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Dette & Développement
Plateforme sur la dette des pays du Sud

# NO RELIEF IN SIGHT

## FRENCH PRIVATE FINANCIAL INSTITUTIONS DEMAND DEBT SERVICE REPAYMENT DESPITE THE COVID CRISIS

**Poor countries have already been weakened by unsustainable debt burden—now they are hard hit by the Covid-19 pandemic and the ensuing economic crisis. The annual burden of loans reached $370 billion in 2019, just prior to the pandemic. That's a considerable sum of money that should now be spent on strengthening the health systems and essential services of those countries, and on boosting their economies.**

**$17.5 BILLION**
are due to be paid to private creditors

Less than
**40%**
of the debt-service repayments are suspended by official creditors

They hold more than
**60%**
the low- and middle-income countries' debt

To relieve that burden, the G20 adopted the **Debt Service Suspension Initiative (DSSI)** as an emergency action in spring 2020. However, the DSSI offers only deferral of debt-service payments, without any cancellation or sustainable restructuring of debt. Further, it suspends repayments from only bilateral official creditors: private creditors are not asked to participate. Under these conditions, less than 40% of the debt-service repayments of beneficiary countries will be suspended through the program. Meanwhile, they will have paid $17.5 billion to private creditors, including commercial banks, insurance companies, and investment funds, which are continuing to demand repayment of their claims.

Our study, based on databases of tens of thousands of financial statements, shows that these private operators are now the primary creditors of low- and middle-income countries, as they hold more than 60% of their debt. Among them, **the top French banks play a central role, particularly in Côte d'Ivoire and Senegal. They have made healthy profits during the pandemic**.

The data analyzed in this report show that **French private financial institutions are active in the three segments currently contributing to the rapid increase in indebtedness of the poorest countries: bank loans, bond issue services, and the purchase of sovereign bonds**. Bank claims held by French banks on DSSI-eligible countries have in this way increased fourfold since 2010. Just prior to the health crisis, they were receiving more than $200 million per year in repayments, including nearly $40 million in interest.

These French banks are also very active in providing financial services for bond issues, earning them significant fees. Three of these banks (BNP Paribas, Société Générale and Banque Populaire/Caisse d'Epargne Group–BPCE) are among the 15 global financial groups that have taken on the largest volume of bond issues from DSSI-eligible debtors since January 2011. They have invested nearly $8 billion in the financial markets on behalf of eight of the poorest countries. These French banks also buy debt securities on the markets, and the French bank Crédit Agricole has risen to become the sixth-largest buyer of bonds issued by the poorest countries in the world. It is expected to earn more than

$100 million in interest for the year 2021 alone. Moreover, the more a country is considered to be at risk of debt distress, the higher the interest rate demanded: for example, the average interest rate of sovereign bonds issued by Ghana and Cameroon and held by French investors reaches the exorbitant levels of 9.2% and 9.5% respectively.

Our report focuses on two countries, Côte d'Ivoire and Senegal, where subsidiaries of French banks have long been established. Because Côte d'Ivoire has lacked sufficient financing for its reconstruction, it has run up massive debts through a series of bond issues. In 2019, interest payments on its external public debt were estimated at $520 million. Three quarters of this amount was made up of bond claims, representing more than 13% of the country's total tax revenues. Despite the Covid-19 crisis and having requested to benefit from DSSI, the amount Côte d'Ivoire will have to pay its private creditors between May 2020 and December 2021 represents more than its healthcare budget. At the same time, for their bank loans alone and excluding remuneration of any bonds in their portfolios, French banks are expected to collect nearly $133 million in repayments from the country. Significantly, they have participated in all of Côte d'Ivoire's international bond issues since 2014, including those during the Covid-19 crisis.

Like Côte d'Ivoire, Senegal is coming under growing pressure from its private creditors, which held nearly 40% of its debt at the end of 2020. The country's debt burden has increased sixfold since 2010 and now represents nearly one quarter of its total tax revenue. And even though Senegal requested to participate in the DSSI to reduce its debt repayments during the pandemic, it will still have to repay $821 million between May 2020 and December 2021 to sovereign bondholders. The interest earned by those bondholders alone represents more than the annual budget of the Senegalese Ministry of Health and Social Action. For Senegal as well, French banks have been involved in almost all of its international bond issues since 2009, including for a bond issued during the Covid-19 crisis.

Private creditors are thus making tens of billions of euros each year—money that is sorely lacking in the poorest countries to respond to the health crisis and to meet people's most immediate needs. The debt crisis these countries face is no longer a cyclical liquidity crisis that can be solved by simply extending debt-repayment dates. Rather, it's an in-depth solvency crisis that requires large-scale restructuring and debt cancellations.

The Covid-19 pandemic has shown that we can't rely on the "goodwill" of private financial operators in such a situation. To help developing countries put the fundamental rights of their citizens ahead of debt servicing, our report recommends that France **require private French creditors to assume their share of future debt relief and adopt suitable laws to protect indebted countries against possible legal proceedings by private creditors. It encourages private creditors to be more transparent about the debts** they hold, in order to reduce risk of over-indebtedness and facilitate possible restructuring processes. Above all, our report recommends setting up a **multilateral mechanism for sovereign debt restructuring**; this mechanism must be independent of creditors, transparent, and binding, and it must prioritize human rights and meeting people's basic needs.

**Any sovereign debtor State should be able initiate a restructuring process if it is at risk of debt distress or if it puts some of its debts into dispute. It should allow for comprehensive treatment of the country's outstanding debt and thus for fair sharing of the burden among all creditors, including private creditors.**

**This study on the role of private creditors and French financial institutions in the indebtedness of the poorest countries is based on:**

- the World Bank's public international debt databases (https://databank.worldbank.org/source/international-debt-statistics);
- the information collected and analyzed by the Dutch organization Profundo (https://www.profundo.nl/) within Refinitiv's financial databases to identify the private operators in bond issues, bank loans and institutional investors holding bonds on these states in June 2021 (Refinitiv eMAXX).

**Oxfam France** is a member of the Oxfam confederation, an international development organization that mobilizes citizen power against poverty. The Oxfam confederation works in more than 90 countries to find sustainable solutions to end the injustices that breed poverty.

**The French Debt and Development Platform** brings together 29 French organizations and unions acting in favor of a broad, fair and sustainable solution to the debt problem of developing countries.

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