September 2020

MP briefing: The debt crisis

In October, G20 finance ministers, the World Bank and the International Monetary Fund will meet to agree the next stage of response to the coronavirus crisis, including the response in the poorest countries. Campaigners from across the UK are contacting MPs to discuss the urgent need to address the debt crisis faced by developing countries trying to respond to coronavirus - with a nationwide 'virtual lobby' facilitated by Jubilee Debt Campaign, Christian Aid, ONE, Oxfam GB, CAFOD and Global Justice Now. This briefing contains some background to the issues your constituents may raise with you in this meeting.

Debt crisis meets pandemic

In normal circumstances, half the world's population do not have access to essential healthcare. The coronavirus pandemic is placing further strain on already-weak healthcare systems in developing countries, putting millions of lives at risk. The same countries also face economic turmoil and have been plunged into a new debt crisis, making responding to the health crisis impossible as a result of massive debt burdens. Without dramatic action to shore up the economies of developing countries through debt relief, as many as half a billion more people could be pushed into poverty.

Coronavirus and subsequent lockdown measures have meant practically shutting down domestic economies and markets, causing hundreds of millions to lose their jobs and livelihoods. The crisis has collapsed the global price of raw materials like oil and copper, on which many developing-country economies depend for export earnings and ultimately also tax revenue to finance health spending. Many have also been hit by falling tourism revenues, loss of remittances and other falls in demand for exports, again creating hardship for people, and creating budget shortages. The same countries have little fiscal room and are not in a position to deploy robust spending plans to mitigate the immediate economic shock, and thus rely on more debt from multilateral institutions such as the IMF and the World Bank that will have to be paid back. Before the coronavirus crisis, 64 countries were already spending more servicing their debt payments than on their health care systems. This will be exacerbated by the current crisis, putting millions of lives at risk and, in the long run, severely affecting the achievement of the Sustainable Development Goals.

Key statistics

- In 2020 alone, the poorest 76 countries were due to spend over $40 billion on debt repayments
- Ghana spends four times more on its external debt payments than it does on healthcare
- Central African Republic has only three ventilators in a country of almost five million people. It is due to spend $25 million on external debt payments in 2020 alone - which is 10% of Government revenue
- Malawi has only a quarter of the nurses needed to provide health care for all - debt cancellation for 2020 alone could pay the salaries of all 14,000 extra needed nurses for three years

What does the debt look like?

Bilateral debt accounts for 41% of debt servicing costs of the poorest 73 countries who are already eligible to the Debt Service Suspension Initiative (DSSI). On 15 April, G20 finance ministers agreed to offer the poorest countries a suspension on their debt payments to other governments from May to December 2020 as part of the DSSI. This is welcome and so far 41 out of 73 of the poorest countries have applied through the DSSI for their bilateral debt repayments to be suspended this year. This could save these countries up to $9 billion, yet all 73 countries must still repay up to $33.7 billion worth of debt this year, which is $2.8 billion per month. This figure is double the amount that Uganda, Malawi and Zambia combined spend on their annual health budget. Moreover, as this is a suspension for 2020, these payments will all come due between 2022 and 2024, alongside accrued interest. This means countries will have to start paying debt payments in 2021 and be faced with a fresh debt crisis in 2022 when they have to pay off these suspended payments whilst still dealing with the fall out of the pandemic.

Private creditor debt - debt owed to commercial lenders, constitutes 27% of total debt payments of the 73 developing countries who can apply for the DSSI. This means private creditors will receive $9 billion in debt repayments from the poorest 77 countries from May to December 2020. As part of the DSSI, G20 leaders also noted that “private creditors will be called upon publicly to participate in the initiative on comparable terms.” However, this is a voluntary request and private creditors are a disparate group and they are often hard to trace. For a suspension of payments to private creditors to be implemented, debtor governments may have to default on the payments, but this risks them being sued in UK Courts. Of bonds owed by the 77 countries who qualify for G20 debt relief, 90% are governed by English law.

Multilateral debt – debt owed to institutions such as the World Bank and IMF – accounts for 32% of all debt payments. The French government estimates that this amounts to $12 billion owed by the 77 poorest countries to multilateral institutions in the remainder of 2020. Between them, the IMF and World Bank hold large gold and dollar reserves - the IMF alone has $27 billion of cash reserves and over $135 billion of gold - which could be used for debt cancellation. The IMF can also issue new Special Drawing Rights (SDRs) as an internationally acceptable reserve currency. As part of the DSSI, the G20 has asked multilateral institutions to “explore the options” for suspending debt payments. The World Bank has so far not chosen to suspend debt repayments, but the IMF has agreed to cancel debt payments to it for six months for the very poorest countries, which will save 25 countries $215 million, but this is not long enough. As a major shareholder in the World Bank and IMF, the UK can still exert pressure on the institutions to cancel more debt, in order to help countries deal with coronavirus.

The role of the UK

The UK has already shown important global leadership by signing up to the DSSI. Now it must continue to lead on this important issue and ensure the DSSI is extended in timeframe and that the burden of debt relief does not solely fall on bilateral creditors. To ensure the DSSI remains effective and to prevent further debt crises and economic turmoil impacting millions of lives, the UK Government should ask for the following things at the upcoming G20, World Bank and IMF meetings:

1. **An extension of the DSSI**: the DSSI should be extended for at minimum one year and up to four years
2. **The mandatory inclusion of private creditors:** private creditors should match the terms of the existing debt suspension (and of any future review) offered by the DSSI
3. **The mandatory inclusion of multilateral development banks**: multilateral development banks should match the terms of the existing debt suspension (and of any future review) offered by the DSSI

The DSSI is a valuable first step in support of these countries globally. However, suspension also means that countries will face an even bigger debt crisis in two years’ time, and the best route to solving the debt crisis would be to cancel the debts of the countries most in need for the duration of the coronavirus crisis and recovery.

Frequently Asked Questions

- ***Didn’t we ‘do’ debt relief in 2005?***

A landmark decision in 2005 cancelled the debts of 39 countries, at the time worth over $40 billion in total debt owed to multilateral institutions like the IMF. Of the 39 countries eligible or potentially eligible for Heavily Indebted Poor Country (HIPC) Initiative in 2005, 36 are receiving full debt relief from the IMF and other creditors after reaching their completion points. Three countries, which have been identified as potentially eligible for HIPC Initiative assistance, have not yet reached their decision points, but Somalia is making progress towards achieving this milestone in the coming months.

Developing-country debts have increased significantly since the Global Financial Crisis of 2008, and with many more countries accessing either bilateral debt from G20 countries in addition to IMF and World Bank debt. The low interest rates in many OECD countries meant that international investors sought greater returns by going to emerging market bonds, and indeed many developing nations issuing new bonds as international financiers at much higher interest rates than their OECD-country counterparts. This resulted in debt payments by these countries increasing by 85% between 2010 and 2018. Even before the coronavirus crisis began, 64 developing countries were spending more on external debt payments than healthcare.

- ***How do we know countries will spend the money saved from debt relief on their healthcare system?***

Money saved through not paying debts is available in terms of budget spending for other purposes. DSSI countries will need to evidence their public spending to the World Bank and the IMF in response to the coronavirus as they have also received large scale emergency lending which all come with public spending targets for targeted actions to fight the Covid-19 pandemic and its associated economic fallout in terms of loss of jobs, income and livelihoods. There is a concern, however, that without the participation of private sector creditors in also agreeing to suspend and eventually cancel debt payments in this time, much of the funds saved may flow to the pockets of private investment firms and banks, and we ask therefore that all debt is suspended. We also ask for greater debt transparency in times of Covid-19, in identifying who the creditors are so we can hold debt payments accountable, and measure in terms of budget monitoring how debt payments are then in turn used for vital lifesaving health and anti-poverty spending. The IMF tracks the stimulus spending in light of Covid-19, and we can see a rise in public spending in vital areas already in their tracker, and other tracking initiatives.

- ***Isn't debt to private companies often for things like weapons sales? Why should this debt be forgiven?***

There are a few instances where debt has been incurred as a result of arms sales to the government, where such sales are financed by bilateral export credits in cases where the arms manufacturer is also a partly or fully state-owned enterprise, or where the deal is supported by the two governments in question. In our monitoring of bilateral and private debt this is a minority of debts incurred, mostly debts are taken out for purposes of public infrastructure spending (roads, railroads, ports, hospitals, schools), or for purposes of financing budget deficits where they are assumed to be short-term, e.g. due to falling commodity prices, in which case they finance recurrent budget spending.

- ***Why should the UK forgive the debt of other countries when there are lots of people struggling to pay debt in the UK who don't get the same opportunity?***

The UK holds very little in terms of bilateral debt with the 77 countries involved in the Debt Servicing Suspension Initiative, so the initiative will not create obligations for further debt forgiveness for the UK apart from some areas of export credit financing by the UK government. The UK has used £150 million in supporting debt cancellation efforts at the IMF via the aid budget in support of the Catastrophe Containment Relief Trust (CCRT), along with Japan that then in turn paid a part of the multilateral debt of Sierra Leone and other low-income countries, so the UK is rather using its international aid budget and its influence in the multilateral institutions to take action on debt relief.

In terms of people in the UK, there is already legislation and measures in place made to protect people in terms of the mortgage payment holiday, personal credit card and personal loan holidays from debt burdens - and we are simply asking similar measures to be extended to sovereign governments in the developing world so that they could also suspend debt payments without fear of losing their future access to credit and worsening credit rating, and in the most vulnerable countries to have access to orderly debt restructuring with view of protecting the most vulnerable.

For any questions or for any further information, please contact Yasmin Mahboubi at Oxfam GB, on ymahboubi1@oxfam.org.uk or your focal point at any of the following organisations.