is the best single measure of its debt situation, rather than the overall level of its debt.⁶

The focus of this research is the risk of new debt crises in developing countries, but we are also highly concerned about the rising external debt levels in middle and high income countries - both because of risk of and potential impacts of future debt crises in these countries, but also because of the knock-on impacts on developing countries. However, equivalent research on external debt payments for middle and high income countries is not available because no such forward looking assessments of debt payments are made, either by the World Bank and IMF or any other global institutions.

1.1 The three scenarios

In the analysis below we use three scenarios for projected debt payment burdens:

⁴ A list of the 43 countries is in the Table on page 11.

⁵ This is all low income countries, some lower-middle income countries which have recently been low income and some small vulnerable middle income countries such as small islands.

⁶ The current debt stock is of course vital in estimating what future debt service payments will be, alongside the interest rate of the various debts, and the estimated level of debt contraction in the future. Ideally, debt figures should also take into account the debt of the private sector, and debt payments received by governments. But again, there is too little forward looking data for these figures to be included in this research.

a) IMF baseline. This is the IMF and World Bank's central forecast for what will happen. It usually assumes relatively high economic growth and no economic shocks such as recessions or currency devaluations.

b) IMF one shock. This assumes one large economic shock takes place now, and no more after that. The most common economic shock assumed is a one-off currency devaluation, but there are others. For example, the shock used for Afghanistan is a large fall in donor grants to the government. A 2012 review of the IMF and World Bank Debt Sustainability Assessments found that in 12 per cent of cases, countries had already suffered from an economic shock more extreme than the IMF and World Bank's estimated shock.⁷

c) Lower growth. This is a scenario calculated by us based on the IMF and World Bank assessments. We have included it because the IMF one shock scenario is still quite optimistic, only including one economic shock over a decade and failing to consider the prospect that more than one economic shock could happen at the same time.

This scenario assumes that growth is half the rate of the IMF baseline projection, there is a one off currency devaluation of 25 per cent,⁸ and government revenue remains the same percentage of GDP as at present⁹. This scenario simply compares the IMF's expected debt payment burden with the lower government revenue brought about by the lower growth, devaluation and different share of government revenue. It does not take account of the fact that lower growth would be likely to result in more countries taking on more debt, and so an even higher debt payment burden.

Our lower growth scenario is still much less extreme than economic shocks experienced by the developing countries concerned in the past. For example, in sub-Saharan African countries economic growth averaged 1.1 per cent in the decade between 1982 and 1992 (in per person terms 'growth' was -1.7 per cent per year over the same time period).¹⁰ In the 'Lower growth' scenario in this study, the mean average annual growth rate across the 24 sub-Saharan African countries is 3.3 per cent.

1.2 What is not included

There are various payment obligations which are not included in IMF and World Bank Debt Sustainability Assessments:

a) External private sector debt

Debt owed by the private sector can still precipitate debt crises, either when lending that an economy has become dependent on significantly falls, and / or repayment burdens on the private sector debt take significant resources out of the country concerned. The current debt crisis in Europe was triggered primarily by external debts owed by the private sector (eg, by Irish banks to British banks) rather than governments. This has created a debt crisis for the governments both

⁷ IMF and World Bank. (2012). Revisiting the Debt Sustainability Framework for Low-Income countries. IMF and World Bank. 12/01/12.

⁸ Currency markets would be likely to bet on a lower value of the currency if growth were less than expected.

⁹ In many cases, the government revenue assumption works to counter the impact of the fall in economic growth, because the IMF baseline scenario often assumes that government revenue collection will fall as a percentage of GDP as economies grow rapidly.

¹⁰ Calculated from World Bank. World Development Indicators.

because they have directly taken on the debts of the private sector, and because the recessions caused by private sector debt have significantly reduced government income.

Some IMF and World Bank DSAs have begun to include data on external private sector debt, though in many cases this is still limited. Furthermore, the external private sector debt data is not used to inform the debt risk rating for the country concerned.

b) Public-private partnerships

PPPs are responsible for 15-20 per cent of infrastructure investment in developing countries.¹¹ As well as being heavily pushed by donors through both the aid they give and the conditions attached to aid and debt relief, a reason they have been popular is they enable debt payments to be hidden from the public view.

One form of PPPs, such as the Private Finance Initiative in the UK, gets the private sector to undertake an investment, but has the government commit to guaranteed payments and / or guarantees to bailout the private operator if an investment fails. PPPs therefore have the same fiscal impact as a government borrowing directly, but the payment obligations are not included in debt figures. In fact, the cost to the government is usually higher than if it had undertaken the borrowing and investment itself, because private sector borrowing costs more, private contractors demand a significant profit, and negotiations are normally weighted in the favour of the private sector.

According to Maximilien Queyranne from the IMF Fiscal Affairs Department, the fiscal risks of PPPs are “potentially large” because they can be used to “move spending off budget and bypass spending controls” and “move debt off balance sheet and create contingent and future liabilities”. He also warns that they “reduce budget flexibility in the long term”¹²

A recent study by the World Bank’s Independent Evaluation Group found that of 442 PPPs supported by the World Bank, assessments of their impact on poverty were conducted for just 9 of them (2%), and of their fiscal impact for just 12 (3%).¹³ However, the debt payment obligations created by PPPs are not covered at all in Debt Sustainability Assessments, meaning that real future payment obligations on governments are higher than presented in this study.

c) Domestic debt

This study looks exclusively at the external debt of governments. External debt is owed to individuals, companies, institutions or governments outside the country concerned, whether in a foreign currency or that country’s currency. In contrast, domestic debt is owed to people within the country concerned (whether in that country’s currency, or a foreign currency).

Domestic debt is not included in this research primarily because the Debt Sustainability Assessments only have partial information on domestic debt. In particular, there tends to be no ‘one shock’ scenario for domestic debt, so the same analysis as for external debt cannot be conducted on it.

¹¹ <http://ieg.worldbank.org/evaluations/world-bank-group-support-ppp>

¹² Queyranne, M. (2014). Managing Fiscal Risks from Public-Private Partnerships. Presentation in Yaounde, March 2014.

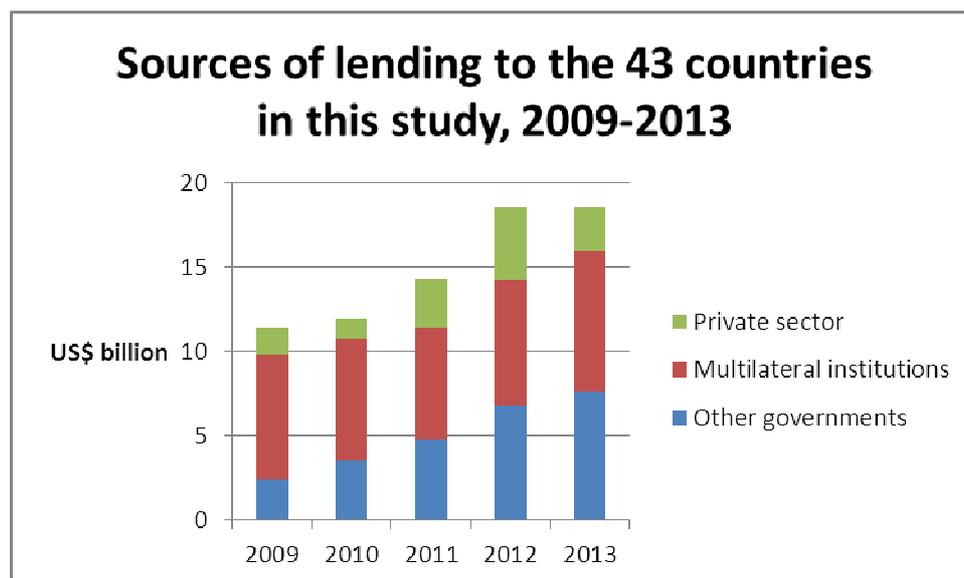
¹³ IEG. (Undated). World Bank Group Support to Public-Private Partnerships: Lessons from Experience in Client Countries, fy02–1202–12. Page 67.

Furthermore, there are significant differences between external and domestic debt which mean they should not be analysed in the same way. External debt is inherently more risky. Whilst domestic debt for impoverished countries usually has higher interest rates, it is also usually paid in local currency, so does not change wildly with currency devaluations. Furthermore, payments on domestic debt stay within the country concerned. So whilst high domestic debts can potentially cause financial difficulties for a government, there are more policies which can be introduced to cope with this, and domestic debts do not cause a financial imbalance with the rest of the world.

1.3 Scale and sources of lending boom

For the 43 countries in this study, total lending to them has increased from \$11.4 billion a year in 2009 to \$18.5 billion in 2013, an increase of more than 60 per cent. Of this lending over those five years, 50 per cent has come from multilateral institutions such as the IMF, World Bank and African Development Bank. A further 33 per cent has come from other governments, leaving 17 per cent of lending from the private sector (see Graph below).¹⁴

Whilst public institutions are responsible for 83 per cent of lending to the countries in this study, their share of debt payments will not be quite as high because of the lower interest rate on public debts than those on loans from the private sector.



Much media attention has been given to the issuance of bonds in recent years by low and lower middle income countries as the means of borrowing from the private sector. Whilst this is significant, direct lending by commercial banks has been slightly higher than lending through bonds over recent years for the 43 countries in this study. Between 2009 and 2012 (the World Bank does not yet have figures for 2013), \$4.1 billion was lent directly by commercial banks compared to \$3.9 billion through bonds (see Table below).¹⁵

Sources of private sector lending to the 43 countries in this study, 2009 to 2012¹⁶

¹⁴ Calculated from World Bank. World Development Indicators database.

¹⁵ Calculated from World Bank World Development Indicators database.

¹⁶ Calculated from World Bank World Development Indicators database.

Source of lending	Amount	Percentage of private sector lending ¹⁷
Direct from commercial banks	\$4.1 billion	41 per cent
Bonds	\$3.9 billion	39 per cent
Other	\$1.9 billion	19 per cent
Total	\$9.9 billion	

Bonds state a certain interest rate will be payable over the course of the bond, for example 8 per cent, with the principal being repaid in full when the bond matures. One of the assumptions governments sometimes make when issuing bonds is that they will be able to 'refinance' the bond when the principal comes due to be paid; ie, they will take out another bond to pay the principal on the previous one. If this is the case, it means the real payment burden is 'only' the interest, and not the principal. However, it is a very dangerous assumption to make. Bonds being taken out now are during a period of record low interest rates in Western countries, the main source of lending for private sector bonds. Whether bonds will be able to be refinanced in the future, and at what interest rate, is doubtful, so the best assumption would be that bonds will need to be repaid in full.

For lending from multilateral institutions and governments, interest rates are significantly lower. This means that in theory they are more able to fund investments which are productive enough to repay the loan because the rate of return on how they are used can be lower. However, one difference with bonds is that in theory there should be no prospect of public loans being refinanced.¹⁸ Loans are given for particular projects, and both the principal and any interest needs to be paid in full by the time the loan matures. So even with lower interest rates, so called 'concessional' loans still have a significant repayment burden.

1.4 Definitions of debt sustainability and payability

The IMF and World Bank define 'sustainability' as whether or not a government is able to keep paying its debt. This definition takes no account of the impact of debt payments on the people of the country concerned. Debts can continue to be paid at huge cost to the provision of and access to essential public services, but still be defined as 'sustainable'. What the IMF and World Bank actually assess is 'payability'.

A better definition of sustainability is whether the lending being undertaken now will leave the government concerned in a better or worse financial situation over the medium term, and so better or less able to meet basic needs and public services.

The rationale behind borrowing is to be able to invest now, or cope with the impact of an economic shock or downturn, and therefore be in a better financial situation in the future. The way to assess

¹⁷ Doesn't add up to 100% because of rounding

¹⁸ In reality, sometimes IMF and World Bank bailout loans effectively refinance failed project loans, by providing the revenue for them to be repaid, not funding any new investment, and leaving the debt with the country concerned.

this properly has to be done on a loan-by-loan basis, looking at what the lending is being used for and what impact this will have. Such an analysis is beyond the scope of this study. However, one outcome that would be expected if lending in the aggregate is sustainable is that debt payments as a proportion of revenue would fall over the medium term. The extra income from the investments facilitated by lending would have created enough revenue to repay that lending and interest, with more left over.

This study analyses the impact of the different scenarios against this better definition of **sustainability**, as well as the IMF and World Bank's measure of the country to pay its debts, ie, '**payability**'. For those countries which have received debt relief as part of the HIPC and MDRI initiatives, it also compares projected future debt payments with debt payments before countries received debt relief, to assess whether payments will go **back to pre-debt relief levels**. Throughout the study individual cases are drawn out in detail.

1.5 Countries excluded from the research

Three other countries have had Debt Sustainability Assessments in the last year, but we have not been able to include them in this analysis. Grenada's debt situation is too uncertain as it is currently in default and negotiations on a debt restructuring with private and bilateral creditors. Malawi's DSA does not include full external debt statistics. Sudan's DSA assumes that the government will be paying its external debt. However, in reality Sudan is in default on much of the debt, and it cannot and will not begin making the debt payments envisioned in the DSA.

2. Data

The Table below summarises the data on which the later analysis in this research paper is based. In 'red' it shows:

- For '**Sustainability**', the countries where debt payments increase by 5 percentage points of government revenue or more over the next decade, for the three scenarios.
- For '**Payability**', the countries where debt payments reach 18 per cent or more of government revenue at some point in the next decade, for the three scenarios.
- For '**Back to pre-debt relief levels**', the countries where debt payments return to the same or higher level than before debt relief was achieved, for the three scenarios

Country	Current level of debt payments (2013)	Sustainability (Figures are payments in 2024 unless otherwise stated)			Payability (Figures are payments in 2024 unless otherwise stated)			Back to pre-debt relief levels		
		IMF baseline	IMF one shock	Lower growth	IMF baseline	IMF one shock	Lower growth	IMF baseline	IMF one shock	Lower growth
Afghanistan	1.2	1	18	3.5	1	18	3.5			
Bangladesh	8.1	7	10	20.4	7	10	20.4			
Bhutan	22.7	30.8	30.8	97.1	30.8	30.8	97.1			
Bolivia	6.4	4	5.5	8.3	4	5.5	8.3			
Burkina Faso	4	7.6	11	15.8	7.6	11	15.8			
Burma	2	4.6	6	11.1	4.6	6	11.1			
Cambodia	5.1	4.3	7.3	11	4.3	7.3	11			
Cameroon	2.8	8.7	12	17.3	8.7	12	17.3			
CAR	18.6	2.5	3	11.8	18.5 (2014)	18.5 (2014)	18.5 (2014)			
Chad	10.5	9	13	14.8	14.9 (2015)	21 (2015)	21.3 (2015)			
Comoros	0.7	6.8	15	15.8	6.8	15	15.8			
Congo, Rep.	4.2	1.8	2.5	1.8	1.8	2.5	1.8			
Cote d'Ivoire	9.1	14	25	35.4	14	25	35.4			
Ethiopia	5.3	10.8	15.5	21.2	10.8	15.5	21.2			
Ghana	16.6	25 (2023)	37 (2023)	49.9 (2023)	25 (2023)	37 (2023)	49.9 (2023)			
Haiti	1.4	14.2	22	31.3	14.2	22	31.3			
Kiribati	0.5	3.5	6	5.7	3.5	6	5.7			
Kyrgyz Rep.	4.6	5.4	10.5	11.1	5.4	10.5	11.1			
Laos	12.6	10.8	15	25.4	10.8	15	25.4			
Lesotho	3.3	7.7	10.5	11.1	7.7	10.5	11.1			
Liberia	1.4	4.4	6	9.9	4.4	6	9.9			
Madagascar	5.5	8.8	14	20.8	8.8	14	20.8			
Mali	5.3	5.1	6	11.5	5.1	6	11.5			
Marshall Islds	20.9	12	15	17.5	18.1 (2014)	18.1 (2014)	18.1 (2014)			
Moldova	3.7	3.3	4.8	6.3	3.3	4.8	6.3			
Mongolia	16.7	13.5	24	27.3	29 (2017)	37 (2017)	43.9 (2017)			
Mozambique	3.7	6.8	13	19.7	6.8	13	19.7			
Nepal	5.8	3.7	8.5	7.7	3.7	8.5	7.7			
Nicaragua	4.3	2.9	7	5.4	2.9	7	5.4			

Data continued.

Country	Current level of debt payments (2013)	Sustainability (Figures are payments in 2024 unless otherwise stated)			Payability (Figures are payments in 2024 unless otherwise stated)			Back to pre-debt relief levels		
		IMF baseline	IMF one shock	Lower growth	IMF baseline	IMF one shock	Lower growth	IMF baseline	IMF one shock	Lower growth
Nigeria	0.8	1.9	7	3.2	1.9	7	3.2	N/A		
PNG	2.1	2	9.5	4	2	9.5	4	N/A		
Rwanda	5.6	13.5 (2023)	19.5 (2023)	34.9 (2023)	13.5 (2023)	19.5 (2023)	34.9 (2023)			
Sao Tome	10.3	7	10.5	12.1	7	10.5	12.1			
Senegal	9.2	16.3	22.5	38.2	18 (2020)	20.4 (2020)	33 (2020)			
Sierra Leone	6.7	5.3	8	12.2	5.3	8	12.2			
Solomon Islds	2.1	1.5	5.4	3.2	1.5	5.4	3.2	N/A		
Tanzania	3	9.6	13	23.3	9.6	13	23.3			
Timor-Leste	0	2.5	7.5	5	2.5	7.5	5	N/A		
Togo	5.4	11.8	18	25.7	11.8	18	25.7			
Tonga	9.6	11.4	16.5	20.1	14.4 (2019)	20 (2019)	21.8 (2019)	N/A		
Uganda	3.6	8.2	11	21.6	8.2	11	21.6			
Zambia	4.7	14	16	38.7	14	16	38.7			

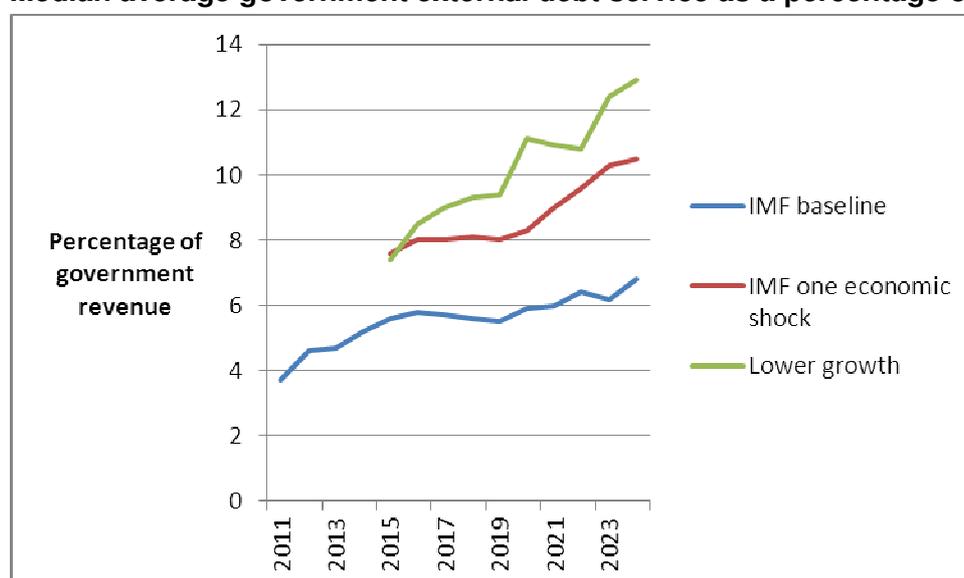
3. Analysis

3.1 Average debt payments are increasing

As an introduction to the more detailed discussion below, we have calculated the median average debt payments across the 43 countries. The median average has been used because the mean average is distorted by a few countries with very large debt payment burdens.

The median average shows a general trend of rising debt payments as a percentage of government revenue. In the IMF's baseline case, payments increase from just less than 4 per cent of government revenue in 2011 to almost 7 per cent by 2024. Economic shocks push payments significantly higher. Under the one shock scenario they reach over 10 per cent by 2024; under the lower growth scenario 13 per cent by 2024 (see Graph below). Therefore, across the three scenarios, the average relative debt payment burden increases by between 85 per cent and 250 per cent.

Median average government external debt service as a percentage of revenue (2011-2024)



3.2 Debts are becoming less sustainable

As discussed in section 1.4, a better definition of debt sustainability is whether the lending being undertaken now will leave the government concerned in a better or worse financial situation over the medium term, and so better or less able to meet basic needs and public services. We have therefore analysed the sustainability of current debt on the basis of whether or not debt payments in a decade's time will be more than 5 percentage points more of government revenue than they are now. For example, if a country is spending 5 per cent of government revenue on external debt payments now, but this increases to 10.5 per cent of government revenue by 2024, this suggests the lending is unsustainable because it has not led to a large enough increase in revenue to pay the debt and interest.

Even on the IMF's baseline projections, which tend to assume high rates of economic growth, eleven countries will be spending over five percentage points more of government revenue on debt repayments in ten years time than they do today: Bhutan, Cameroon, Comoros, Ethiopia, Ghana, Haiti, Rwanda, Senegal, Tanzania, Togo and Zambia. This is based on annual projected economic

growth in these countries of between 3.7% (Haiti) and 7.7% (Bhutan), with a mean average across the 11 countries of 5.9%. That relative debt repayments will increase significantly even if there are high rates of economic growth strongly suggests that overall debt build-up in such countries is unsustainable.

Of course, if there are economic shocks the situation changes dramatically. The IMF predictions of one economic shock now (and no more thereafter) show 25 countries spending more than five percentage points, and up to 20 percentage points, more of government revenue on debt repayments in ten years time than they do today.

On our alternative scenario of lower economic growth, a similar number of countries – 29 – will be spending more than five percentage points, and up to 30 percentage points, more of government revenue on debt repayments in ten years time than they do today.¹⁹

Summary Table. Countries where debt payments as a percentage of revenue increase significantly between now and 2024

Scenario	Countries where debt payments increase by more than 5 percentage points	Number of countries (out of 43)
IMF baseline	Bhutan, Cameroon, Comoros, Ethiopia, Ghana, Haiti, Rwanda, Senegal, Tanzania, Togo and Zambia	11 (26%)
IMF one shock	Afghanistan, Bhutan, Burkina Faso, Cameroon, Comoros, Cote d'Ivoire, Ethiopia, Ghana, Kiribati, Kyrgyz Republic, Haiti, Lesotho, Madagascar, Mongolia, Mozambique, Nigeria, Papua New Guinea, Rwanda, Senegal, Tanzania, Timor-Leste, Togo, Tonga, Uganda and Zambia	25 (58%)
Lower growth	Bangladesh, Bhutan, Burkina Faso, Burma, Cambodia, Cameroon, Comoros, Cote d'Ivoire, Ethiopia, Ghana, Haiti, Kiribati, Kyrgyz Republic, Lao, Lesotho, Liberia, Madagascar, Mali, Mongolia, Mozambique, Rwanda, Senegal, Sierra Leone, Tanzania, Timor-Leste, Togo, Tonga, Uganda, Zambia	29 (67%)

¹⁹ Bangladesh, Bhutan, Burkina Faso, Burma, Cambodia, Cameroon, Comoros, Cote d'Ivoire, Ethiopia, Ghana, Haiti, Kiribati, Kyrgyz Republic, Lao, Lesotho, Liberia, Madagascar, Mali, Mongolia, Mozambique, Rwanda, Senegal, Tanzania, Timor-Leste, Togo, Tonga, Uganda, Zambia.

3.3 Debts are becoming less payable

The IMF and World Bank say that external debts tend to become unpayable once they are higher than 18-22 per cent of government revenue. Of course, the reality can vary around this threshold. One key factor is whether lenders are willing to keep lending, and so enable the debt to be paid. Under the current system of dealing with high debt payments, the IMF, World Bank and other lenders often give bailout loans, enabling the original lenders such as the private sector to be paid, whilst the high debt remains, and austerity conditions are forced on the country concerned.

Even on the baseline projection, six countries will be spending more than 18 per cent of government revenue on external debt payments at some point in the next decade: Bhutan, Central African Republic, Ghana, the Marshall Islands, Mongolia and Senegal. Of these, debt payments in Bhutan, Central African Republic and the Marshall Islands are already in breach of this level, showing that there is already an urgent need for new debt resolution mechanisms in some countries. A further seven countries breach this threshold if they suffer from one economic shock today (and no more thereafter): Afghanistan, Chad, Cote d'Ivoire, Haiti, Rwanda, Togo and Tonga.

On the lower growth scenario, 20 countries will breach the 18% threshold at some point between now and 2024: Bangladesh, Bhutan, Central African Republic, Chad, Cote d'Ivoire, Ethiopia, Ghana, Haiti, Lao, Madagascar, Marshall Islands, Mongolia, Mozambique, Rwanda, Senegal, Tanzania, Togo, Tonga, Uganda, Zambia.

Summary Table. Countries where debt payments as a percentage of revenue are over 18 per cent at some point between now and 2024

Scenario	Countries where debt payments are more than 18 per cent of government revenue at some point in next decade	Number of countries (out of 43)
IMF baseline	Bhutan, Central African Republic, Ghana, the Marshall Islands, Mongolia and Senegal	6 (14%)
IMF one shock	Afghanistan, Bhutan, Central African Republic, Chad, Cote d'Ivoire, Ghana, Haiti, the Marshall Islands, Mongolia, Rwanda, Senegal, Togo and Tonga	13 (30%)
Lower growth	Bangladesh, Bhutan, Central African Republic, Chad, Cote d'Ivoire, Ethiopia, Ghana, Haiti, Laos, Madagascar, Marshall Islands, Mongolia, Mozambique, Rwanda, Senegal, Tanzania, Togo, Tonga, Uganda, Zambia	20 (47%)

3.4 Debt payments could reach the same level as before debt relief

Of the 43 countries in this study, 23 have received debt relief under the Heavily Indebted Poor Countries initiative and Multilateral Debt Relief Initiative, between 2000 and 2012. A sensible policy aim would be to make sure that for such countries, debt payments do not rise to the same level of government revenue as existed before debt relief was achieved.

Annual debt payments for an individual country can vary widely, especially around particular repayment spikes. In the analysis below, we have identified in which countries payments clearly increase to a similar or greater level than was the case before the country reached completion point of the HIPC and MDRI. This shows that seven countries are set to have debt payments the same or higher than before debt relief, even on the IMF's baseline projection. Of these, two – Afghanistan and Liberia – are because payments before debt relief were extremely low because their governments were in default. However, for the other five, debt payments absorbed a significant amount of government revenue before debt relief.

Under the IMF one economic shock scenario, more than half of countries that received debt relief have payments at some point over the next decade as high or higher than before their debt was cancelled.

Summary Table. Countries where debt payments as a percentage of revenue are the same or higher than before the country received debt relief, at some point between now and 2024

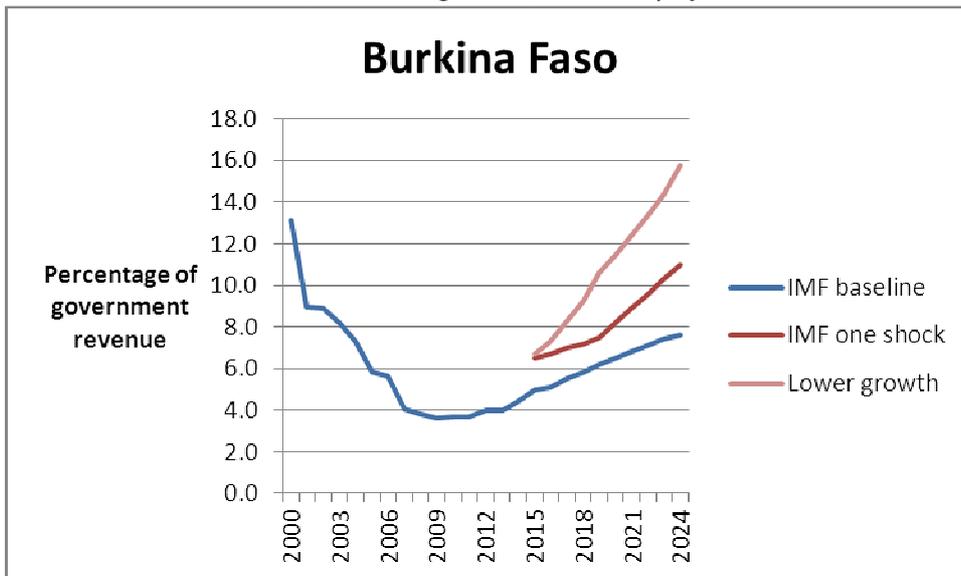
	Countries where debt payments will be similar or higher than before HIPC and MDRI debt relief at some point over the next 10 years	Number of countries (out of 25)
IMF baseline	Afghanistan, Ethiopia, Ghana, Haiti, Liberia, Rwanda, Togo	7 (28%)
IMF one shock	Afghanistan, Burkina Faso, Cote d'Ivoire, Ethiopia, Ghana, Haiti, Liberia, Madagascar, Mozambique, Rwanda, Senegal, Tanzania, Togo	13 (52%)
Lower growth	Afghanistan, Burkina Faso, Cote d'Ivoire, Ethiopia, Ghana, Haiti, Liberia, Madagascar, Mozambique, Rwanda, Senegal, Sierra Leone, Tanzania, Togo, Uganda, Zambia	16 (64%)

4. Individual country examples

Below are six country examples which highlight some of the themes of the previous chapter.

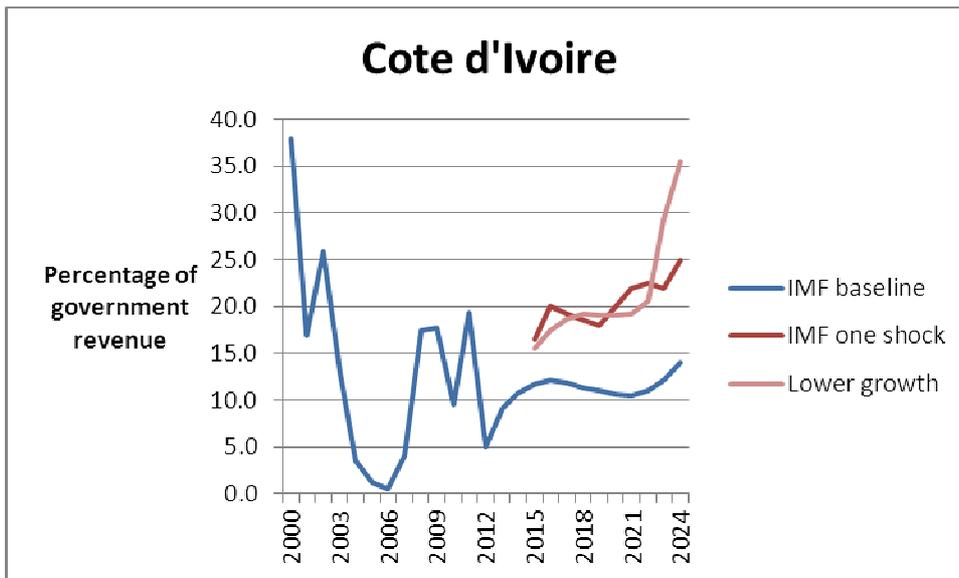
4.1 Burkina Faso

Burkina Faso's projected debt payments continue to increase steadily over the next decade, towards but not reaching levels prior to starting to receive debt relief in 2002. However, in the case of one economic shock, or lower growth, the debt payment burden is even more significant.



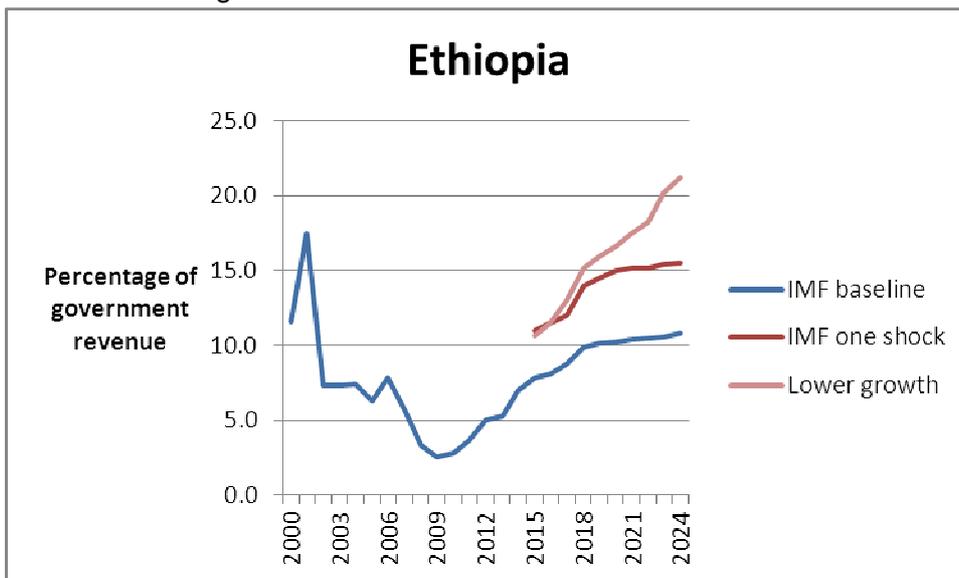
4.2 Cote d'Ivoire

Despite qualifying for debt relief in 2012, Cote d'Ivoire's debt payments are expected to remain high because of debt owed to the private sector and multilateral and government loans post-2004, which were not included in the debt cancellation scheme. Payments reach almost 15 per cent of revenue by 2024 on the IMF's baseline, which is still below the amount the country was paying prior to debt relief (except when the country was in default in the mid-2000s). However, if there is one significant economic shock, or lower growth, payments are significantly higher, and reach at least the same level as before debt relief.



4.3 Ethiopia

In Ethiopia, debt payments are projected by the IMF to increase from 4 per cent of revenue in 2011 to 11 per cent by 2024. If there is one economic shock this increases to 15 per cent, and 20 per cent under the lower growth scenario.

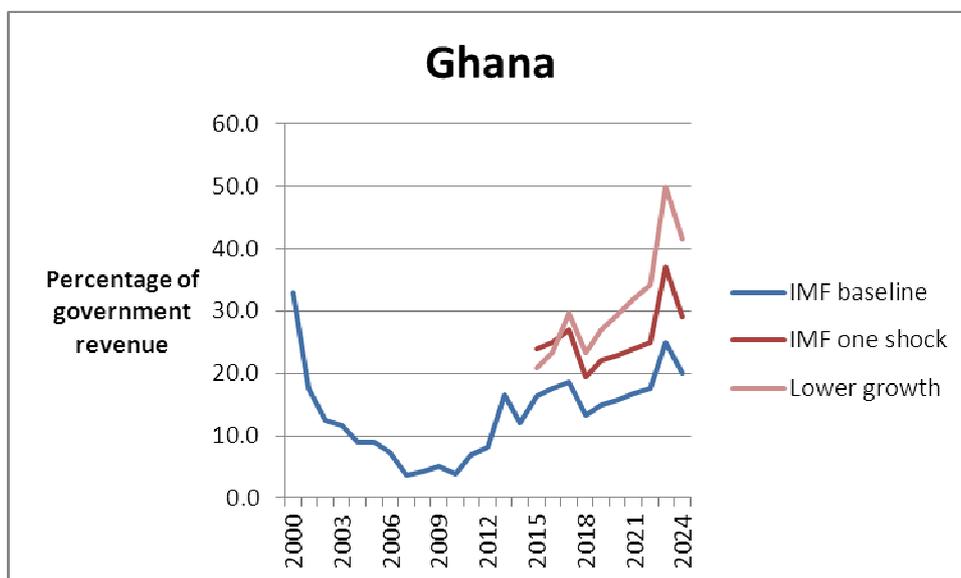


4.4 Ghana

On the IMF's baseline projection, Ghana's debt payments reach 25 per cent of government revenue in 2025, well above the IMF's threshold for when government's struggle to pay their debts. Of course, in the event of one economic shock payments are even higher – reaching 37 per cent in 2023. In the lower growth scenario they are higher still, hitting a clearly unpayable 50 per cent of government revenue.

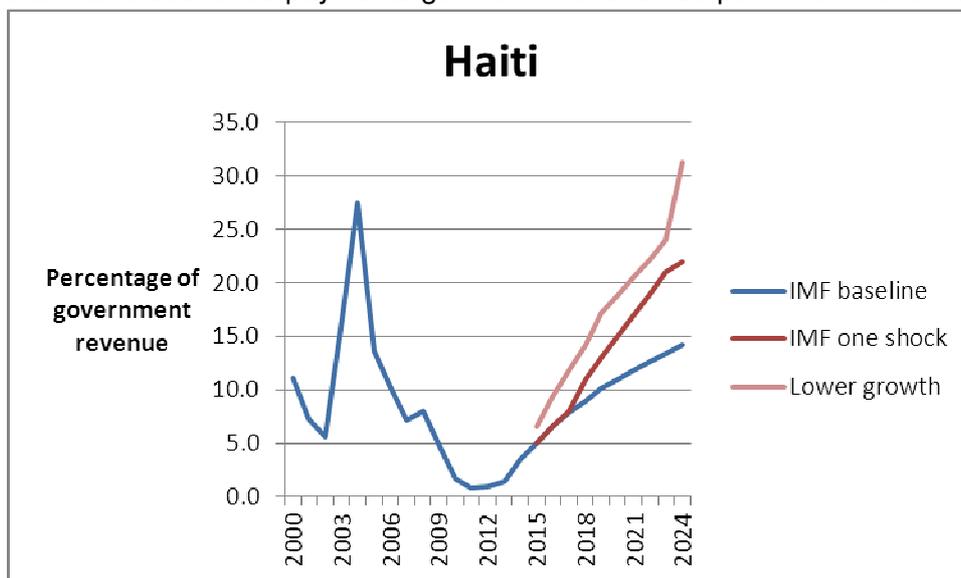
Bernard Anaba from ISODEC says that one issue for the Ghanaian government's debt situation is that tax revenues have not kept pace with economic growth, extraction of natural resources such as oil, and the 'rebasings' of the economy in 2010 which moved the country into lower middle income

status (increasing the interest rate on some of the loans the country receives). Capital inflows to exploit natural resources such as oil have increased the size of the economy and access to foreign finance, but have not yet had the same impact on generating the same level of extra revenue for the government. See <http://thebftonline.com/content/article-going-imf-discussion-what-guide>



4.5 Haiti

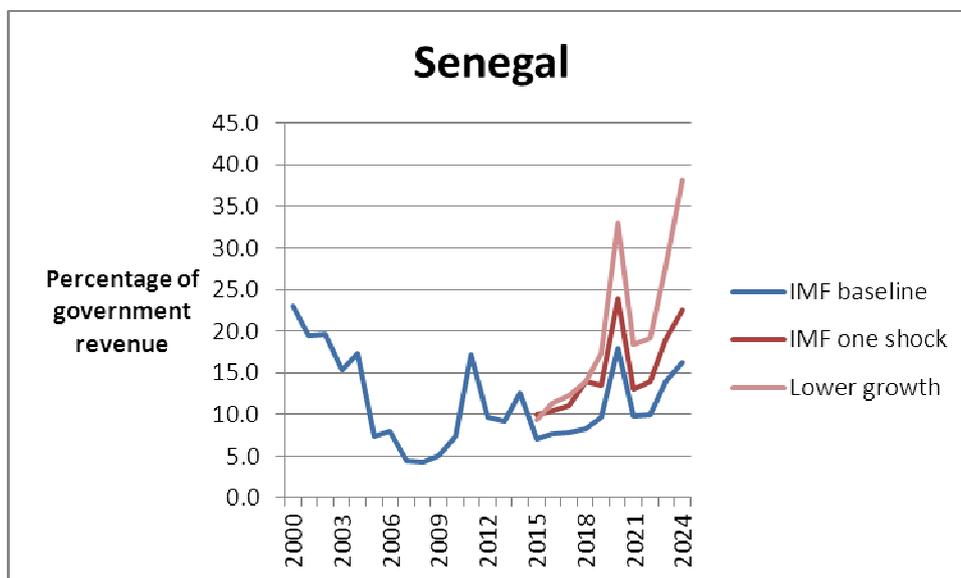
Haiti qualified for HIPC and MDRI debt relief in 2009. This was followed by additional cancellation of some multilateral and bilateral debts in 2010 after the earthquake. However, the debt burden is increasing rapidly, with the IMF projecting that payments will reach almost 15 per cent of revenue by 2024 on its baseline scenario, above the rate of payments in most years prior to debt relief. On the alternative scenarios payments go over 20 or even 30 per cent of revenue.



4.6 Senegal

In Senegal, despite qualifying for HIPC debt relief in 2004, and MDRI in 2005, debt payments have already increased significantly again; 13 per cent of government revenue is expected to be spent on external debt payments in 2014. On the IMF baseline projection, payments spike up to 18 per cent

in 2020 when a bond issuance comes due to be paid. On the one shock scenario the 2020 payments total 24 per cent of revenue, whilst on the lower growth they are 33 per cent. There is a clear risk regarding Senegal’s ability to pay within the next ten years.



5. Illustrative impacts on health and education spending

These increases in debt payments would have significant implications for public spending, if the debts did continue to be paid. For five or the six countries above,²⁰ the increase in debt payments would require cuts in health and education budgets of between 5 and 25 per cent of government revenue, based on current levels of health and education spending, and assuming that cuts were made equally across areas of public expenditure (see Tables below)

²⁰ There is not enough data for Haiti

IMF baseline

Country	Increase in debt payments between 2013 and 2024 (percentage of government revenue)	Current spending on public health and education (combined, percentage of government revenue)	Percentage cut required in proportion of revenue spent on health and education to meet debt payments, if spending cut equally across areas
Burkina Faso	3.6	35.1	4%
Cote d'Ivoire	4.9	42	5%
Ethiopia	5.5	49.5	5%
Ghana	3.5	55.8	3%
Senegal	7.1	40.7	7%

IMF one shock

Country	Increase in debt payments between 2013 and 2024 (percentage of government revenue)	Current spending on public health and education (combined, percentage of government revenue)	Percentage cut required in proportion of revenue spent on health and education to meet debt payments, if spending cut equally across areas
Burkina Faso	7	35.1	7%
Cote d'Ivoire	15.9	42	16%
Ethiopia	10.2	49.5	10%
Ghana	12.4	55.8	12%
Senegal	13.3	40.7	13%

Lower growth

Country	Increase in debt payments between 2013 and 2024 (percentage of government revenue)	Current spending on public health and education (combined, percentage of government revenue)	Percentage cut required in proportion of revenue spent on health and education to meet debt payments, if spending cut equally across areas
Burkina Faso	11.8	35.1	12%
Cote d'Ivoire	26.3	42	26%
Ethiopia	15.9	49.5	16%
Ghana	24.9	55.8	25%
Senegal	29	40.7	29%

6. Recommendations

Because of the risk of new debt crises being created, measures are needed now to make lending more responsible, and to create better ways of dealing with debt crises if they do arise which, by signalling that reckless lenders would not be bailed out, would also reduce the chance of crises in the first place. We recommend that the UK government should:

1) Commit that all UK bilateral aid will remain as grants

2) Shift aid money away from sources which give loans, towards sources which give grants.

Under current rules, loans can be counted as aid if interest rates are 7% or less. Several governments give large proportions of bilateral aid as loans, including Japan, France, Germany and China. These loans have increased in recent years.

The UK does not currently give bilateral loans, but it does make large aid contributions to multilateral institutions such as the World Bank and African Development Bank, which are then given as aid. Jubilee Debt Campaign estimated in 2012 that \$1.26 billion of UK aid money was given to multilateral institutions to then be used as loans. This was the second highest amount of any OECD country, after Japan (\$2.23 billion).²¹

A representative of Agence Française de Développement told a meeting of European NGOs in June 2013 that there is currently such a glut of cheap loans that the agency is hard pressed to find projects to fund as they are effectively competing with Germany and the European Investment Bank to find viable projects.

However, despite this lending boom, the International Development Select Committee of the UK parliament recommended in February 2014 that *more* aid should be given as loans, through giving all aid to middle income countries as loans, and some aid to low income countries as loans. These loans on top of the lending boom which is already taking place towards many countries would further exacerbate the risk of new debt crises.

3) Require all lenders funded by the UK, including UK Export Finance, the World Bank and IMF, to sign up to responsible lending guidelines, including public scrutiny of loan terms before contracts are signed.

For lending and borrowing to be more responsible requires greater accountability to people in the countries concerned. One common call of groups we work with in the global South is for all loan contracts to be made publicly available for scrutiny before they are signed, and for contracts to require the agreement of elected parliaments. Lenders can help facilitate this process by making contracts publicly available, and requiring parliamentary approval. However, UK Export Finance for example, does not release any information on loans it guarantees until up to a year after a deal has been agreed, and then refuses to release details of the contracts.

²¹ Jones, T. (2012). The state of debt: Putting an end to 30 years of crisis. Jubilee Debt Campaign. May 2012.

4) Support the creation of a fair, transparent and independent process for resolving sovereign debt crises, to show banks they won't be bailed out for reckless loans.

Low interest rates and quantitative easing in the Western world are fuelling a private lending bubble to developing countries. Open capital markets mean money can be borrowed at low interest rates in the West, and lent on to developing countries.

Furthermore, the current system of responding to debt crises incentivises the private sector to lend recklessly. The IMF and other institutions (such as the EU or World Bank) lend more money to countries in crisis, bailing out the original reckless lenders, whilst leaving the country in debt. When debt relief is finally agreed, for example through the Heavily Indebted Poor Countries initiative, it is the public sector which bears the cost.

Instead, a fair and transparent debt workout process, independent of lenders and borrowers, would indicate to lenders that they would have to be involved in debt restructurings. This would incentivise private lenders to be more responsible, thereby reducing the frequency of debt crises, whilst also protecting the public sector from the costs of more bailouts.

In September 2014, the UN General Assembly voted to create a legal regulatory framework for the sovereign debt restructuring process, by 124 votes in favour to just 11 against.²² This extremely welcome move means there is now a process at the United Nations to create such a resolution mechanism. Appalling, eleven countries, including the UK government, attempted to block these negotiations from even beginning. All government should now constructively engage in the process to create a fair, transparent and independent process for resolving sovereign debt crises.

5) Support the creation of debt sustainability assessments which are conducted independently of creditor and debtors, take into account the meeting of basic needs and public service provision, and apply to all countries

The debt sustainability assessments relied on for this study are severely limited because they:

- Are conducted by two major lenders, the IMF and World Bank, so have an inherent conflict of interest
- Only consider whether debts will be payable, not whether debts are increasing the financial options of the government concerned, a better measure of sustainability
- They are not conducted for all countries, despite the fact that any country, no matter its GDP per person, can be affected by sovereign debt crises

A completely new form of debt sustainability assessment is needed to replace the IMF and World Bank versions. Such assessments should be conducted for all countries by a multilateral institution, such as the UN, and take into account whether debt is helping or hindering the meeting of basic needs and public service provision as well as a country's ability to pay.

²² http://www.un.org/ga/search/view_doc.asp?symbol=A/68/L.57&Lang=E

Debt sustainability assessments also need to fully take into account:

- Debts owed by the private sector
- Payment obligations and contingent liabilities created for a government by Public Private Partnerships
- Government debts owed domestically, whilst analysing these debts and their risks separately from external debts

6) Introduce policies to support developing countries in increasing their tax revenues, including by preventing the loss of revenue through tax avoidance and evasion.

One reason developing country governments are dependent on foreign loans is because of the large quantities of revenue they lose through tax avoidance and evasion. The OECD has estimated that developing countries lose three times more money to tax havens than they get in overseas aid.²³

As a major financial centre, the UK government has a responsibility to ensure its policies help developing countries receive more of the money due. However, in recent years policies implemented by the UK government have actually made the situation even worse for developing countries. The Controlled Foreign Companies rules have been changed so that they no longer deter tax avoidance by UK companies in third countries. Instead, the rules now offer an incentive to UK companies to maximise their use of offshore financing transactions within their own company, because of a 75% tax break on the profits from these transactions.

The negative impacts of the changes to the Controlled Foreign Companies rules indicates that one useful policy would be for there to be a requirement on the UK government to conduct a spillover analysis that every tax rule and treaty adopted by the government does not harm the ability of developing countries to collect adequate tax revenues, but actively helps them to tackle tax avoidance and evasion. The UK government should:

- Remove the gateways and exemptions from the UK's Controlled Foreign Companies rules which prevent them from deterring tax avoidance and evasion in third countries
- Ensure that every tax rule and treaty adopted by the UK government should have a spillover analysis to check that it won't harm developing countries, but actively help them in tackling tax avoidance and evasion.

²³ <http://www.theguardian.com/commentisfree/2008/nov/27/comment-aid-development-tax-havens>

Jubilee Debt Campaign

Our vision

Inspired by the ancient concept of 'jubilee', we campaign for a world where debt is no longer used as a form of power by which the rich exploit the poor. Freedom from debt slavery is a necessary step towards a world in which our common resources are used to realise equality, justice and human dignity.

Our mission

Jubilee Debt Campaign is part of a global movement demanding freedom from the slavery of unjust debts and a new financial system that puts people first.

By Tim Jones, Jubilee Debt Campaign

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