Plateforme Française Dette et Développement

The French Platform on Debt and Development

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A new international debt sustainability crisis: context, perspectives and recommendations

The French Platform on Debt and Development Platform (PFDD) brings together 26 French organizations and unions acting in favor of a broad, fair and sustainable solution to the debt problem of developing countries.

Website: https://dette-developpement.org/
Contact: m.paris@ccfd-terresolidaire.org

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Context

Sovereign debt, public debt, or national debt are all terms used to describe the amount of money that a state owes to other entities. Borrowing money creates an obligation to allocate resources to pay this debt, which accrues interest (debt service being the sum, over a given period, of the principal payments maturing and the interest to be paid). Debt can be domestic (owed to lenders within the country) or external (owed to foreign lenders). Creditors can be public (multilateral and bilateral) or private (commercial banks, insurance companies, investment funds, pension funds).

According to the leaders of rich countries and international financial institutions (IFIs), the state should manage its debt like a company or a household. Beyond making the very idea of debt cancellation taboo, this perspective forgets that the state cannot disappear, unlike a household or a company, and that it alone plays a major role for the benefit of the community and future generations. The state invests in social services or in the ecological transition, in order to guarantee the respect of human rights, as well as the economic and social rights of its population. Unsustainable interest rates transform debt repayment into a real tool of domination, making it impossible to finance real public policies that guarantee respect for the human rights of a country's population.,.

Debt continues to be a real burden for the populations of the countries of the South. As a result of a debt policy that is as irresponsible on the part of creditor countries' governments as it is on the part of debtor countries, mostly the populations of debtor countries bear the cost. Rich countries, that concentrate the vast majority of the world's wealth, bear a heavy responsibility for the accumulation of this unsustainable debt. This situation is worsened by the drastic economic, political and financial conditionalities (privatisations, liberalisations, reduction of public expenditure...) imposed by the creditor countries and the IFIs on their debtors. Thus, in the absence of any transparent criteria for debt cancellation, the fate of these countries is left to the goodwill and arbitrary conditions of their creditors[1].

However, the current situation of "debt crisis" has been pointed out on the international scene since the 2010s, when the world economy was in a situation that encouraged excessive lending by the richest to the poorest countries. This was due to the relatively low interest rates in North America, Europe and Japan and the high need for infrastructure financing in countries with relatively weak governance. This combination led to promises of profit for rich country investors and default risks not being properly considered when making loans, relying on bailouts from the IMF and other multilateral actors. From 2015 onwards, this situation became even more critical as interest rates rose and commodity prices collapsed[2].

Today, the economic crisis, fuelled in particular by the pandemic and the war in Ukraine, has highlighted both a developing debt crisis and insufficient funding for basic social services in developing countries. It is now the war in Ukraine that brings to the fore the urgency of addressing the issue of debt unsustainability with rising food, fuel and fertiliser prices[3].

Managed in international fora where only rich creditor countries sit (G7, G20, Paris Club), the mechanisms for dealing with unsustainable debts exonerate creditors from their co-responsibility and leave borrowing countries in the hands of increasingly powerful private creditors[4].

[1] https://dette-developpement.org/La-dette

[2] « Etats fortement endettés du Monde 2019 », *Erlassjhar &* Misereor, April 2019. Available online: https://dette-developpement.org/IMG/pdf/etats_fortement_endettes_du_monde_2019.pdf

[3] According to UNCTAD, the countries that appear to be most vulnerable due to a combination of high refinancing pressures and a high debt service/export ratio are Pakistan, Mongolia, Sri Lanka, Egypt and Angola. Three of them, Pakistan, Egypt and Angola, already have long-term IMF programmes in place. Sri Lanka announced that it will default on its debt on 11 April 2022.

[4] To learn more about private creditors with the example of French private creditors and their role in the indebtedness of developing countries, our report published in October 2021: "No relief in sight. French private financial institutions demand debt service repayment despite the Covid crisis". Available online: https://dette-developpement.org/IMG/pdf/oxfam-pfdd_no_relief_in_sight_v2_4p_-_221021.pdf

A more dramatic situation than ever:

The year 2020, marked by the beginning of the health and economic crisis, saw the largest increase in **global** debt (private and public excluding the financial sector) over one year since the Second World War, reaching an amount of 226,000 billion dollars according to the IMF. This represents an increase of 28 percentage points to 256% of world GDP[5][6].

On the **developing country** side, as the UN Secretary General's report recalls in July 2022[7], "since 2015, the debt vulnerabilities of developing countries have increased at a steady pace initially, and then at an accelerated pace under the impact of the pandemic [leading to an increase in] their debt levels until 2019." From 2020 onwards, the debt accumulation caused by the pandemic is twice as high as that caused by the 2008 crisis. According to UNCTAD, developing countries are expected to need $310 billion to service external public debt in 2022, or 9.2% of outstanding external public debt at the end of 2020[8].

The holders of this debt have also changed. Today, 60% of public debt in the South is held by private creditors who charge exorbitant interest rates (compared to 40% 20 years ago)., According to Debt Justice, former *Jubilee Debt Campaign*, debt payments for developing countries increased by 120% between 2010 and 2021 and are higher than at any time since 2001. Most payments (47%) will be made to private creditors, particularly bondholders.

If **low- and middle-income countries** have a higher debt-to-GDP ratio than Northern countries, they have less access to finance and are forced to borrow at higher rates. Therefore, as a proportion of their savings, the debt service (the amount of money the borrower has to pay each year to honour the debt) will be higher and unfair.

With an increase of 5.3% in 2020 to $8.7 trillion in external debt[9], low- and middle-income countries had to repay $400 billion in debt in 2020 only.

Even more worrying, more than half of **low-income countries** are in debt distress or default according to the latest IMF calculations in 2021: twice as many as in 2015. At the same time, they will have to repay about $35 billion to official bilateral and private sector creditors in 2022, according to the World Bank, a 45% increase from 2020. If one considers the total external public debt service - not just bilateral and private, but also multilateral - of all low- and lower-middle-income countries, the bill rises to $120 billion.

As a result, almost 60% of low-income countries are now at high risk of debt distress or are over-indebted, more than double the number in 2015. 25% of middle-income countries are at high risk of a fiscal crisis. These figures were established before the 2022 rise in world food and energy prices, as reported in the UN Secretary-General's Report of July 2022.

The major human impact of over-indebtedness:

Debt distress is a huge obstacle to the fight against poverty, inequality and climate change and more globally to the realisation of universally guaranteed human rights. The current pressure from creditors on developing countries to prioritise debt payments affects the government's budget and its ability to provide, in particular, quality universal and gender-sensitive public services, and to invest in climate change adaptation and mitigation.

In 2020, extreme poverty increased for the first time in decades worldwide. This represents a 30-year setback in the fight against poverty in some regions, such as sub-Saharan Africa.

[5] https://www.imf.org/fr/News/Articles/2021/12/15/blog-global-debt-reaches-a-record-226-trillion
[6] 296 trillion with financial companies (cf. *IIF Global Debt Monitor*).
[7] https://documents-dds-ny.un.org/doc/UNDOC/GEN/N22/437/82/PDF/N2243782.pdf?OpenElement
[8] https://unctad.org/fr/press-material/lonu-voit-une-deterioration-des-perspectives-de-croissance-mondiale-en-2022-en
[9] https://www.banquemondiale.org/fr/news/press-release/2021/10/11/low-income-country-debt-rises-to-record-860-billion-in-2020

In the case of Africa, 60% of African countries spend more on debt repayment than on health care[10] and the UN estimates that half of all jobs could be lost by the end of the crisis. Concerning the African continent, according to African Development Bank (AfDB) figures presented by its chief economist in August 2022, two trends are emerging:
1) an increase in debt servicing: the equivalent of 18% of government income was used for debt servicing in 2020 (30% for 5 countries, more than 14% for 20 other countries). In April 2022, out of 38 countries assessed on their debt sustainability, 16 were already at high risk, 15 at moderate risk.
2) the changing composition of creditors in Africa: the share of private creditors has doubled from 17% in 2000 to 39% in 2019. Multilateral debt has been relatively stable at 32.5% over the last 20 years, but bilateral debt has halved to 27% today (of which 48.5% for China, 15% for the US and 11% for France).

In the case of the Sahel, a geographical priority of French diplomacy, the figures are equally striking. For the six French-speaking Sahelian countries (Burkina Faso, Mali, Mauritania, Niger, Senegal and Chad), the annual repayment of their debts is equivalent to 140% of the amounts allocated to their health budgets. For the Sahelian countries, simply cancelling the 2021 repayments could give 20 million people access to primary health care.

Insufficient decisions

The Debt Service Suspension Initiative - DSSI - adopted by the G20 in the spring of 2020 was intended to ease this burden and prevent a large number of countries from defaulting. But the initiative was limited to a simple deferral of payments, without cancellation or sustainable debt restructuring, and suspending the repayments of only bilateral official creditors, without involving multilateral banks or private creditors. Moreover, the initiative did not concern middle-income countries[11], many of which were already facing dramatic situations. Sri Lanka, for example, was not eligible for the initiative.

The World Bank estimated that the 48 countries benefiting from the DSSI could have "saved" up to $23 billion between May 2020 and December 2021. This amount represented less than 40% of their maturities over the period. In the end, this temporary reprieve only resulted in the deferral of about $13 billion, as some countries did not apply for it, partly for fear of the reaction of rating agencies and financial markets.
At the same time, those debtor countries paid $17.5 billion to commercial banks and investment funds, and as much to multilateral official creditors. Moreover, the debt of the 73 countries eligible for the G20 moratorium (DSSI) rose by 12% in 2020 ($860 billion) [12].
Only 48 out of 73 eligible countries have applied to the DSSI and according to a Eurodad study, the moratorium covered only 1.6% of the total repayments due by developing countries in 2020[13].

This relief has not even had a marginal beneficial effect as it has simply been offset by the decline in these countries' revenues.
In other words, the deferral of bilateral creditors and the new emergency financing provided by the IMF are only a partial response and in the case of some very vulnerable countries only just make it possible to avoid default... and thus to repay their private creditors.
On 1st January 2022, the DSSI officially ended, and the payment of the sums initially suspended therefore rapidly increased the situation of asphyxiation already experienced by many developing countries

[10] https://jubileedebt.org.uk/wp-content/uploads/2020/04/Debt-payments-and-health-spending_13.04.20.pdf
[11] Eligible countries were LDCs (UN category) and World Bank IDA eligible countries
[12] https://www.lesechos.fr/monde/enjeux-internationaux/lalerte-du-fmi-et-de-la-banque-mondiale-sur-la-dette-des-pays-pauvres-1354675
[13] https://www.eurodad.org/g20_dssi_shadow_report

It is precisely in view of this situation, which is likely to persist, that the G20 unveiled a "**Common Framework for debt treatment beyond the DSSI**" on 21th November 2020. But once again, this instrument seems totally inadequate. The world's 20 largest economies only provide for debt cancellation on exceptional basis, preferring rescheduling. In this new framework, private creditors are once again not obliged to implement such measures. The responsibility rests exclusively with the poorest countries which, once the relief decisions have been formalised, will have to try to renegotiate their debt on the same terms, creditor by creditor.

The current framework opts for restructuring on a case-by-case basis, and with each category of creditor separately. This piecemeal approach is time consuming and ignores the need for massive and immediate relief to enable developing countries to meet the urgent needs of their populations and to face the challenges of climate change. Moreover, countries are reluctant to ask for debt restructuring through the Common Framework due to pressure from private creditors and the IFIs, threatening that countries seeking restructuring will be excluded from the markets and have their sovereign debt ratings downgraded by the rating agencies.

Since the announcement of this new framework, no negotiations have yet been concluded, showing the incoherence of this tool which once again does not treat creditors and debtors equally despite the seriousness of the situation.

Finally, in August 2021, the IMF announced a general allocation of Special Drawing Rights (SDRs)[14] equivalent to US$650 billion (about 456 billion SDRs) in order to provide more liquidity to the global economic system. However, SDRs are distributed to member countries in proportion to their contribution to the IMF,which varies according to their weight in the world economy. For example, France received 4% of the August 2021 allocation, the US received 14%, while Burkina Faso received 0.025%, Mali 0.04% and Senegal 0.07%. It is crucial that rich countries reallocate a substantial part of their SDRs to developing countries without offsetting this with cuts in Official Development Assistance (ODA) or climate finance.

[14] "Special Drawing Rights or SDRs were created in 1969 by the IMF. Designed to allow its members (currently 190 countries) to increase their foreign exchange reserves, they help provide more liquidity to the global economic system. They are not a traditional currency but rather a budget line that each SDR-holding country can convert into money to strengthen its own economy. For more information: https://www.oxfamfrance.org/financement-du-developpement/les-droits-de-tirages-speciaux-un-soutien-aux-pays-pauvres/

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Recommendations and perspectives

1. Debt workout mechanism

- Establish, within the framework of the United Nations, a fair, comprehensive and transparent multilateral space for the resolution of debt crises.

- Establish an automatic debt suspension, cancellation and restructuring mechanism covering public and private creditors following extreme climatic events, in addition to immediate access to non-debt creating resources for loss and damage.

- Adoption by the UN of a resolution suspending legal action by private creditors against states benefiting from debt suspension or restructuring under bilateral creditor initiatives.

- Promote an open review of the approach to debt sustainability, with UN guidance and civil society participation, to move towards a concept of debt sustainability that fundamentally takes into account environmental and climate vulnerabilities, as well as human rights and other social, gender and development considerations.

To the French authorities:
Promote at UN level the establishment of a universal debt workout mechanism for restructuring sovereign debts.

2. Debt cancellations and restructurings

- Immediately cancel debt repayments due up to the end of 2023, including all sums deferred in 2020 and 2021, to allow countries to save these resources and spend them on protecting their populations and on necessary economic measures. These measures should include not only DSSI countries, but also middle-income economies under severe debt pressure.

- Public and private creditors must take immediate steps to implement unconditional and ambitious cancellation of unsustainable and illegitimate debts, to enable these countries to make sovereign and participatory political decisions to honour their commitments to human rights and environmental protection.

- For newly contracted or restructured debts, governments and IFIs should include in their loan contracts, and promote to private creditors, conditional clauses related to both climate and other exogenous health and economic shocks.

To the French authorities:

- Consider restructuring French bilateral debts, including outright debt cancellations, and make measured use of conversion tools (such as C2Ds), as these tools have not been sufficient responses to unsustainable debt situations in the past.
- Urgently rebalance the share of grants within its development policy to come closer to the average of OECD Development Assistance Committee countries.
- Do not count debt relief as ODA.

3. Transparency of debts and loans

- Establish a debt audit of all debtor countries, involving civil society in the debtor country at their request.

- G20 governments must ensure that a publicly accessible debt and loan data register is established and maintained in a permanent institution, with the necessary funding. Civil society and parliaments should be consulted on its establishment so that the data is accessible, standardised and structured, and therefore easily usable. Information should be available in English and in the main language of the borrowing country concerned.
  All governments and multilateral institutions commit to disclose their loans on this register, and to include the information mentioned above.

- The Extractive Industries Transparency Initiative (EITI) should encourage extractive companies and governments to also disclose loans to governments on this register.

- All relevant legislation, in particular that of the UK and New York, should introduce a requirement that a loan made to a government, or with any form of government guarantee, is enforceable only after it has been disclosed on the above register within 30 days of the contract being signed, including the information described above.

To the French authorities:
Increase the transparency of its outstanding claims on foreign countries, but also of the expected repayment schedules.

4. Roles and participation of private creditors

- Make the participation of private creditors in all debt relief efforts mandatory.

- Protect indebted countries from legal actions initiated by private creditors. Private investors, also known as "vulture funds", have made a speciality of going to court to obtain repayment of their debts, even when a restructuring agreement has been reached with the majority of creditors or when they have acquired these debt securities at "knock-down prices" on secondary markets. The governments of the main financial centres (notably in England and New York) must adopt legislation, which could be inspired by the one adopted by Belgium in 2015, to protect debtor countries and prevent creditors from circumventing binding measures by relying on court decisions. France, like the other G7 and G20 countries, must call for the adoption of such legislation.

- Increase the transparency of creditor debt portfolios and make public the amount of fees charged for bond issues. In order to prevent over-indebtedness, access to this information, which is currently very limited, is necessary. It is also necessary for citizens to know the cost of commissions paid to financial institutions for placing their debt securities on the markets.

- Ensure that the G20 Finance, the G7 Private Sector Working Group and other similar fora do not provide privileged access to the IIF and private creditors or financial sector representatives to their working groups, meetings and decision-makers; instead, all stakeholders, particularly countries and representatives of those affected by the debt crisis, should have access and be consulted. The G20 Finance should also provide public information on all its interactions with different stakeholders, including correspondence and participation in meetings or events.

To the French authorities:
Improve French legislation regarding the supervision of private creditors in debt restructuring and vulture funds. France should call for mandatory participation of private creditors in debt restructuring and relief initiatives and prevent creditors from suing a debtor country.

5. Reallocation of Special Drawing Rights (SDRs)

Regarding the August 2021 allocation:

1. It is essential that the world's richest countries reallocate a substantial portion of their SDRs - at a minimum 25% of the money they have received - to provide debt-free, unconditional support to the countries that need it most. Of the $100 billion pledged by the G20, only $36 billion has been committed to date.
2. Ensure that money transferred is free of conditionality, in particular through the IMF's new Resilience and Sustainability Trust (RST). By 2021, more than 80% of the IMF's so-called Covid 19 loans to developing countries were encouraging or requiring additional austerity measures as early as this year.
3. The reallocated SDRs must be used in a transparent manner, working closely with civil society to ensure that these resources are used to reduce inequalities and improve the lives of millions of men and women who cannot access health care, education or a decent social protection system.

For a new allocation:

- An urgent new allocation of SDR 2.5 billion
- The IMF should in the short term implement regular allocations of SDRs that are not tied to existing members' quotas and instead adopt a needs-based allocation formula that makes them directly available to countries in need when necessary.
- Commit to additionality of SDR allocations with ODA and climate finance, unless in grant form or highly concessional.
- Reform the IMF's RST Fund by broadening eligibility criteria to include all vulnerable countries, regardless of their income level (including middle-income countries that do not have access to the PRGT); ensuring that RST financing is highly concessional and not tied to the existence of an IMF programme; avoiding conditionalities, especially those on taxation and private sector consolidation; systematically conducting ex-ante impact assessments (human rights, gender, inequality, climate)
- Develop SDR alternatives outside the IMF

6. Macroeconomic conditionalities attached to loans

- Beyond the active participation of multilateral actors - in particular the IMF, the World Bank and the AfDB - in debt relief efforts, this must be accompanied by an end to all accompanying macroeconomic conditionalities aimed at implementing austerity policies[15].

7. Common Framework for debt treatment beyond the DSSI

The Common Framework is not a solution. Whereas the French Platform support the idea of a multilateral framework at the UN, if the CF becomes an important space for debt restructuring, it must be improved immediately by:

- Expanding access to other highly indebted vulnerable countries,
- Granting debt suspension throughout the debt restructuring negotiations for private as well as bilateral and multilateral creditors
- Clarifying and enforcing comparability of treatment by private creditors,
- Committing legislative protection and financial support to debtor countries that have to default on their recalcitrant creditors, while the cancellation and restructuring of other creditors' debt should continue. Such commitments should be provided by the G20, Paris Club governments and multilateral development banks, as well as the IMF through its lending policy to countries in arrears.

[15] Oxfam's new Inequality Reduction Engagement Index (IERI) reveals that 14 out of 16 West African countries plan to cut their national budgets by a total of $26.8 billion over the next five years to partly make up for the $48.7 billion lost in 2020 to the pandemic in the region. And that this austerity has been encouraged by the IMF through its Covid-19 loans. These austerity measures could trigger the worst inequality crisis in decades, with women being particularly hard hit because of their high concentration in precarious jobs and unpaid care work : https://www.oxfamfrance.org/rapports/la-crise-des-inegalites-en-afrique-de-louest-lutter-contre-lausterite-et-la-pandemie/