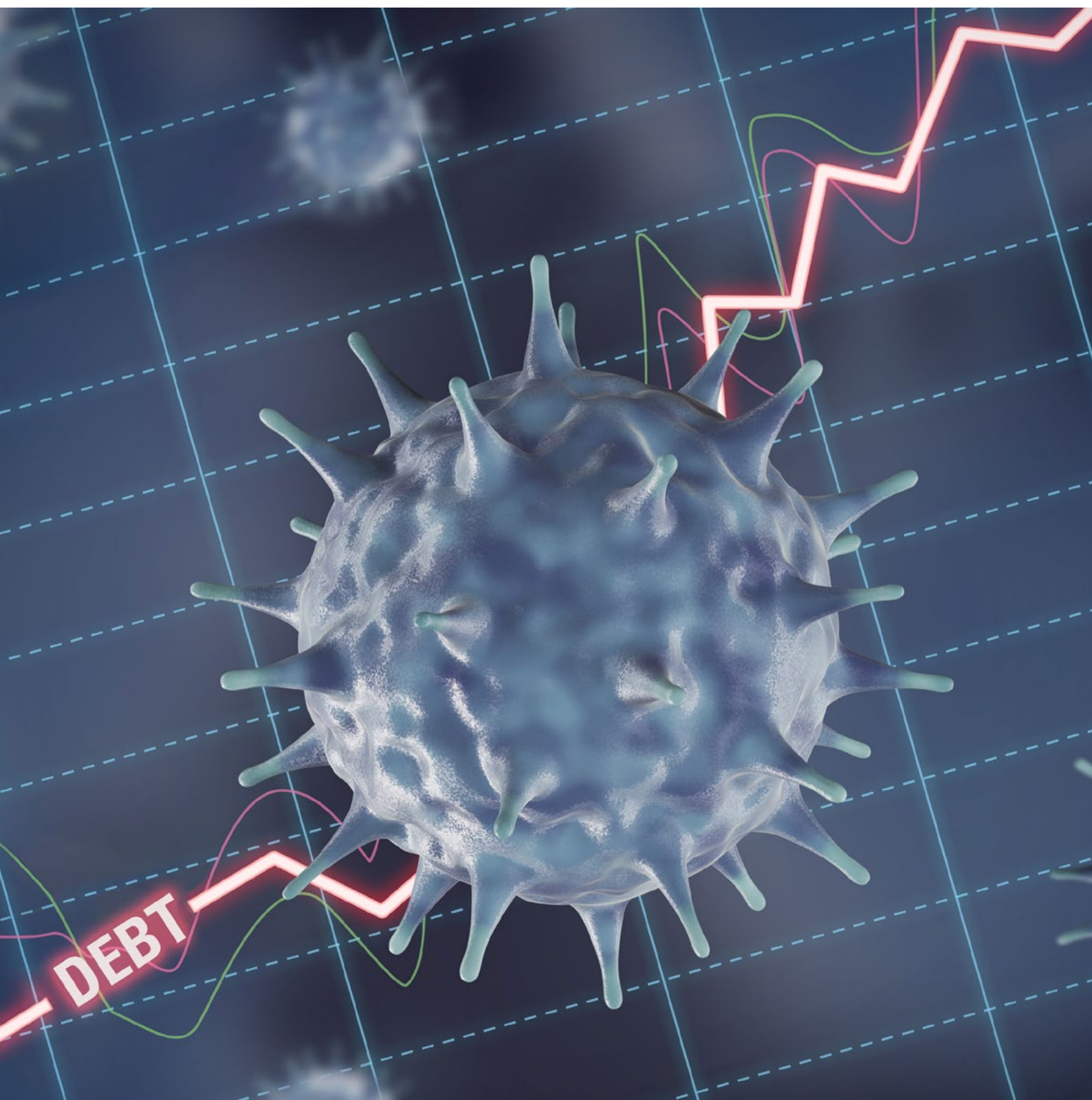


# The Pandemic Papers:

Reviews of Covid-19's impact on debt  
and development finance





**Brot**  
für die Welt

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# A crisis of unimaginable proportions

COVID-19 has unleashed a pandemic of unimaginable proportions. Millions, and particularly the most vulnerable in society, have been stricken by the virus. In early October the World Bank estimated that by 2021 an additional 110 to 150 million people will have fallen into extreme poverty, living on less than US\$1.90 per day. Oxfam has estimated that half a billion people could be pushed into poverty, leading to increased social, economic and gender inequalities.<sup>1</sup> More women will inevitably be pushed into extreme poverty than men. As UN Women points out: “for countless women in economies of every size, along with losing income, the unpaid care and domestic work burden has exploded,” and furthermore, gender-based violence has also been on the rise.

There is fear and uncertainty of what the future holds. Efforts continue for safe and effective vaccines which must be distributed equitably and for an affordable price, with a particular focus on the most vulnerable communities and countries in the Global South. Unfortunately, the vaccine saga that played out at the G20 Summit in November 2020 became another disappointing example of the repeated failure of the richest economies of the world to take concrete steps to ensure the rest of the world would be equipped to tackle the pandemic.<sup>2</sup>

Soon after the World Health Organisation warned that the Corona virus outbreak was turning into a pandemic on 11 March 2020, it became clearer that the world was on the brink of facing an unprecedented crisis.<sup>3</sup> A large group of low and middle-income countries who were already struggling with unsustainable levels of debt, would find it impossible to deal with the health crisis while continuing to service their debts. Research by Eurodad published on 2 April pointed out that a suspension of official bilateral debt payments in 2020 and emergency funding would still result in an estimated US\$9.4 billion of emergency funding to be diverted to debt repayments.<sup>4</sup>

## A limited response

On World Health Day, 7 April 2020, hundreds of civil society organisations (CSOs) launched a call to donors to ensure that emergency finance did not add to countries' burdens and to urgently put in place a process to reduce debt to sustainable levels.<sup>5</sup> However, the agreement reached by the G20 on 15 April 2020, the Debt Service Suspension Initiative (DSSI) only provided a suspension of principal and interest payments on debt due between 1 May and 31 December 2020 for the poorest countries and only to bilateral government lenders. The final list of possible beneficiaries was immediately reduced to 73, as four countries (Eritrea, Sudan, Syria and Zimbabwe) were excluded from the initiative as a result of ongoing arrears with the International Monetary Fund (IMF) and or the World Bank. Moreover, even with the G20's extension of the initiative to June 2021, the debt crisis risks of these countries have simply being pushed further down the road.

## Too little

Eurodad's 'Shadow Report on the limitations of the DSSI: Draining the Titanic with a bucket' shows that for countries that requested debt suspension, the temporary breathing space the initiative provided accounted for as little as 0.1 per cent of GDP for Burundi, Nepal and Papua New Guinea, 3.1 per cent of GDP for Angola and 2 per cent for Mozambique. Moreover, the initiative ensured that deferred payments would be adjusted so that creditors would face no losses on the value of the delayed payments, being net percent value neutral. The initiative costs the creditors nothing but borrowing countries will be saddled with larger repayments once the suspension period ends. Borrowing countries are likely to have to borrow more funds to repay not only the postponed debt, but potentially also to service any new loans contracted to face the economic downturn caused by the Covid-19 pandemic.

This is set against the deteriorating quality and volume of concessional finance that would be available to these countries. One of the first of Eurodad's analysis of the challenges of development finance in the face of Covid-19 analysed how Official Development Assistance (ODA) – or rather the lack of it – would impact on countries' ability to recover from the crisis.<sup>6</sup> On the one hand it warned of the downward trend of resources directly available to the global south or 'Country Programmable Aid' (CPA) while the actual amounts of ODA in the last few years remained essentially flat.

On the other hand, there is a perverse incentive that is programmed into the new ODA accounting system which includes an ex ante adjustment anticipating the risk of default. In this case, lending to low-income countries, with a higher default-risk calculation, would provide attractive avenues for donors to augment their ODA reporting without actually scaling up their ODA budgets in real terms.<sup>7</sup>

### Too narrow

The DSSI Shadow Report lists a group of 78 countries, including lower and upper middle-income countries as well as many Small Island Developing States who were left out of the initiative. While low-income countries had a brief respite thanks to the G20 DSSI and advanced economies implemented substantial fiscal and financial support packages equivalent to an average 19.8 per cent of GDP, the size of the response packages of lower and upper middle-income countries was a fraction of this, despite being severely impacted by the pandemic. This is not surprising as the size of the Global Financial Safety Nets- consisting of IMF loans, central bank swaps and regional financial arrangements, that high middle-income countries can access is only a quarter of the US\$ 3.5 trillion available. Moreover, access for almost half of them was limited only to IMF lending. After an initial market panic, the return of private investment to emerging economies created a false sense of complacency that their financial challenges were mostly under control and no additional measures were required.

### Too restricted

One of the biggest gaps of the DSSI is the failure to enforce the participation of private creditors and multilateral-development banks (MDBs) in the initiative. The DSSI Shadow Report warns that resources freed up by suspending official bilateral debt payments could be used to pay other creditors, in the private sector in particular. New emergency lending by international financial institutions (IFIs) would also de facto bail out private creditors. Pressure from various actors: civil society, the G20, the IFIs etc. notwithstanding, private creditors maintained that a case by case approach to debt relief was the only way forward for them. The much-anticipated 'Common framework for Debt Treatment beyond the DSSI' of the G20 announced on 14 November 2020 also failed to provide an adequate response to this issue. The Framework merely repurposed established Paris Club mechanisms, leading to the prospect of countries in debt distress condemned to negotiate debt restructuring on an inherently skewed playing field not in their favour.

### A lost decade of development

In September 2020, the UN's Commission for Trade and Development issued the following warning: "there is a very serious danger that the (*finance*) shortfall will drag developing countries into another lost decade ending any hope of realizing the ambition of the 2030 Agenda for Sustainable Development."<sup>8</sup>

Despite the much-publicized support that the World Bank Group (WBG) and its president David Malpass gave the DSSI, the Bank has refused to participate in the DSSI. The DSSI Shadow Report points to the weakness of the arguments that the Bank has provided to justify its unwillingness to participate: concern about its creditworthiness and its provision of emergency financing. What is worse, the briefing 'Never let a pandemic go to waste: How the World Bank's Covid-19 response is prioritizing the private sector,' demonstrates how the WBG appears to have seized the opportunity of the pandemic to intensify its 'Maximising Finance for Development' (MFD) approach. The MFD approach prioritises the use of private finance for delivering infrastructure and public services, despite weak evidence to support this approach and fast-growing literature denouncing its multiple risks. Using data from the emergency financing facility that the WBG put in place, the briefing shows that it was mainly multinational companies and the financial sector clients of the International Financial Corporation, the WBG private sector lending arm, that benefited from its first four months of the pandemic response.

The briefing 'Development Finance Institutions and Covid-19: Time to reset' analysing how a selection of bilateral Development Finance Institutions (DFIs) responded to the crisis reaches similar conclusions. For instance, the five largest investments made by the US Development Finance Corporation (DFC), between March and October 2020 include two investees based in the US (the Kodak Company and the Nevada-based Trans Pacific Network) and one in the UK (Prodigy Finance, a specialized fintech platform providing student loans). The briefing questions DFIs' ability to actually reach those sectors and groups that were hit hardest by the crisis based on their recent track-record. DFI-lending focussed mainly on financial intermediaries despite data from the World Bank showing that medium, small and micro-enterprises hardest hit by the crisis did not turn to banks for support. As is apparently the case for the WBG, the DFIs clearly prioritised the private sector.

This approach appears to be built on an underlying prejudice against the public sector, which has been fueled by austerity policies that have undermined its ability to deliver.

Unfortunately, this vicious circle is unlikely to be broken by the IMF programmes to provide financial assistance that were approved during the pandemic. The briefing 'Arrested development: International Monetary Fund lending and austerity post Covid-19' reaches this conclusion on the basis of a review of IMF staff reports for 80 countries that were prepared as part of the process of approval for financial assistance between March and September of 2020. The briefing shows how austerity measures requested by the IMF risked sinking the countries involved into a spiral of austerity, undermining public services, increasing income and gender inequality and hampering growth prospects. This would hardly qualify as contributing to an effective recovery effort.

### A just recovery is still possible...

The Covid-19 responses in the areas of debt and development finance that the writings compiled in this publication analyse are unfortunately 'more of the same,' that will potentially return us into an anomalous normal that led the world into this development crisis in the first place. Yet, it is not too late. There are actions that can be taken to ensure that the recovery is far-sighted, visionary, gender-responsive and holistic. This crisis of a century needs a proportionate response, if we are to stay on track to realise the dream of Agenda 2030 while ensuring the planet does not reel into climate chaos.

### But urgent measures are needed.

The reviews of emergency measures show that they were inadequate and failed to meet their target. All unequivocally call for more and better action with a long-term focus.

-An ambitious and systemic solution to the debt crisis in the global south: Systematic debt relief operations will need to be put in place to address the debt vulnerabilities of developing countries in the longer term. The IMF and WB should draw on work by the UNHRC and UNCTAD to ensure that debt sustainability assessments, when undertaken, support the securing of debt relief and restructuring that is consistent with Agenda 2030 financing needs and human rights obligations. Furthermore, to ensure durable and equitable outcomes, debt relief should involve all creditor groups, including multilateral, official bilateral, and private lenders in a permanent, independent and multilateral process under UN auspices, that allows civil society participation and considers not only capacity for payment but also development needs, human rights, gender equality and climate vulnerabilities, as well as issues of debt legitimacy.<sup>9</sup> Steps should also be taken regarding binding rules on responsible sovereign lending and borrowing in order to support improved debt crisis prevention.

-Invest in strengthening public systems and delivering better public services for all: The pandemic has shown the spotlight on the critical role that public services play in the protection of basic human rights. To no lesser extent, the climate crisis also puts the role of public investment in sharp relief. There is no room for austerity policies and market-based solutions. These have been proven, once again, to be ineffective, not in the least in situations of great external stress. In the short term, the WBG needs to restore the balance between the public and private sector in its Covid-19 response, including in its modalities and instruments. Importantly, the WBG Covid-19 response should not contribute to deepening the debt problem. Meanwhile, in the long-term it is imperative that the WBG re-evaluates the MFD approach. If the WBG wishes to 'build back better', it needs to consider the broad implications of its agenda and move towards a human rights-based approach that builds resilience and strengthens public systems. Bilateral DFIs should also re-evaluate their strategies to target countries, sectors and the companies most in need.

-Repairing the broken global tax system is key: To ensure adequate levels of public finance needed to fund the public services necessary to put the world back on track to fulfill the vision of Agenda 2030, within planetary boundaries, we need to repair the broken international tax system. This required increased and equitable intergovernmental cooperation and action against illicit financial flows, including tax abuse, tax avoidance and evasion. Governments must reinforce multilateral efforts under the UN to mobilize adequate and timely financing for development, including through progressive taxation and international action to halt illicit financial flows. Progressive taxes must be complemented with progressive spending, which ensures that the revenue reaches those most in need, including the most marginalized and vulnerable. Therefore, transparent and accountable budgeting practices will be essential, including Gender-Responsive Budgeting.

- Sufficient ODA delivered using development finance principles: More than ever before, official development assistance (ODA) will remain a vital source of finance for many low-income economies. Acknowledging that extraordinary measures will require significant increases in the finance, the UN has called for channeling at least a quarter of committed, yet undelivered, ODA into a Marshall Plan. Furthermore, ODA must be delivered in the form of grants instead of loans and incentives built into the current ODA accounting system that favour lending over grant financing must be removed.

# The G20 Debt Service Suspension Initiative

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Draining out the Titanic with a bucket?

By Iolanda Fresnillo

*With contributions from Daniel Munevar and Mark Perera (Eurodad), and from Fanny Gallois (Plateforme Dette et Développement) for the section on Cameroon, Jürgen Kaiser (Erlassjahr.de) for El Salvador, Abdul Khaliq (ISEJ Pakistan and CADTM Network) for Pakistan, AFRODAD – African Forum and Network on Debt and Development and Jesuit Center for Theological Reflection (JCTR) for Zambia, and Asian People's Movement on Debt and Development (APMDD) for the Philippines.*

## 1. Introduction

The social and humanitarian impacts of the economic crisis unleashed by the Covid-19 pandemic are devastating, especially for the most vulnerable populations in the global south. The rapid onset and scale of the economic and financial impacts triggered by this public health crisis clearly indicate the extreme vulnerability of developing countries to exogenous economic shocks, and how fragile livelihoods are for people around the world.

Developing countries are seeing sharp declines in export revenue – due to the sudden halt in global trade and the collapse of commodity prices – as well as falls in tourism income and remittances, as well as record levels of capital flight during the first months of the global lockdown. Although some of these trends seem to be slowly improving, the damage to emerging and developing economies will take much longer to fix. It is likely that the recession triggered by the pandemic will leave lasting economic scars, such as reduced investment, high unemployment and a retreat from global trade and supply linkages, particularly affecting countries in the global south. Moreover, the impact on people's rights will also have long-term implications.

According to research carried out by Brookings, more than 1.6 billion children in developing countries have been unable to go to school because of Covid-19, and they “stand to lose \$10 trillion in labour earnings over their work life”. Estimates from the International Labour Organization (ILO) suggest that the equivalent of 240 million jobs were lost in low- and middle-income countries in the second quarter of the year, in addition to the US\$3.5 trillion global loss in labour income during the first three quarters of 2020.

As a result, half a billion people could be pushed into poverty, according to Oxfam, leading to increased social, economic and gender inequalities, and undoubtedly widening the gender poverty gap. This means that more women will be pushed into extreme poverty than men. According to UNWomen, “for countless women in economies of every size, along with losing income, unpaid care and domestic work burden has exploded”, and furthermore, gender-based violence has also been on the rise.

The Covid-19 pandemic has not only jeopardised the right to health for many, but also the right to decent work, housing, food, water and sanitation. This is an “apocalyptic moment”, in the words of Ken Ofori-Atta, the Ghanaian finance minister, which cannot be tackled with the current focus on “saving the economy”. We need to put people at the core of the recovery, especially the most vulnerable – making sure that human rights, gender equality and environmental protection are the key considerations driving the global response.

Unless more ambitious action is taken, debt will deepen the scars in the economies and human rights of the global south. Public indebtedness in the global south had already reached unprecedented levels before the onset of the Covid-19 pandemic. The current crisis has exacerbated the pre-existing debt vulnerabilities, pushing debt levels to new heights. According to the International Monetary Fund's (IMF) projections, average debt ratios will rise by ten percent of Gross Domestic Product (GDP) in emerging market economies and about seven percent in low-income countries.

As a result of this situation, governments are facing the impossible challenge of balancing health and social spending to protect their populations from the pandemic and the economic and social impacts of domestic and international lockdown measures, as they endure a sharp decrease in government revenues. Coupled with currency devaluations and an increase in borrowing costs, growing fiscal deficits are making it even harder for governments in the global south to meet their external sovereign debt payments. Meanwhile, financial support for developing countries to tackle the pandemic is being provided, in the most part, in the form of new loans, which are adding to already unsustainable debt levels. Furthermore, with increased debt vulnerabilities, fiscal pressures, and a global economic downturn, the capacity for many countries to absorb more loans is weakening.

There is now a growing consensus regarding the likelihood of a protracted debt crisis in the global south. The key question is whether the existing tools and international financial architecture are fit to offer a fair and timely response to such a crisis. While the Debt Service Suspension Initiative (DSSI) adopted by the G20 and the debt relief offered by the IMF in April have provided some vital short-term breathing space to a limited number of the world's poorest countries, the challenges ahead to forestall the impact of this wave are enormous. Even the IMF and the World Bank have recognised that in addition to support to address their liquidity problems, many countries in the global south will need substantial debt cancellation and restructuring, and that the world needs to address the limitations of the existing international financial architecture.

This briefing looks specifically at the G20 DSSI, and how it falls short of addressing these challenges. The briefing is an update and extension to the Eurodad report published in July and it will discuss the DSSI as well as its scope, which countries are involved and to what extent they are benefitting from the DSSI. This briefing also includes updated data analysis on the implementation of DSSI, and provides an analysis of the data projections regarding debt to be paid by the most impoverished countries in the following years and to which creditors. This second version of the report includes an update on what to expect from the next steps of the DSSI and debt relief, and examines two of the main shortcomings of the G20 initiative: the multilateral institutions and private lenders refusal to participate in it. We illustrate these shortcomings with seven country case studies – Nepal, Cameroon, Kenya and El Salvador (all included in the first version of the report), and Pakistan, Zambia and The Philippines (new country cases) – written in collaboration with several partners. This report also analyses the impact on countries excluded from the initiative and provides policy recommendations to address both short and mid-term challenges.

## 2. What is the Debt Service Suspension Initiative?

On 15 April 2020, the G20 announced an agreement to provide a suspension of principal and interest payments on debt due between 1 May and 31 December 2020 by the poorest developing countries to bilateral government lenders. The Debt Service Suspension Initiative (DSSI) potentially covers 77 countries – those classified by the United Nations (UN) as Least Developed Countries, and so-called “IDA-countries”, referring to those that are eligible to borrow from the World Bank’s International Development Association.

In order to have access to the initiative, the countries must make a formal request for debt service suspension to their bilateral creditors and be benefiting from, or have made a request for IMF financing, including emergency facilities (Rapid Financing Instrument/Rapid Credit Facility). The beneficiary countries must commit to using the created fiscal space to increase social, health and/or economic spending in response to the crisis; disclose all public sector financial commitments; and must not contract any new non-concessional borrowing (other than agreements under the initiative or in compliance with limits agreed under the IMF Debt Limit Policy (DLP) or WBG policy on non-concessional borrowing).

### 2.1. Which countries are really benefiting from the debt suspension?

The final list of possible beneficiaries was immediately reduced to 73, as four countries (Eritrea, Sudan, Syria and Zimbabwe) were excluded from the initiative as a result of ongoing arrears with the IMF and/or World Bank. Of the 73 countries eligible for DSSI, 46 countries have confirmed their participation in the initiative at the time of writing. These countries, mostly from Sub-Saharan Africa (see graph below), will benefit from postponed debt payments of an estimated \$5.3 billion, just under half of the initial \$12 billion announced as potential temporary debt relief.

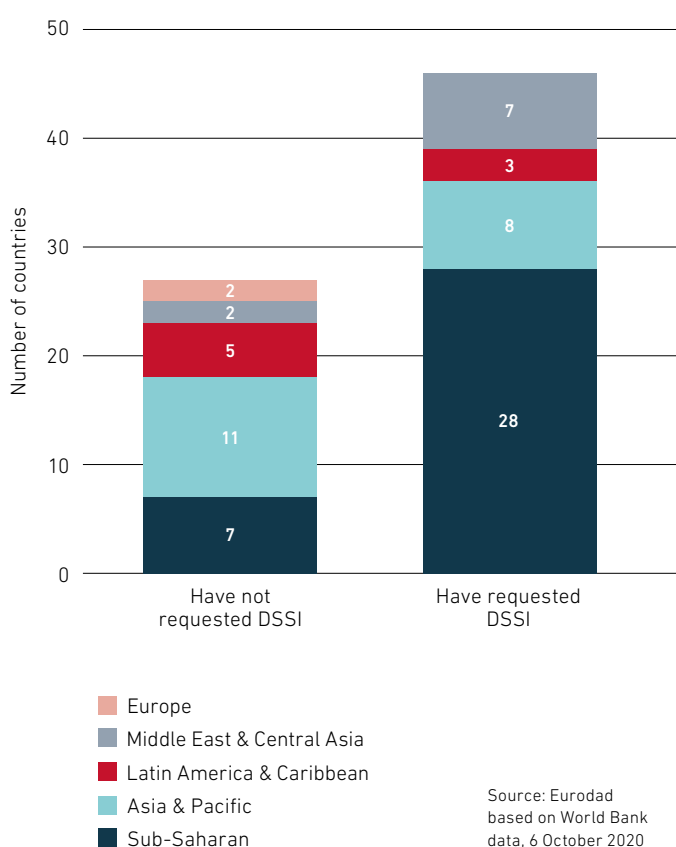
According to the joint debt sustainability analyses carried out by the World Bank and the IMF, among the 26 countries that had not requested to join the initiative, 11 countries were at high risk of debt distress or were already in debt distress in August 2020. These countries include Ghana, Haiti, Kenya, Kiribati, Laos, Marshall Islands, Micronesia, Samoa, St. Vincent and the Grenadines, Tuvalu and Zambia.

The reasons for eligible countries not to apply to DSSI vary depending on the specific context, but they can be summarised as follows:

- **Low debt levels:** Debt levels, specifically bilateral debt levels, are low and countries consider that it is not worth the process to apply for DSSI given the minimal benefits. This is the situation for many Small Island Developing States (SIDS);
- **IMF programme stigma:** To benefit from DSSI, a country must request financial support from the IMF. In many countries, particularly in South East Asia, this is still surrounded by stigma following the role of the Fund in the crisis of 1997.
- **Impact on sovereign ratings and access to markets:** Countries fear the negative impact of DSSI on sovereign ratings and future access to financial markets.

A total of 12 lower middle-income countries, 18 SIDS and 48 upper middle-income countries are excluded from the initiative, irrespective of their current vulnerability to debt distress or the impacts of the Covid-19 health and economic crises they are facing.

**Figure 1. DSSI eligible countries by regions**



## 2.2. How does it work?

The suspension of debt service payments proposed by the G20, as its name indicates, does not mean cancellation of debt service, but simply a postponement of payment. Under the DSSI, all payments due to be made to bilateral official lenders by DSSI-eligible countries that request participation in the initiative are postponed and countries are given three years to repay their debt, following a one-year grace period.

The suspension of debt payments will be carried out in a way that ensures that deferred payments will be adjusted to ensure that creditors will face no losses on the value of the delayed payments, this is referred to as net present value neutral or NPV-neutral. The upshot is that this costs creditors nothing, and borrowing countries will simply have larger repayments to make once the suspension period ends. At this point they will probably need to borrow more funds to be able to repay not only the postponed debt, but potentially also to service any new loans contracted to face the economic downturn caused by the Covid-19 pandemic.

It is worth noting that deferred official debt payments under the DSSI are expected to be repaid in full between 2022 and 2024, when participating countries already have huge repayment obligations falling due. According to Eurodad calculations based on the data provided by the World Bank, the 68 beneficiary countries for which data is available, have around \$115 billion scheduled to be repaid in public external debt in 2022, 2023 and 2024. The 46 countries that have requested participation in the DSSI will be required between 2022 and 2024 to pay back not only the \$5.3 billion of postponed payments, but also the \$71.54 billion of pre-existing commitments, plus any other debt contracted after 2018.

**Table 1: Projected debt service payments from May 2020 to December 2024 by 68 eligible countries by type of lender (US\$ billion and percentage)**

	May-Dec 2020	Total annual debt service by lender type				
		2020	2021	2022	2023	2024
<b>Private lenders</b>	10.22 32.42%	11.54 27.03%	13.56 31.53%	10.97 28.16%	8.28 23.00%	12.15 30.41%
<b>Official bilateral</b>	11.55 36.66%	17.36 40.65%	15.93 37.03%	14.36 36.88%	13.94 38.73%	14.18 35.48%
<b>Official multilateral</b>	9.75 30.92%	13.80 32.32%	13.52 31.44%	13.61 34.96%	13.78 38.26%	13.63 34.11%
<b>TOTAL</b>	<b>31.52</b>	<b>42.70</b>	<b>43.01</b>	<b>38.94</b>	<b>36.00</b>	<b>39.96</b>

Source: Eurodad from International Debt Statistics, World Bank, October 2020

**Table 2: Projected debt service payments from May 2020 to December 2024 by 46 beneficiary countries by type of lender (US\$ billion and percentage)**

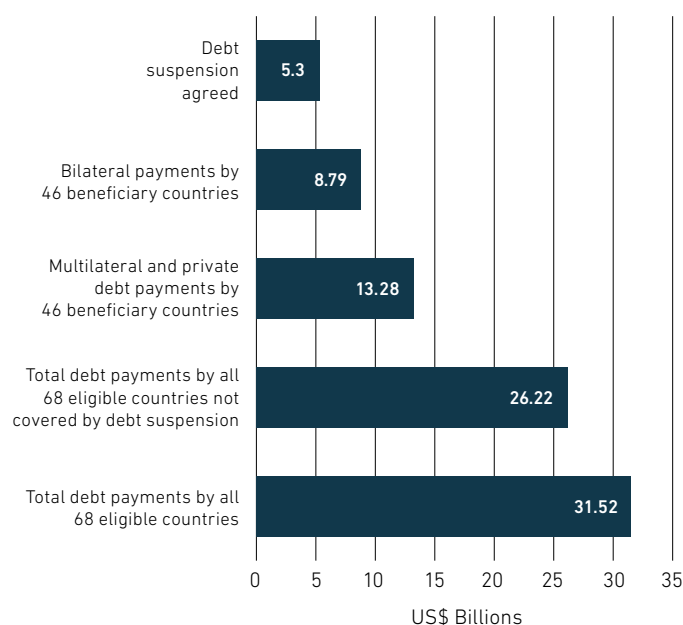
	May-Dec 2020	Total annual debt service by lender type				
		2020	2021	2022	2023	2024
<b>Private lenders</b>	6.94 31.43%	7.47 25.49%	9.47 32.45%	6.12 25.23%	3.44 15.86%	7.04 27.48%
<b>Official bilateral</b>	8.79 39.83%	13.00 44.37%	11.49 39.37%	9.98 41.17%	9.93 45.83%	10.32 40.25%
<b>Official multilateral</b>	6.34 28.74%	8.83 30.14%	8.22 28.18%	8.14 33.59%	8.30 38.30%	8.27 32.27%
<b>Total</b>	<b>22.07</b>	<b>29.29</b>	<b>29.18</b>	<b>24.24</b>	<b>21.66</b>	<b>25.63</b>

Source: Eurodad from International Debt Statistics, World Bank, October 2020

### 2.3. Are all payments being suspended?

The G20 agreement does not apply to all creditors. In fact, while multilateral development banks (MDBs) and private lenders are encouraged to engage in similar commitments, there is no binding framework to facilitate this arrangement. So far, neither private lenders nor MDBs have provided debt payment suspension to any country. As a result, only 36 per cent of the debt payments due to be made between May and December 2020 by beneficiary countries were actually subject to potential debt suspension. Furthermore, only 16.8 per cent of payments to be made by eligible countries to their various creditors (bilateral, multilateral and private) have so far been suspended. When considering all debt service paid by low- and middle-income countries, excluding China, Mexico and Russia, the \$5.3 billion of debt service suspension approved so far represents only 1.6 per cent of the total debt payments due by developing countries in 2020. Up to \$26.22 billion in debt is being repaid to bilateral, multilateral and private creditors by the most impoverished countries during the eight months when the initiative is active. This accounts for \$107 million every day leaving 68 countries in the global south to go to lenders in the global north instead of being invested in health systems, social protection or economic recovery.

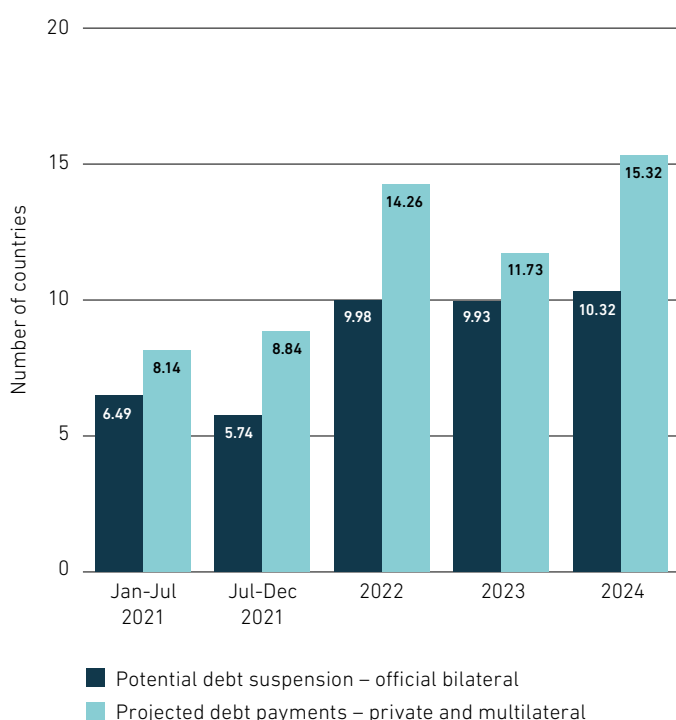
**Figure 2. Debt being suspended vs debt ongoing payments between May and December 2020 (in US\$ billion)**



Source: Eurodad from International Debt Statistics, World Bank, October 2020

An extension of six months, from January to June 2021, would potentially cover only 44 per cent of debt payments by the 43 countries that have so far requested participation in the DSSI during the first half of the year, and 39 per cent if extended to the second semester. In fact, even if the initiative is extended for one year but covering only bilateral lenders, the 46 countries that have applied for the DSSI will still have to pay \$17 billion to multilateral and private lenders during 2021.

**Figure 3. Potential debt suspension and projected debt payments by 46 beneficiary countries between 2021 and 2024 (in US\$ Billions)**



Source: Eurodad from International Debt Statistics, World Bank, October 2020

The total amount of agreed debt payment suspension is \$5.3 billion, which represents only a meagre 1.66 per cent of debt payments due by all developing countries, including those left out from the DSSI – those in arrears with the IMF and / or the World Bank, middle income countries, except for China, Mexico and Russia, and SIDS.

**Table 3: Debt service due in 2020 versus debt payments suspension granted (US\$ billions)**

	Debt service due in 2020
DSSI initial beneficiary countries excluded due to arrears with IMF/World Bank	1.09
Lower middle-income countries excluded from the DSSI (excluding SIDS)	68.90
Upper middle-income countries excluded from the DSSI (excluding SIDS, China, Mexico and Russia)	115.66
Small Island Developing States - SIDS - lower and upper middle-income, excluded from the DSSI	6.04
<b>Total debt service due in 2020 by low-and middle-income countries excluded from DSSI</b>	<b>191.70</b>
DSSI beneficiary countries that have requested participation	86.44
DSSI eligible countries that have not requested participation	41.65
<b>Total debt service due in 2020 by DSSI eligible countries</b>	<b>128.09</b>
<b>Total debt service due in 2020 by developing countries (excluding China, Mexico and Russia)</b>	<b>319.80</b>
Debt payments being postponed	5.30
<b>DSSI savings as a percentage of total debt service due in 2020 by all developing countries</b>	<b>1.66%</b>

Source: Eurodad based on World Bank, International Debt Statistics, October 2020

According to the latest available data provided by the Paris Club (as of 1<sup>st</sup> September 2020), it had received 39 requests to participate in the DSSI, including 26 Sub-Saharan African countries, and 28 had signed a Memorandum of Agreement. The potential volume of suspended debt via these agreements amounts to \$1.8 billion.

**Table 4: Projected debt service payments from May 2020 to December 2024 by 46 beneficiary countries to Paris Club lenders (in US\$ billion)**

	May-Dec 2020	2021	2022	2023	2024
France	558.74	560.33	555.90	561.37	544.84
Japan	481.21	562.53	585.16	609.74	606.07
Germany	299.92	381.74	382.03	385.10	401.57
United States	154.85	155.86	153.79	154.06	154.35
Brazil	274.59	191.41	97.33	95.01	38.19
Canada	62.19	78.36	74.90	65.49	65.86
Italy	52.29	48.16	48.31	47.54	46.80
Spain	25.10	34.45	32.38	29.80	28.14
Austria	19.62	30.98	29.84	28.49	26.78
Sweden	17.12	19.16	20.79	22.65	24.83
Switzerland	13.66	13.44	13.09	12.41	12.02
United Kingdom	4.71	7.63	16.02	15.87	15.74
Belgium	12.43	9.03	9.18	9.47	9.36
Norway	8.96	9.69	9.39	9.09	8.78
The Netherlands	8.74	9.05	8.86	8.67	8.47
	<b>1,994.12</b>	<b>2,111.81</b>	<b>2,036.96</b>	<b>2,054.75</b>	<b>1,991.82</b>

Source: Eurodad from International Debt Statistics, World Bank, October 2020

The DSSI has been endorsed by other bilateral creditors that are not part of the Paris Club, including the five G20 non-Paris Club (NPC) bilateral lenders – China, India, Saudi Arabia, South Africa, Turkey – and Kuwait and the United Arab Emirates. According to the data published by the World Bank, 77.42 per cent of debt payments eligible for suspension under the DSSI are owed to NPC official bilateral lenders, with 62.07 per cent of those payments owed to China alone. Considering only the 46 countries that have requested participation in the DSSI, debt payments to NPC lenders were 29 per cent of all payments made by those countries between May and December 2020, with China representing 26 per cent of those payments

**Table 5: Projected debt service payments from May 2020 to December 2024 by 46 beneficiary countries to Non-Paris Club lenders (in US\$ billion)**

	May-Dec 2020	2021	2022	2023	2024
China	5,756.84	7,941.97	6,566.67	6,527.74	6,283.55
Saudi Arabia	92.17	191.95	184.06	181.85	927.78
India	196.33	315.68	311.12	305.45	288.20
Kuwait	107.91	127.42	126.47	122.57	112.41
Portugal	62.53	111.22	85.05	83.91	82.84
Turkey	77.03	90.53	88.84	87.10	76.60
Libya	54.38	55.11	54.04	52.97	51.90
United Arab Emirates	16.11	17.99	17.66	17.07	16.51

Source: Eurodad from International Debt Statistics, World Bank, October 2020

For the countries that have requested a debt suspension, the temporary breathing space that this initiative provides accounts for as little as 0.1 per cent of GDP to countries like Burundi, Nepal or Papua New Guinea or as much as 3.1 per cent of GDP to a country such as Angola or 2 per cent in Mozambique.

Furthermore, as no measures have been put in place to enforce participation by MDBs and private lenders, the resources freed up by suspending official bilateral debt payments could be used to pay other creditors, and private creditors in particular, rather than supporting the emergency response. New emergency lending by international finance institutions (IFIs) is also de facto bailing out private creditors. According to research from the Jubilee Debt Campaign, as much as \$11.3 billion of IMF financing issued to support 28 countries heavily impacted by the Covid-19 crisis is effectively being used to bail out private lenders.

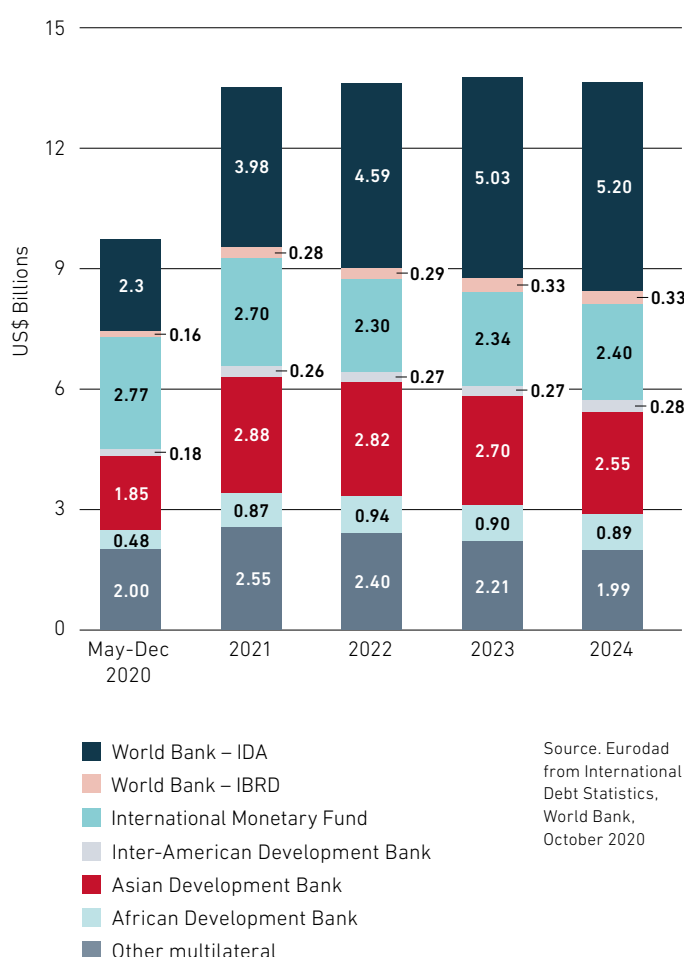
The inability of the G20, IFIs, private creditors and Credit Rating Agencies (CRAs) to provide an adequate response to the magnitude of the crisis prompted by the onset of the Covid-19 pandemic means that for many countries, they will not receive the support they urgently need until it is too late and debt defaults are inevitable. The cost of this failure will be measured by millions of jobs and livelihoods lost, not due to a deadly virus, but as the result of an unwillingness of lenders to address the unfair and inefficient nature of the global financial system.

### 2.3.1 Is the World Bank complying with its mission when denying multilateral debt relief?

“Debt service suspension is a powerful, fast-acting measure that can bring real benefits to people in poor countries, particularly countries that don’t have the financial resources to respond to the coronavirus (COVID-19) crisis”. This quote is not from a civil society statement or a developing country government, but an extract from the World Bank factsheet on debt service suspension and Covid-19. Yet the institutional support that the World Bank and its president David Malpass, has given to the DSSI and the need for further debt cancellation, contrasts with the reluctance of the Bank to itself participate in a debt standstill. The argument is that this would jeopardise the credit-worthiness of the institution, unless its participation is fully compensated by new shareholder contributions.

In April 2020, when the G20 Finance Ministers announced the DSSI, they explicitly called on MDBs “to further explore the options for the suspension of debt service payments over the suspension period, while maintaining their current rating and low cost of funding”. Since then, calls for multilateral involvement in the debt relief efforts have not only come from Civil Society Organisations (CSOs), but also from governments like Pakistan and China, and international institutions, including the UN. Given the fact that MDBs and the IMF held 45 per cent of the debt stock of the DSSI eligible countries in 2018 and that throughout 2020 one third of the debt payments made by DSSI eligible countries will be to multilateral institutions, it is clear that their participation in the debt relief efforts would make a significant difference for many developing countries in these difficult times.

**Figure 4:. Potential multilateral debt relief for 68 DSSI developing countries (in billion US\$)**



In 2018, the World Bank alone held \$103.73 billion in debt owed by DSSI eligible countries. From May to December 2020 – the period in which, for now, the DSSI is applicable for bilateral creditors – the cancellation of payments to the World Bank would free up \$2.46 billion. This could grow to more than \$4 billion of additional resources if the cancellation was extended for a full year into 2021. This is currently being discussed at the G20.

World Bank engagement in the DSSI could encourage the participation of other multilateral institutions, which could free up a further \$9.75 billion in total between May and December 2020 and \$13.66 billion in 2021 (see graph above). These resources could be made available immediately and, as the World Bank states, “bring real benefits to the people in poor countries”, however, the Bank continues to prioritise its relationship with the financial markets.

### *World Bank priorities: Maintaining the alliance with Credit Rating Agencies and the financial markets*

For David Malpass, delivering a debt standstill to developing countries facing a catastrophic economic and social situation would harm the Bank's rating and as a consequence, reduce its ability to front-load assistance. Indeed, the World Bank raises financial resources from bond markets in order to then lend these resources to developing countries. For instance, the very same day of the G20 agreement, 15 April 2020, the World Bank raised \$8 billion from international investors in financial markets, in the largest ever US dollar denominated bond issued by a supranational. The International Bank for Reconstruction and Development (IBRD), which is the arm of the Bank that finances low- and middle-income countries has had a triple-A credit rating since 1959, which allows it to borrow capital at low rates. This history indicates that previous participation of the Bank in debt relief efforts did not change the credit rating of the institution, for example after the Bank participated in the Multilateral Debt Relief Initiative (MDRI) in 2005 after the G8 Gleneagles Summit.

Rather than being driven by market considerations, the World Bank should commit to providing debt relief to the many countries in need and explore together with the IMF and other MDBs, the many possibilities to protect their concessional lending capacity while doing so. A debt cancellation mechanism or trust fund, similar to the IMF Catastrophe Containment and Relief Trust (CCRT) – fully funded by donor contributions – or as the debt relief trust fund set up for the MDRI, could be explored. In the case of MDRI, a trust fund to compensate the multilateral institutions for their losses was created and funded through donor contributions, sale of gold reserves from the IMF and allocation of IBRD savings. According to Jubilee Debt Campaign calculations, “cancelling all debt payments to the IMF and the World Bank by DSSI countries from October 2020 to December 2021 could be funded by the profit from selling just 6.7 per cent of the IMF's gold”, which could provide as much as \$8.2 billion for the most impoverished countries. Moreover, the Bank and the Fund could explore the reallocation of Special Drawing Rights (SDR) to cover the costs of multilateral debt relief. The new Jubilee Debt Campaign report claims that a new SDR issuance of \$1 trillion could pay for the cancellation of all multilateral debt payments by DSSI countries from October 2020 to December 2024 with just the reallocation of less than 9 per cent of the resources that would correspond to rich countries and China, a total of \$70 billion. There is no doubt that a combination of funds from SDR allocation and IMF gold sales, together with use of reserves and donor contributions in addition to existing Official Development Assistance (ODA) commitments, could extensively cover the multilateral debt relief that many countries urgently need.

However, instead of exploring these and other possibilities, the World Bank continues to reinforce the excessive power of CRAs rather than challenging it. The World Bank could argue instead that a fair and efficient debt relief process today, taking debt levels down to a more sustainable level, would improve the countries' capacity to deal with their overall debt payments. Debt relief should therefore be considered as *credit positive* as it could facilitate “short-run investment and bolster debt sustainability in the long term”, as a Scope Ratings report concluded recently. For many years, many voices, including that of Alicia Bárcena, executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC), have stated the need for additional regulation of CRAs, in order to incorporate longer-term SDG-aligned, social and environmental indicators into agency ratings. The demands for increased regulation and transparency of CRAs is based on concerns around the accuracy of their analysis. These concerns are based on their role in previous crises – for example, rating agencies were accused of accelerating the euro-zone sovereign-debt crisis – but also in the present Covid-19 led economic downturn. Since May 2020 CRAs have been placing numerous developing countries on negative watch for a downgrade, which could send the signal that “spending what is needed on pandemic response could invite ratings downgrades”. Once again, this could prompt the acceleration and worsening of negative economic dynamics and impacts of the present economic crisis. An urgent question that must be addressed is whether the World Bank's obsession with retaining its AAA rating is compatible with its development mandate.

### *Market focused lending vs. non-conditional debt relief*

Since the launch of the DSSI, the World Bank has been defending its position that, by not participating in the initiative, it would provide 'net positive financial flows' to countries in need. This is, lending more money than that received from DSSI countries as debt payments. The Bank's lending commitments for 2020 for DSSI eligible countries are indeed higher than debt payments from these countries, but most of that lending was already committed before the Covid-19 pandemic was declared, and only partially repurposed for Covid-19 related projects. In summary, it is likely that there will be countries that will pay more to the World Bank in debt service than the amount they are receiving as new funds to respond to the health, social and economic crisis triggered by the pandemic.

In many cases the non-conditional resources liberated by debt relief would have a significantly more positive impact on development and economic, social and cultural rights in the global south than the too often market focused World Bank lending policy. Given the track-record of the World Bank on promoting privatisation strategies, which have undermined public health and education systems and restrained progress on universal social protection, as well as its early response to the Covid-19 crisis which favoured its private sector lending arm and thus benefitted financial sector clients and large companies, it would be wiser to free up resources when most needed - at the peak of the pandemic and economic crisis-, making sure that there is no conditionality attached. Furthermore, the funds liberated by debt relief would not create more debt for the future, as is the case with most of the lending from the Bank, even when it is under concessional terms.

David Malpass recently stated that "there is a risk of free riding, where private investors get paid in full, in part from the savings countries are getting from their official creditors". This is arguably also the case for the World Bank and other MDBs. Resources provided by the taxpayers' money through bilateral debt standstill are being diverted to multilateral lenders, including the World Bank, as debt is being repaid to the institution, instead of being invested in healthcare, social protection or economic recovery. Nonetheless, the private sector involvement in overall debt relief efforts should also be a priority. As it happened with HIPC and MDRI, multilateral debt relief initiatives can be linked to private sector participation so it does not result in a bailout of private lenders.

The World Bank assertion that, both they and the IMF, will "do everything possible to support the debt initiative" loses all credibility when they continue to deny the possibility of a multilateral participation in debt standstill and cancellation initiatives. As a result, the World Bank is depriving the most vulnerable populations and those most affected by the social and economic consequences of the Covid-19 pandemic of vital resources.

### 2.3.2 Private Sector Involvement in debt relief, is it a chimera?

The private sector lenders have so far failed to participate in the DSSI, arguing that any participation should be considered on a case by case basis and should be voluntary - left to the good will of the lender. This means that the resources freed up by the bilateral debt standstill and new emergency finance provided by the IMF, MDBs and donors are effectively allowing private creditors to enforce their claims, instead of financing an effective public policy response to the pandemic. Between May and December 2020, the period in which the DSSI suspension is currently set to be applied, the 68 eligible countries for which data is available are paying around \$10.22 billion to private creditors. The 46 countries that are receiving debt service suspension are paying \$6.94 billion to private creditors. This is \$1.64 billion more than what they are receiving from bilateral lenders as debt suspension.

**Table 5: Projected debt service payments from May 2020 to December 2024 to private lenders (in US\$ billion)**

		May-Dec 2020	2021	2022	2023	2024
<b>68 DSSI eligible countries</b>	Bondholders	4.82	6.39	7.86	6.03	10.19
	Non-official	5.40	7.17	3.11	2.25	1.96
	Private lenders	10.22	13.56	10.97	8.28	12.15
<b>46 DSSI beneficiaries</b>	Bondholders	2.52	3.35	3.85	1.84	5.66
	Non-official	4.41	6.12	2.26	1.60	1.38
	Private lenders	6.94	9.47	6.12	3.44	7.04

Source: Eurodad from International Debt Statistics, World Bank, October 2020

Calls on private lenders to participate in the DSSI have come from all sectors: from CSOs to the G20 countries, the Paris Club as well as multilateral institutions such as the UN, IMF and the World Bank have all been calling on bondholders, investment funds, banks and other private sector lenders to engage in the DSSI on comparable terms, as stated in the initial G20 communiqué on the DSSI. As a response, the Institute of International Finance (IIF), a lobby group that represents the interests of the private financial sector, agreed on a general terms of reference for the voluntary participation of private lenders in the initiative and published a Template Waiver Letter Agreement to facilitate sovereign borrowers in requesting forbearance from official creditors without triggering an event of default with respect to their private creditors. The IIF also published a report on the private sector engagement in the DSSI in July 2020 acknowledging that, in fact, not a single private lender had so far provided any sort of debt standstill.

Eurodad analysis has pointed out to several problems with the IIF proposed terms of reference for a voluntary private engagement. For instance, the suspension of debt service payments to private creditors proposed by the IIF claims to adhere to the principle of NPV neutrality, but in fact fails to do so. In the IIF proposal, suspended interest payments by sovereign debtors are added on to the original amounts owed and will accrue extra interest. Countries participating in the initiative would thereby experience an increase in their debt burdens. Furthermore, the proposed structure of postponed interest capitalisation creates incentives for borrowing countries to offer sweeteners (such as high interest rates on deferred payments) to increase creditor participation. Given the high risk of debt distress present in a number of countries, this incentive structure result in increasing the costs of an eventual debt restructuring process by raising the NPV of public debt stocks.

The most important flaw of this voluntary approach is that it has not provided any results. No single private lender has yet offered debt payment suspension to any DSSI eligible country. The main argument from the private sector is that no one has requested it. This is however not completely true as Grenada, Chad and Zambia have all approached private creditors with requests for debt relief. In the case of Zambia, the bondholders argue that the country should first address negotiations with China, which holds an important part of Zambia's debt (see section 3.6 for further information on the case of Zambia).

Despite these three cases, it is unlikely that a large number of countries will request suspension of payments to private creditors, especially when considering statements by CRAs, such as S&P, Moody's and Fitch about the potential of a private creditor standstill leading to a downgrade of sovereign ratings. After being in the spotlight in the 1997 East Asia and 2008 global financial crises, the role of CRAs in the context of the DSSI is under scrutiny and has raised both criticism and calls for their regulation. Credit rating downgrades have been applied or signalled in at least a dozen African countries since the Covid-19 pandemic began: Angola, Botswana, Cameroon, Cape Verde, Democratic Republic of the Congo, Ethiopia, Gabon, Nigeria, Senegal, South Africa, Mauritius and Zambia. Even though ratings agencies claim that requesting bilateral debt suspension from official creditors through the DSSI does not constitute a credit rating event per se, the rhetoric used by some of these agencies and the representatives of the private sector (namely IIF), has reinforced fears among borrowing countries of a downgrade and the consequent loss of market access. For instance, in the cases of both Pakistan and Senegal, Moody's stated that "the suspension of debt service obligations to official creditors alone would be unlikely to have rating implications; it provides liquidity relief at a time when Senegal's fiscal position is under pressure as a result of the global coronavirus shock. However, the G20's call on private sector creditors to participate in that initiative on comparable terms raises the risk of default on privately-held debt under Moody's definition".

Similarly, S&P have stated that, while debt relief from official creditors will not be treated as a sovereign default on its own, a country's failure to pay its scheduled debt service would be viewed as a credit negative, which in some cases could constitute a sovereign default. As a result, many have been hesitant to engage in discussions with private creditors so far, as indeed rating downgrades would impair access to future financing and increase borrowing costs. Rather than giving in to fear-mongering, countries engagement with private creditors (and all creditors) to bring debts to more sustainable levels should be considered positively. If successful, the debt relief and restructuring process would leave the country in a stronger position to honour its financial commitments.

As stated above, private creditors have maintained since April that a case by case approach to debt relief is the only way forward for them. This is indeed the best way they have to maximise what they can ultimately extract from countries in any subsequent restructurings, rather than endorsing blanket measures such as the DSSI. This is how David Malpass, president of the World Bank, described recently the ordeal that borrowing countries have to face in order to negotiate, one by one, debt relief and restructuring with their private lenders:

*"This [debt being accumulated in excess] is reinforced by an imbalance in the global debt system that puts sovereign debt in a unique category that favors creditors over the people in the borrowing country—there's not a sovereign bankruptcy process that allows for partial payment and reduction of claims. As a result, people, even the world's poorest and most destitute, are required to pay their government's debts as long as creditors pursue claims—even so-called "vulture" creditors who acquire the distressed claims on secondary markets, exploit litigation, penalty interest clauses and court judgments to ratchet up the value of the claims, and use attachment of assets and payments to enforce debt service. In the worst cases, it's the modern equivalent of debtor's prison. (...) The risk is that it will take years or decades for the poorest countries to convince creditors to reduce their debt burdens enough to help restart growth and investment. Given the depth of the pandemic, I believe we need to move with urgency to provide a meaningful reduction in the stock of debt for countries in debt distress. Under the current system, however, each country, no matter how poor, may have to fight it out with each creditor. Creditors are usually better financed with the highest paid lawyers representing them, often in U.S. and UK courts that make debt restructurings difficult. It is surely possible that these countries—two of the biggest contributors to development—can do more to reconcile their public policies toward the poorest countries and their laws protecting the rights of creditors to demand repayments from these countries".*

The imbalance of power between borrowers and private creditors in the debt resolution process makes the voluntary engagement by private creditors in a fair and effective process for debt relief and restructuring a chimera. In the face of this imbalance CSOs have developed several options for exploring and fostering a binding participation of private creditors, including:

- Recommending that key jurisdictions governing sovereign lending, in particular England and New York, reform legislation to prevent litigation by creditors against countries suspending debt payments. To prevent holdout behaviour by bondholders, these jurisdictions should also introduce legislation to ensure an agreement to restructure by a prescribed majority of bondholders is binding on all bondholders.

Expressing clear support for borrowing countries deciding on the use of Article VIII, Section 2 (b) of the IMF Articles of Agreement, which allows for the establishment of a binding sovereign debt standstill mechanism, and on the use of a 'state of necessity' defence in the case of suspending debt payments in order to protect the rights and needs of populations.

- In absence of a global bankruptcy framework or laws to compel creditor participation in major financial jurisdictions- the UN Security Council could take action to compel private and commercial creditors to join the G20 debt suspension and relief measures. Precedent for this action can be found under Chapter VII action, the 2003 resolution that shielded the assets of Iraq from creditor payment.

While these efforts could facilitate private sector engagement in debt relief efforts and go beyond voluntary schemes that, so far, have not produced any result, institutional efforts do not appear to allow for this.

The IIF, G7 and IMF seem to agree that the only way for the private sector to participate in future debt relief efforts is to bind new IMF lending to highly indebted countries to the start of a negotiation for restructuring with private creditors. This would indeed avoid IMF lending from being diverted to bailing out private creditors but would have the additional risk of potentially opening the door to further fiscal consolidation and prompting other austerity measures in the developing countries introducing the IMF standard prescription to achieve debt sustainability. A recent review by Eurodad of IMF staff reports for 80 countries explains that the IMF is, despite its rhetoric, still betting on austerity. This trend makes the link between future debt relief and IMF programmes even more dangerous, potentially repeating mistakes of past economic crises and further depriving people in poverty of their human rights.

The difficulties for making the private sector engage with the debt relief efforts are making palpable, once again, the limitations of the existing international financial architecture to deal with debt resolution. In April 2020, the UN Secretary General Antonio Guterres acknowledged that, beyond a debt standstill and more comprehensive options towards debt sustainability (including debt swaps), the international community needed to address “structural issues in the international debt architecture to prevent defaults leading to prolonged financial and economic crises”. In the 2020 Trade and Development Report, UNCTAD also states that “the stumbling efforts by the international community to agree emergency debt suspension and relief measures, have, yet again, put a glaring spotlight on the crippling fragmentation and complexity of existing procedures, the potentially extraordinary powers of hold-out creditors to sabotage restructurings, and the resultant inefficacy of crisis resolutions”, at the same time as it points to the creation of a global sovereign debt authority, independent of either (institutional or private) creditor or debtor interests, “to address the manifold flaws in the current handling of sovereign debt restructurings”. This proposal echoes CSOs demand for a multilateral, fair and transparent debt workout mechanism.

Acknowledging the gaps of existing mechanisms, the IMF has recently put the focus on the need for a reform of the International Architecture for resolving sovereign debt involving private sector creditors, by publishing a paper and a blog article by its managing director, Kristalina Georgieva, on this issue. However, the IMF proposal focuses mainly on addressing reforms on the existing contractual framework. They recognise that enhanced Collective Action Clauses (CAC) are limited as a comprehensive solution, as a large outstanding stock of international sovereign bonds do not have these clauses, and majority restructuring provisions are also lacking in other forms of debt, such as syndicated loans or sub-sovereign debt. The use of collateralised debt together with the lack of full transparency also poses difficulties on sovereign debt restructuring with the private sector.

The IMF proposals are mainly addressed at strengthening contractual provisions, promoting the adoption of enhanced CAC, not only in international bonds but also in sub-sovereign debt, and developing similar provisions in non-bonded debt. A proposal is to develop “clauses that lower debt payments or automatically suspend debt service, such as in the event of natural catastrophes and other large economic shocks”. These measures, even when they could facilitate private sector involvement in sovereign debt resolution processes, do not address the underlying shortcomings and inadequacies of the international financial architecture. Even with these “improvements” to the contractual framework, the system will still lack a real bankruptcy code for countries to legally discharge their debt in a comprehensive, timely and fair way. Indeed, there still will not be a systematic process under which sovereign debt restructuring takes place and no possibility for a country to restructure its entire debt stock in one place and in one comprehensive procedure. Borrowing countries will continue to face long, opaque and uneven serial restructurings, that will not consider development needs, human rights, existing climate vulnerabilities or gender inequalities.

#### 2.4. After DSSI, what next?

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While the steps taken by the G20 with the DSSI were necessary, by agreeing only to postpone and not cancel payments, debt crisis risks have simply been pushed further down the road. World Bank President, David Malpass, seems to agree with this analysis as he stated recently that as debt payments are simply being deferred, not reduced, this “doesn’t produce light at the end of the debt tunnel”. As Eurodad stated after the DSSI was agreed in April 2020, “permanent cancellation of debts will be necessary to enable developing countries to deal with the enduring social and economic impacts of the Covid-19 pandemic beyond 2020, particularly in the context of a global recession”, and “the international community must also work to agree on a framework to reduce developing country debt burdens in the longer term, and a systematic process for sovereign debt restructuring”. The IMF and its managing director, Kristalina Georgieva, recently acknowledged that, to tackle the unfurling debt crisis, the responses must go beyond addressing liquidity problems, and that “urgent additional steps” are required to address solvency problems and reform the international debt “architecture”.

The need for both extending the timeframe of the DSSI to 2021 and beyond, and outlining a common framework for debt cancellation and debt restructuring has not only been flagged by CSOs, but also by several governments, both in the global south and north, and by international institutions, including the UN, the IMF and the World Bank. In June 2020, the Bureau of the Assembly of Heads of State and Government of the African Union proposed a prolongation of the debt suspension on debt repayments to four years, at the same time as it reiterated its call “for debt cancellation and the implementation of a comprehensive relief package for African countries in response to COVID-19”. The proposal for extending the DSSI and implementing further debt relief measures was also incorporated in the menu of options prepared within the “Financing for Development in the Era of COVID-19 and Beyond” process that was co-convened by the UN and the governments of Canada and Jamaica, as well as the summary of the Ministers’ of Finance meeting that took place on 8 September 2020. During that meeting, representatives from China, Cote d’Ivoire, Ethiopia, France, Germany, Japan, Nigeria, Norway, Pakistan, Rwanda, Saudi Arabia, Senegal, Sri Lanka, The Netherlands, IMF, World Bank, African Union, UNCTAD and the ICC, expressed their support for an extension of the DSSI into 2021. Furthermore, representatives from Barbados, Belize (SIDS), Egypt, Ethiopia, Fiji, France, Gambia, Germany, Italy, Nicaragua, Nigeria, Pakistan, Rwanda, Senegal, The Netherlands, ECLAC, AU, IMF and UNCTAD acknowledged the need for debt relief and debt restructuring for developing countries.

Finally, the Institute of International Finance (IIF), representing the private sector lenders, issued a recent letter addressed to the G20 in which they recognised that “the liquidity problems that persist beyond the short term may indicate underlying solvency problems and should be dealt with using well established mechanisms, including an IMF program and debt restructuring negotiations”.

The details regarding the next steps for the extension of the DSSI and further debt relief are still unknown. However, DSSI extension and the definition of a common framework on debt restructuring and relief could be expected to mirror the following scenarios.

**DSSI extension:** There is an agreement among G20 countries about extending the DSSI into 2021. Discussions are underway regarding the length of the extension: whether to commit to a 6-month extension or, as the IMF and the World Bank are suggesting, a full year extension. An intermediate agreement on a 6 months extension plus an additional 6 months to be decided during the IMF and World Bank Spring meetings is also possible. There is no agreement on extending the DSSI to other countries, in spite of the debt distress and the needs that middle-income countries are facing. MDBs, including the World Bank, are also excluded from any plans to extend the DSSI so far, and there seems to be no specific plan to make the private sector involvement in debt payments suspension binding (see sections 2.3.1 and 2.3.2 above for a specific analysis of multilateral and private lenders participation). It is worth noting that the G7 support to the extension of the DSSI would be “in the context of a request for IMF financing”, which, as argued below, risks opening the door to a new wave of austerity. While a time extension of the DSSI is welcomed, as it will free up vital resources at a critical moment, it also reveals that it was a mistake not to put in place a more ambitious proposal from the start, which could have been an incentive for a larger number of countries to request participation. The announcement of a short extension (for instance, 6 months) will benefit countries that have already applied but is unlikely to create incentives for other countries to join at this point.

**Debt restructuring and relief:** Discussions are ongoing regarding how best to deliver debt restructuring processes to countries facing unsustainable debt and the risk of a default, in a way that it does not become a process that is too long and too costly for borrowing countries. As CSOs have vastly denounced, without a comprehensive debt restructuring process, debt relief and IFIs new lending becomes a private sector bailout. Furthermore, IMF research shows that, “waiting to restructure debt until after a default occurs is associated with larger declines in GDP, investment, private sector credit, and capital inflows than pre-emptive debt restructurings”. The IMF and the World Bank will present to the Development Committee “a joint action plan by the end of 2020 for debt reduction for IDA countries in unsustainable debt situations”. At the UN Finance for Development Finance Minister’s Meeting, G20 countries emphasised that the provision of debt relief to address solvency issues should be allocated on a case by case basis based on country vulnerabilities and needs. This has also been expressed by private creditors who have indicated that the participation of private lenders will take place only if a case by case approach is adopted.

Paris Club lenders, IMF, World Bank and private creditors agree that any agreement on debt relief and restructuring should follow guidelines decided by the G20 and the Paris Club, and should be implemented through the IMF/World Bank/Paris Club structure, in parallel to negotiations with the multiple country specific private lenders. Relying on existing forums for debt resolution means leaving unsolved the persisting weaknesses of the current disorderly, opaque, and inequitable way of addressing sovereign debt crises. The question that remains to be answered is: under what conditions should debt relief and restructuring be offered, to which countries (within or beyond the DSSI circle of eligible countries) and from which lenders (how private lenders can be obliged to participate and whether multilateral institutions will be engaged)? The main risk is that, as the private sector and the G7 are already demanding, the debt relief and restructuring would only be granted to countries that request a full IMF programme with conditionalities, which risks prompting further austerity.

**Transparency:** The focus of many of the Paris Club governments, as well as the IMF and the World Bank, regarding the future of DSSI and debt relief, is on transparency. The World Bank praises the openness and transparency of the released data throughout the International Debt Statistics tool, and promises a new edition providing “more detailed and more disaggregated data on sovereign debt than ever before in its nearly 70-year history”. The call for transparency is particularly addressed to China, together with a request for all official creditors to fully participate in the DSSI and future debt restructuring initiatives. China has been reluctant to include in the DSSI debts owed to its publicly owned bank, the China Development Bank, arguing that it holds commercial debt which is not directly covered by the initiative. The G7 made a veiled reference to this when it expressed its regret regarding “the decision by some countries to classify large state-owned, government-controlled financial institutions as commercial lenders and not as official bilateral creditors, without providing comparable treatment nor transparency”. As the calls for transparency are addressed mainly to China and borrowing countries, it is important to highlight that the lack of transparency on debt details is widespread, as other official bilateral lenders, MDBs and private lenders share only limited details of the debt they hold from different borrowing countries, the calendar of payments or the conditions under which those debts were contracted. This has long been the situation, and as a result, CSOs have been calling for transparency and a publicly accessible registry of loan and debt data from all lenders and borrowers for several years.

## 2.5. Outside the safety net: Countries excluded by the G20 DSSI

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The crisis has laid bare once more the structural inequities of international financial architecture. While low-income countries have received limited support through the G20 DSSI and advanced economies have implemented substantial fiscal and financial support packages, equivalent on average to 19.8 per cent of GDP, a group of 78 developing countries – which includes lower- and upper middle income countries, as well as many SIDS – have been mostly left out to weather the crisis by themselves. The size of the response packages in these countries is a fraction of that observed in advanced economies. Fiscal and financial measures to tackle Covid-19 in emerging markets (mostly upper-middle income) represent on average 5.1 per cent of GDP.

The startling disparity in responses can be attributed to financing constraints in the context of an uneven and unequal Global Financial Safety Net (GFSN). This net is meant to prevent and mitigate the impacts of an economic and financial crisis in the global economy. The GFSN supposedly allows access to IMF lending, central bank swaps and regional financial agreements. Taken together these different arrangements can help to mobilise up to \$3.5 trillion. However, emerging markets can only access a quarter of this figure and access for almost half of them is limited only to IMF lending.

While middle-income countries struggle to finance their response to Covid-19, external creditors have continued the timely collection of debt owed by the public sector. For the 68 countries not eligible to participate in the G20 DSSI, for which data is available, external public debt service is projected to reach \$273.43 billion in 2020. The overwhelming majority of these payments is owed to private creditors: \$196.7 billion, equivalent to 72.2 per cent of the total. Without a debt resolution framework or a binding sovereign debt standstill mechanism, these countries have very limited options for addressing debt burdens besides case-by-case complex and lengthy negotiations with a myriad of external private creditors. The potential for legal and economic retaliation by creditors is substantial, while the odds of success are minimal. The dysfunctionality of the system helps to explain why countries continue to service their debts despite the cost of opportunity in terms of lives lost to the pandemic.

The most troubling aspect of this dynamic is the false sense of complacency buoyed by recent market developments that has been embraced by the G20. After the initial market panic that triggered capital outflows from developing countries of close to \$100 billion between February and April 2020, a steady recovery has taken place. Aggregated outflows since the beginning of the year now stand at \$32.9 billion. Measures adopted by central banks in advanced economies and issuance of additional debt by emerging countries have supported the return of international investors over the last three months. Since the beginning of the year, these countries have issued more than \$920 billion in domestic and external debt to finance their response to the pandemic. Issuance of new debts at this pace would stand above the levels observed over the last five years. The return of private investors is fuelling the belief that the financial challenges faced by developing countries are mostly under control and no additional measures are required.

A cursory glance at the economic and health impact of the pandemic shows this perception not only to be incorrect, but also dangerous. Economic projections of the impact of the pandemic have been steadily revised downward as more information has become available. Growth, fiscal balances and debt projections on the impact of the pandemic on developing countries prepared by the IMF were slashed between April and June of this year. Developing countries' economies are expected to contract by 3 per cent of GDP in 2020. This represents a downward revision of 2 percentage points over the initial projection. In a similar vein, public debt is now projected to increase from 52.4 per cent of GDP in 2019 to 63.1 per cent in 2020. The revised figure includes an increase of 1.1 percentage points in public debt compared to the figures published in April. Developing countries are effectively expected to carry a substantially higher debt burden with much diminished economic prospects as the pandemic threatens their populations.

While China, Europe and the United States experienced most of the initial deaths caused by Covid-19, the pandemic has now taken firm root in developing countries. As of July 2020, developing countries account for 80 per cent of Covid-19 related deaths. Prevalence of structural factors such as high poverty rates, widespread presence of informal labour and precarious social safety nets have diminished the effectiveness of containment measures. Around the world, 1.8 billion informal workers and 300 million recently unemployed people are faced everyday with the choice of hunger and deprivation or exposure to the pandemic. Millions of people are forced to break lockdown measures in order to provide for themselves and their families. This has created the conditions for the pandemic to spread at a rapidly growing rate in most of Africa and Latin America.

As the pandemic continues and intensifies, the capacity of authorities to maintain preventive quarantine measures is being pushed to breaking point. It is only a matter of time before a number of these countries are faced with a similar type of existential choice, between servicing their debts or protecting their populations. Once that moment arrives, developing countries will be in a much weaker position to deal with another sudden stop in the economy of the scale observed at the beginning of this year. By that point, default and a widespread debt crisis will be the likely outcome.

This stark dilemma highlights the short-sighted nature of the support offered to middle-income countries, embodied in the shortfalls of the G20 DSSI. Emphasis on the voluntary involvement of private creditors in addressing the challenges raised by Covid-19, instead of establishing binding mechanisms for equitable burden sharing, will only increase the human and economic cost of the crisis.

### 3. Feedback from the field: DSSI falling short

This section examines the cases of Nepal, Cameroon, Kenya, El Salvador, Pakistan, Zambia and The Phillipines, and illustrate the shortcomings of the DSSI initiative

#### 3.1. Nepal

*By Daniel Munevar (Eurodad), July 2020*

Nepal is one of the 40 countries that applied to the DSSI on 30 June 2020 and one of the 18 countries that signed a Memorandum of Understanding (MoU) with the Paris Club to benefit from a temporary suspension of debt payments. These moves have allowed the country to defer debt service obligations owed to official creditors amounting to \$18.8 million for the remainder of 2020. In addition, the country received a loan under the IMF RCF for \$214 million to address the pandemic. The support and relief provided falls dramatically short relative to the social and economic impact of the crisis and the overall evolution of debt vulnerabilities.

The efforts to contain Covid-19 have been relatively successful in Nepal. According to the World Health Organization (WHO), Nepal reported 16,649 cases of Covid-19 and a total of 35 deaths as of 10 July 2020. The rate of contagion has been on a downward trend, from 740 new cases per day at its peak, to 120 in July. Despite this positive development, the crisis is expected to represent a sharp setback in the improvement in human development achieved over the last decade. More than 2 million people are projected to lose employment while an additional 1.5 million migrants are expected to return to the country. Currently there are 9.9 million people (34 per cent of the population) living in a situation of poverty. This number is set to increase as a result of the pandemic.

The ongoing economic crisis is intimately related to these dynamics. GDP growth is estimated to decline from 7.1 per cent in 2019 to 1 per cent in 2020. The key driver of this dynamic is the reduction in the country's two main sources of foreign exchange: tourism and remittances, which are estimated to decrease by a total of \$1.9 billion (7.2 per cent of GDP) in 2020. Government finances will sustain a significant hit as a result of these reductions in income from foreign exchange. Fiscal revenues are projected to decline by \$278 million (2 per cent of GDP) in 2020. In this context, the country will quickly reverse the response package introduced to tackle Covid-19 worth \$738 million (2.3 per cent of GDP). Nepal is expected to cut government expenditures by 2 per cent of GDP between 2021 and 2022. This will bring overall expenditure to below pre-crisis levels, which point to cuts across the budget at a time when strengthening of public capacities is most needed.

Debt burdens will worsen as a result of the crisis, with public debt levels set to rise from 30.1 per cent to 43.8 per cent of GDP between 2019 and 2022. In absolute terms, this represents an increase of \$7.2 billion. The majority of this debt will be caused by issuance of debt in domestic markets, with domestic public debt is projected to increase its share in public debt from 43.5 per cent to 52.9 per cent during these years. While domestic debt lowers the degree of vulnerability to external shocks, it also increases debt servicing costs. As a result of the changes in the volume and composition of public debt, the share of government revenues devoted to debt service will increase from 24.4 per cent in 2019 to 28.5 per cent in 2022. Debt is set to further limit the capacity of the Nepalese government to respond to the needs of its population.

With this in mind, debt service suspension by bilateral creditors is clearly insufficient to tackle the challenges faced by the country. The case of Nepal highlights the importance of both extending the G20 DSSI beyond 2020 and including multilateral creditors as part of the suspension. In 2020, Nepal is due to repay \$219 million, equivalent to 87 per cent of its external public debt service to multilateral creditors. An extension of the G20 DSSI, and the inclusion of multilateral creditors in this initiative, could provide a further \$274 million per year in available resources for Nepal. These resources could be deployed to tackle the financing requirements of post Covid-19 recovery efforts and reduce overall debt vulnerabilities.

### 3.2. Cameroon

*By Fanny Gallois (Plateforme Dette et Développement), July 2020*

Cameroon's eligibility for the G20 DSSI was confirmed on 19 May 2020. The initiative could free up \$276 million in 2020 (33 per cent of the overall external public debt service in 2020), at a time when the country is under great pressure due to the shock of the pandemic and subsequent loss of revenue. However, shortly after the agreement was announced, the Credit Rating Agency Moody's placed the country's ratings on review for downgrade, explaining that its participation in the initiative raised the "risk that private sector creditors [would] incur losses", if they were to participate in the initiative on comparable terms. This threat could not only translate into an actual downgrading of the country's rating, and a subsequent increase in the cost of future loans and a potential aggravation of its debt burden, but it could also prevent Cameroon from seeking a suspension from its private creditors, to whom it owes more than 20 per cent of its external debt service this year. If private creditors continue to seek payments, the resources freed up by the G20 moratorium will simply line their pockets, instead of being used for the much-needed social, health and economic response to the crisis.

Indeed, as of 10 July, the number of cases of Covid-19 in Cameroon is still on the rise. Since the start of the pandemic, there have been a total of 14,196 cases and 359 deaths reported. The country is considered to be the epicentre of the pandemic in West and Central Africa. As is the case for most countries in the region, Cameroon's capacity to deal with the pandemic through lockdown measures is hampered by structural socio-economic factors: 90.5 per cent of the workers are in the informal sector and 88 per cent of the population is outside the social safety net; 10.9 million people live in poverty (45.3 per cent of the population) with extremely limited access to water supplies and adequate housing conditions. The healthcare system is weak with only 0.9 physicians per 10,000 people and 40 ventilators to provide coverage for 25 million people. These factors explain the lack of success in containing the pandemic.

Debt further hampers the capacity of the country to invest resources in its pandemic response. In 2015, for example, Cameroon launched a Eurobond issuance, which amounted to around \$750 million of debt at an 8.8 per cent interest rate. A debt that Cameroon will need to continue to pay in 2021 and beyond, when it will be obliged to resume payments of suspended bilateral debt. Between 2021 and 2024, Cameroon will need to repay more than \$3.3 billion to its lenders, plus the postponed debt payments and newly acquired debt to face the financial needs arising from the pandemic. There is little doubt that debt in Cameroon will not be sustainable at that stage.

### 3.3. Kenya

*By Daniel Munevar (Eurodad), July 2020*

In spite of the severe impact of the Covid-19 pandemic, Kenya has been one of the countries that has announced that it will not participate in the G20 DSSI. This decision has been guided by concerns over potential impacts on its access to financial markets. CRA downgrades of countries participating in the G20 DSSI, such as Cameroon, help to explain the position adopted by the Kenyan government. A rating downgrade simultaneously increases financing costs while it limits access to additional market financing. Thus, in some cases, the long-term costs associated with a downgrade are perceived to outweigh the short-term benefits of a debt service suspension.

In the case of Kenya, this balancing act can be represented as follows: On the one hand, Kenya is eligible for a G20 DSSI payment suspension of up to \$803 million in 2020. On the other hand, external public debt of the country owed to private creditors amounts to \$10.2 billion. This represents 33 per cent of the external public debt of the country. Debt servicing costs on this type of debt amount to an average of \$502 million per year for the 2020-2022 period. Participation in the G20 DSSI for Kenya would place the country in a scenario where payment of suspended debt service under the initiative would come in addition to increased debt servicing costs on external public debt owed to private creditors starting in 2022. In a twist of tragic irony, Kenya can ill afford to receive much-needed relief in 2020 as the risks it would assume in a context of a high degree of debt vulnerabilities would be intolerable.

This dynamic is highly problematic given the impact of the crisis in the country. According to the WHO, Kenya reported 9,448 cases of Covid-19 and a total of 181 deaths as of 10 July. The disease continues to spread with 600 new cases per day on July 20th, illustrating that Covid-19 is not yet under control in the country. In addition to the pandemic, a severe locust infestation threatens famine. An estimated 14.5 million people are categorised as food insecure in the country. The capacity of the authorities to deal with these threats is extremely limited: 19.2 million people (38.7 per cent of the population) live in poverty with a lack of access to housing, inadequate water, hygiene and sanitation infrastructure and deficient healthcare services. The country has a total of 518 intensive care units available for its more than 50 million citizens.

The economic prospects are daunting. GDP growth is set to decline from 5.4 per cent in 2019 to 0.8 per cent in 2020. Economic activity in key sectors such as agricultural exports and tourism are projected to decrease by \$1.6 billion (1.9 per cent of GDP) in 2020. Remittances are also expected to contract by \$197 million (0.4 per cent of GDP). This dynamic is putting significant pressure on government finances. The government of Kenya has put in place a response package to Covid-19 with measures worth \$1.44 billion (1.44 per cent of GDP). Financing for these measures has been provided, in part, by an IMF RCF loan of \$739 million. However, as in other cases, these measures are expected to be removed in a matter of months. The country is expected to cut expenditures, equivalent to 2.3 per cent of GDP, between 2020 and 2022. As in the case of Nepal, this will reduce overall public expenditure levels to below pre-crisis levels.

As a result of the Covid-19 pandemic, Kenya's public debt vulnerabilities will increase substantially. Public debt will rise from 61.7 per cent of GDP in 2019 to 69.9 per cent in 2022. This is equivalent to an increase of \$23.7 billion. The burden of debt service on government revenues is set to increase to truly concerning levels: from 53.5 per cent to 74.5 per cent during the same period. Creditors not included in the initiative will continue to collect payments on the country in staggering amounts. In 2020, multilateral and private creditors of Kenya are expected to receive \$793 million and \$663 million in debt service. Similar figures are projected for the coming years. While these resources will be allocated to meet creditor claims, the government of Kenya will be forced to weaken its capacity to respond to shocks and reduce the likelihood of its ability to meet the financing requirements of the 2030 SDG Agenda.

The case of Kenya reveals additional structural limitations of the G20 DSSI. The choice to provide a suspension, instead of a cancellation, and the emphasis on voluntary involvement by private creditors has placed countries such as Kenya in an impossible situation. While the country requires debt relief, it cannot officially request it for fears of worsening its debt vulnerabilities. It is likely that such a request will only take place once a default becomes inevitable and the human and economic costs of the crisis have needlessly spiralled out of control.

### 3.4. El Salvador

*By Jürgen Kaiser (Erlassjhar.de), July 2020*

Before the economic fallout of the Covid-19 pandemic was felt in El Salvador, the 'pulgarcito de America' was already the most critically indebted among the five Central American republics. On 1 January 2019, El Salvador showed the highest values for three out of five debt indicators (Public debt / Gross National Income (GNI), External debt / Exports, External Debt Service/Exports), and the second highest in two others (Public Debt/Public Revenue and External Debt/GNI).

As a middle-income country, El Salvador was excluded from the Heavily Indebted Poor Countries Initiative in the 1990s and early 2000s, which in the region only benefitted Honduras and Nicaragua. The same logic came to bear in April 2020, when the G20 launched the DSSI, and again inclusion/exclusion was decided on the basis of IDA-access. This in turn was largely based on per capita income, ignoring whether the country in question had a debt problem or was affected by the pandemic and the subsequent recession in some pronounced way.

Initial debt sustainability projections by the IMF in mid-April assumed a V-shaped crisis, which after a 2020 growth rate of -5.4 per cent would already be largely compensated in 2021 with positive growth of 4.5 per cent. In June 2020, the IMF revised both projections for the wider Latin America and Caribbean region, but no renewed calculation for El Salvador had been made available at the time of writing. The most important risk factors against such an optimistic scenario include a sharp decrease in remittances, increasing borrowing costs from financial markets, political instability and a questionable management of the pandemic health risks.

Remittances, mostly from the US, Canada and Spain, account for around one fifth of GDP. With the pandemic still spreading in the US and ongoing risks to further growth in unemployment, remittances may be even more affected than currently predicted. The decrease in revenue will put more pressure on debt levels. In addition to the existing external debt that is owed to foreign bondholders, at the outset of the recession the government issued another \$1 billion bond with a 7.12 per cent coupon, due for repayment to begin in 2022. El Salvador would have struggled to service this coupon from its pre-crisis current income, even without a recession.

Under the two former administrations, the country had gained some level of political stability. With the arrival of populist president Najib Bukele, this stability has largely faded away. One very visible example is the military occupation of the parliament in February in order to enforce a budget amendment requested by the president and benefitting the military through further weapons purchases abroad. This political instability seems to have also been translated into a mismanagement of the health crisis.

As of 10 July, the pandemic shows a troubling trend in the country. The number of confirmed cases of Covid-19 is on the rise and reached a peak of 298 new cases per day in the latest available reporting. A total of 9,142 cases and 249 deaths have taken place since the beginning of the pandemic. The crisis is expected to exacerbate poverty and deprivation. There are 2.2 million people (33.8 per cent of the population) living in poverty in El Salvador. It is estimated that one out of three families in the country is headed by women, equivalent to 580,000 households. These are in a situation of extreme vulnerability given patterns of female employment and unpaid household work. Similar to other cases, the capacity of the country to extend a temporary safety net to enforce lockdown measures is hampered by fiscal constraints, debt vulnerabilities and a lack of support from the international community.

### 3.5 Pakistan

*By Abdul Khaliq (ISEJ Pakistan and CADTM Network),  
September 2020*

The indicators of a severe debt crisis were already present in Pakistan long before the Covid-19 crisis hit. The pandemic has merely served as a detonator of a structural crisis. After years of a neo-liberal offensive, Pakistan's debt burden has soared. Although the IMF classifies Pakistan as a country at low risk of debt distress, the reality is that the country already finds itself in a situation of debt distress, according to the Jubilee Debt Campaign's Debt Data Portal. Furthermore, while eligible for the DSSI in theory, a large share of Pakistan's external debt is not covered by this initiative as the majority of its debt is owed to private sector and multilateral organisations.

For Pakistan, the G20 DSSI provides a temporary debt suspension for eight months, involving up to \$1.8 billion in postponed debt payments. This is just a drop in the ocean. During such testing times, nothing is more draconian than forcing a country to contract further loans to finance the emergency response to Covid-19. Pakistan has been forced to do so in significant amounts. The IMF provided the country with a \$1.4 billion loan under the RFI facility. In addition, a consortium of multilateral institutions, composed of the World Bank, Asian Development Bank (ADB) and Asian Infrastructure Investment Bank (AIIB) have signed agreements to provide loans to the country of up to \$1.75 billion.

#### *Bullying behaviour from IFIs*

In response to these challenges, Pakistan has adopted an outspoken position on the need for debt relief to poor countries. As a result, it has faced pressure from IFIs and CRAs. CRAs have threatened Pakistan with credit risk downgrades for addressing the issue of debt justice. The debt problems of the country have also become an issue of global geopolitics. In a contradictory position, the US has simultaneously opposed Pakistan's call for comprehensive debt relief at the UN while it demands that China cancels bilateral loans extended to the country, as they are considered unsustainable and unfair.

In this context, Pakistan is projected to need \$27.8 billion to meet external debt service payments between September 2020 and June 2023. This figure includes payments for \$19.4 billion to the IMF, World Bank, ADB and China. The external debt of the country stands at \$111 billion. Of this figure, 48.4 per cent is owed to bilateral official creditors, 38.1 per cent to multilateral creditors and 9.4 per cent and 4.1 per cent to unofficial and private creditors, respectively.

Working classes have been forced to bear the effect of this mounting debt burden through indirect taxation and as a result, the economy of Pakistan is extremely fragile. However, IFIs and CRAs present a rosy picture under the garb of self-serving interpretations of debt sustainability. How can a country like Pakistan – with negative GDP growth (for the first time in 70 years), 45 per cent of the population living below the poverty line, 12 per cent inflation rate and a debt-to-GDP ratio of over 80 per cent – have the ability to pay back over \$1 billion per month?

#### *Pakistan's economy is heading towards crisis*

Pakistan is in a perfect debt trap. Its economy is running purely on debt which is wholly unsustainable. Sooner rather than later it will come to the inevitable – default. Without urgent and significant debt relief from all creditors, coupled with local actions such as a public debt audit and a massive reduction in non-development expenditures, it will be hard for Pakistan to avoid a default.

Going forward, all global creditors must move towards urgent and comprehensive debt cancellation and relief for Pakistan and all other developing countries in need. Support must come free from the type of institutional bullying that has characterised 'help' in the past, including extensive use of policy conditionalities, blackmailing and asset stripping. A comprehensive solution must include at least three basic components:

- 1. Fresh loans even to respond to the Covid-19 crisis must be stopped.** All external debt service payments on bilateral, multilateral and private debts owed by Pakistan should be suspended at least until June 2023.
- 2. Comprehensive sovereign debt relief must follow the initial debt suspension phase.** Debt relief should follow the structure of the assistance offered by the global community to Germany in 1953.
- 3. Independent debt audits must be considered an integral component of comprehensive sovereign debt relief.** Audits should take place at the national level and should be responsible for the assessment of the legality of all the previous loans. The results of the debt audits would then inform the process of cancelling illegitimate and odious debts.

Coordinated efforts by global CSOs are needed to ensure that these measures are adopted and countries like Pakistan are not left to deal with the impact of the crisis alone.

### 3.6 Zambia

*By AFRODAD - African Forum and Network on Debt and Development and the Jesuit Center for Theological Reflection (JCTR), September 2020*

The Covid-19 pandemic has had significant health, social and economic effects in Zambia. As of 15 September, the country had reported a total of 13,819 cases and 324 deaths related to Covid-19. Until now the government has avoided the adoption of draconian policies to contain the pandemic. The official response has been based on a combination of partial lockdown measures mainly aimed at reducing gatherings in public spaces.

The pandemic has had a devastating impact on the living conditions of the population. Before the crisis, 58 per cent of the population was living below the poverty line (on an income below \$1.90 per day). This is expected to increase as the crisis takes its toll on the job market. The informal sector accounts for 68 per cent of employment in the country. Since the emergence of the pandemic, most businesses experienced severe disruptions due to the reduction in the number of person-to-person interactions that characterise the informal sector. The impact is especially severe for smallholder farmers in rural areas. Up to 77 per cent of the population is living in poverty in these regions.

These dynamics affect women disproportionately. As of 2019, less than one out of four working-age women in the country had jobs. The informal sector accounts for 76 per cent of total employment for women. The Covid-19 crisis has had a dual impact on women in the country where increased job losses in the informal sector will see female unemployment rise, while caregiver burdens continue to fall on women. As a result of the unequal gender distribution of informal care in the household, women are likely to see their work and life opportunities further constrained in the aftermath of the pandemic.

In this regard, the prospects for a strong recovery are concerning. A central issue is the large debt burden facing the country. Zambia's public debt has increased significantly over the past few years. In 2018, total public debt reached \$18.3 billion, which is equivalent to 78.1 per cent of GDP. From this figure, \$11.2 billion corresponds to external public debt. Nearly half of this figure (\$5.1 billion) represents bonds and loans from private creditors. According to the IMF, the country was already at high risk of debt distress before the impact of the Covid-19 pandemic. The ongoing crisis is making the underlying problem more complex to solve, as public finances deteriorate and debt levels continue to rise. This is a major source of concern for the population and civil society.

Expenditure on debt servicing and salaries has been increasing at the expense of investments in key economic sectors such as healthcare, agriculture and mining just to mention a few. Before the pandemic struck, the country experienced systemic underinvestment particularly in its healthcare sector. Despite being a party to the Abuja Declaration of 2001, which committed Member States of the African Union to allocate at least 15 per cent of their budgets to the health sector, the country has yet to fulfil its commitment. Over the last five years, public healthcare expenditure has averaged 9.1 per cent of the government's budget. In the meantime, during this same period, debt servicing alone accounted for 70.3 per cent of government revenues.

This ratio is substantially above the IMF risk threshold, which recommends a relation of debt service to revenues no higher than 15 per cent. The pressure of the debt burden over public finances is set to increase further. The domestic currency (Kwacha) has depreciated over 24 per cent in the first quarter of 2020. This has increased the costs of meeting external debt payments severely impacting the country's stock of international reserves. The World Bank estimates that the G20 DSSI would allow Zambia to suspend debt service payments totalling \$139.2 million. This figure is equivalent to 0.6 per cent of GDP and 1.2 per cent of Zambia's total external debt stock. The marginal impact of the DSSI on debt service requirements is explained by the structure of the country's financing, whereby most public sector borrowing originates from multilateral and private sources. These creditors account for 73.3 per cent of external public debt and yet this group is only required to participate in the DSSI on a voluntary basis and thus far has not taken any steps to provide additional debt relief to the country.

Failure of the DSSI to engage with private creditors is reflected in the steps taken by the government to address its debt burden. Looming on the horizon is a large principal payment of \$750 million to private bondholders in 2022. In May, the government hired Lazard, an investment firm specialised in sovereign debt, to advise the country on a potential restructuring process. On 22 September, the government officially approached private bondholders to request a suspension of payments for six months. It is telling that the request is not within the DSSI framework. This is an indication that even in those cases where countries require private creditor participation, the DSSI is inadequate. While it is unclear whether private creditors will accept the request for a suspension, this is expected to be the first step of a wider restructuring process.

Against this backdrop, CSOs have taken an active role in demanding a public response that minimises the negative impact of the pandemic. Civil society in the region has advocated for measures aimed at tackling the country's growing debt burden. In this regard, it is increasingly clear that a debt suspension will not be enough to address the pressing problems faced by Zambia. Urgent support is needed from the international community to simultaneously address the recovery and development financing needs of the country and to address Zambia's debt burden. Debt relief with private creditor participation is required now to ensure the country can boost its Covid-19 response and support a sustainable recovery.

### 3.7 The Philippines

*By Asian Peoples' Movement on Debt and Development (APMDD), October 2020*

The Philippines has been in a vulnerable position since the beginning of the Covid-19 pandemic. This vulnerability can be explained by four factors: firstly, the close social and economic ties and geographical proximity between China and the Philippines. Secondly, the constant flow of outward migration of Filipino contract workers and, with cyclical migration, an increasingly mobile population. Thirdly, a weak public healthcare system that is the legacy of decades of inadequate financing because of prioritisation of debt service, and last but not least, significant social and economic inequalities. As a result of these pre-existing conditions, the crisis has been acutely felt by the population of the country.

In February, the Philippines experienced the first Covid-19 death outside China. Since then, the country has reported more than 304,266 active cases and a total of 5,344 deaths caused by Covid-19. In response to the pandemic, the government enforced lockdown measures from 16 March 2020. The Philippines experienced one of the longest and most strict lockdowns in the region. However, deep inequalities, a lack of adequate safety nets and a strained healthcare system affected the ability of these measures to contain the spread of the pandemic. On 31 July 2020, 80 groups representing 80,000 doctors and one million nurses said the country was losing its fight against Covid-19 and warned of a potential collapse of the healthcare system unless stricter measures and recalibrated strategies were put in place by the government.

In the meantime, the population of the country has been left to deal with the economic consequences of the Covid-19 pandemic. Before the pandemic, the economy was projected by the IMF to grow by 6.3 per cent in 2020. Since then, the Fund has slashed its provisions and the economy is now set to decrease by 3.6 per cent in 2020. As a result of this sharp

downturn millions of people have lost their livelihoods. An estimated 7.3 million people have temporarily or permanently lost their jobs. The Department of Labour and Employment (DOLE) estimates that around 10 million workers may lose their jobs this year. Hunger and poverty are on the rise and the number of families experiencing hunger increased from 2.1 million in December 2019 to 4.2 million in May 2020. The government estimates that without any support measures, there will be an additional 5.5 million people living in poverty.

The Covid-19 pandemic has also had significant consequences for gender equality. These consequences are largely shaped by multiple and intersecting pre-existing discriminatory practices faced by women in the Philippines. Women are over-represented in the informal economy and in paid and unpaid care work, and under-represented in formal employment, including decision-making structures and processes in the home and public spheres, as well as in ownership of land and other assets. In addition to economic inequality, women are also highly vulnerable to domestic violence. Since the start of the lockdown in March until mid-June, more than 4,200 cases of violence against women and children were reported by the Philippine National Police.

The government of the Philippines has put in place a four-pillar strategy to address the impact of the pandemic.

- Pillar 1 consists of emergency support for vulnerable groups and individuals amounting to 11 per cent of GDP. Pillar 1 is partly funded by the Asian Development Bank (ADB) grant for rapid emergency supplies.
- Pillar 2 funds expanded medical services to fight Covid-19 with a budget amounting to 0.3 per cent of GDP and has received World Bank financing.
- Pillar 3 is composed of programmes to finance small businesses for an amount equivalent to 0.6 per cent of GDP.
- Pillar 4 provides social protection for vulnerable workers, including displaced and overseas Filipino workers, amounting to 0.3 per cent of GDP. In total, the government has mobilised resources for 3.1 per cent of GDP (\$12.2 billion).

As well as being insufficient to contain the socio-economic impact of the crisis on the population, the Covid-19 response package has also caused an unprecedented increase in debt. Public debt is expected to increase from 34.1 to 48 per cent of GDP between 2019 and 2020. Before the start of the pandemic, external creditors held claims on the public sector equivalent to 13.9 per cent of GDP. Their participation in the overall composition of debt is likely to fall further as most of the financing during 2020 has come from domestic sources. In the short term, this has helped the country to avoid requesting emergency financing from the IMF.

The large share of domestic debt has allowed the government to finance its operations without external support. Actions of the government have been supported by the central bank of the country, which has reduced its interest rates four times this year.

In spite of this, the lack of support from the international community for countries like the Philippines has stark ramifications. As a middle-income country, the Philippines is excluded from participating in the G20 DSSI. Before the crisis, the country had an annual debt service requirement equal to 6.6 per cent of GDP. This figure is about to increase substantially as a result of the pandemic. Without measures to address the debt burden and few options to increase revenue, the only choice left is to implement harsh austerity measures. The government has already laid out plans for significant fiscal consolidation starting in 2021, which is likely to increase the hardship experienced by the population.

It is imperative that countries such as the Philippines are not left to fend for themselves. Lenders must acknowledge the illegitimate character of a large share of the debts incurred by developing countries. In addition to this, it is important to recognise the existence of historical, social and ecological debts tied to the legacy of colonial and post-colonial exploitation of countries in the global south. It is only when those debts have been acknowledged and cancelled that developing countries will have a chance to recover.

#### 4. Conclusion

##### *There is an urgent need for an ambitious and systemic solution to the debt crisis in the global south*

The Covid-19 crisis has unveiled and amplified a pre-existing debt crisis across the global south. However, the group-wide approach to debt relief agreed by the G20, and efforts towards coordinated action by Paris Club creditors and China, would have been unthinkable at the start of 2020, despite the deteriorating debt landscape in developing countries. The G20 DSSI represents a necessary and significant first step, but much remains to be done.

As this report shows, DSSI falls far short of the effort needed to meet the current scale of need in the global south. A global effort is vital to stave off a full-blown wave of defaults, and the human and social costs that this will entail, above and beyond the damage already being inflicted by Covid-19. A much more ambitious approach is needed to tackle this unprecedented crisis. A scaling up of the G20 DSSI should be urgently agreed to release much-needed funds to deal with the enormous challenges in tackling the health, social and economic crisis, including all countries in

need and all creditors – MDBs and those from the private sector alike. However, it is crucial that the international community does not stop there.

Countries were already facing huge funding gaps to meet the SDGs before the pandemic struck and today there is a consensus on the need for substantial debt relief to contribute to reducing this gap. The situation we face in the wake of the Covid-19 pandemic means even greater need for concerted global action on debt cancellation and restructuring for developing countries. The alternative is the abandonment of the 2030 SDG Agenda, as well as specific international commitments regarding gender equality and the Paris Agreement on Climate Change.

As we have seen, while the DSSI adopted by the G20 has relieved some of the pressure through the provision of short-term debt service suspension, for many countries, including those being granted limited breathing space, many challenges remain unaddressed. Debt levels are expected to increase substantially for developing countries across all country income groups and the risk of widespread sovereign debt distress means a series of complicated sovereign defaults is likely and some are already underway. As IMF's chief economist Gita Gopinath recognised, many countries may need a full-scale debt restructuring in the aftermath of the health crisis and its economic fallout.

Similarly, Carmen Reinhart, chief economist of the World Bank, acknowledged that "the initial timeline for the G20 debt initiative would have to be revisited and the debt restructuring process needed to become faster and more expedient". The governments of the G20 and members of the IMF and World Bank are in discussion about how to address this need for further debt relief and restructuring. However, unless much more ambitious action is taken in relation to the current proposals, the prospect of multiple defaults and concurrent sovereign restructurings will put the current, inadequate system for debt crisis resolution under immense strain.

Indeed, the lack of a mechanism to ensure a timely and comprehensive approach to fair, transparent and durable debt restructuring, including necessary debt cancellation, is already increasing the economic (and social) cost of debt resolution for creditors and debtors alike. The slow adoption of the G20 DSSI by eligible countries, and the lack of participation by private creditors, are symptoms of the structural shortcoming of the international financial architecture. The IMF proposals for reform of the international architecture for sovereign debt resolution are mainly limited to improving the contractual framework and transparency, leaving many shortcomings of the existing debt resolution mechanisms unsolved.

The impacts of Covid-19 are exacerbating deep existing economic, social and gender inequalities. This has brought into sharp focus the systemic failures of the economic model and the vulnerabilities to exogenous shocks it imposes upon countries in the global south. More ambitious and systemic solutions are the only way to prevent countries in the global south and their people from sinking into a more profound economic and humanitarian crisis, leading to another “lost decade” for development.

This systemic approach to the resolution of the present debt crisis means that the G20 governments and IFIs need to take the following actions:

- Agree and implement a **post-Covid-19 debt relief and sustainability initiative** under UN auspices to bring developing country debts down to sustainable levels and which considers countries' long-term financing needs to pursue the SDGs, climate goals, and human rights and gender equality commitments. This should involve all creditors and ensure debt cancellation and restructuring.
- Progress towards a **permanent multilateral framework** under UN auspices to support systematic, timely and fair restructuring of sovereign debt, in a process convening all creditors.

The goal of these reforms is to support countries in achieving a sustainable and inclusive recovery, as well as facilitating sustainable development prospects for the future while maintaining debt sustainability. This means overcoming current lender-led processes, establishing a framework for urgent debt cancellation and restructuring, and moving to a permanent, independent and multilateral process under UN auspices, that allows civil society participation and considers not only capacity for payment but also **development needs, human rights, gender equality and climate vulnerabilities, as well as issues of debt legitimacy**. Steps should also be taken regarding binding rules on responsible sovereign lending and borrowing in order to support improved debt crisis prevention.

Leaders should consider convening a 4th UN Financing for Development conference in the form of an Economic Reconstruction and Systemic Reform Summit, to secure intergovernmental agreements on these long-standing issues. As well as these reforms, it is critical that G20 governments and IFIs also agree on a number of immediate measures to answer the very urgent needs of the countries and people in the global south today. These include action to:

- **Scale up the current IMF and G20 debt relief initiatives**, in order to offer permanent cancellation of all external debt payments for up to four years to all global south countries in need, **as requested by the African Union**.
- **Secure the participation of all creditors**, including the World Bank and other MDBs, as well as private creditors, in the DSSI and any further debt relief offers. As long as multilateral and private creditors do not participate in the efforts to tackle the debt crisis through a debt standstill or cancellation, resources freed up via the efforts of other creditors and new emergency financing provided to fight the impacts of Covid-19, will effectively be diverted to pay non-participating creditors.
- **Support borrower countries that decide to suspend payments** in order to protect the rights and needs of populations, especially to maintain and increase social protection and health spending in response to Covid-19. This includes:
  - **Taking action in key jurisdictions**, and in particular in the UK and New York, to introduce legislation to prevent a lender suing a government for following the G20 DSSI and suspending debt payments.
  - Making clear statements supporting borrowing countries deciding on the **use of Article VIII, Section 2 (b) of the IMF Articles of Agreement**, which allows for the establishment of a binding sovereign debt standstill mechanism, and /or the use of **'state of necessity' defence** in the case of suspending debt payments in order to protect the rights and needs of populations.
  - **Provide emergency additional finance** to support developing countries to tackle the health, social and economic crises, favouring grants over loans, so this does not aggravate unsustainable debt levels in the near future. Efforts should also be stepped up to secure a new and large issuance of IMF SDR to help alleviate liquidity pressures on developing countries in need. Furthermore, debt relief should not be reported as ODA, as this practice would lead to the double counting of risks of default, the inflation of ODA statistics, and would potentially undermine the real flow of resources from donor countries to support developing countries tackling the Covid-19 crisis.

This chapter is based on a fully-referenced briefing which can be found at:  
[www.eurodad.org/g20\\_dssi\\_shadow\\_report](http://www.eurodad.org/g20_dssi_shadow_report)

# Never let a pandemic go to waste

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How the World Bank's Covid-19 response  
is prioritising the private sector

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## Executive Summary

The Covid-19 pandemic has triggered health, economic and social crises of unprecedented proportions that have the potential to seriously undermine the (already slow) progress made by developing countries towards achieving the Sustainable Development Goals (SDGs). The World Bank's (WB) own figures suggest that by 2021 an additional 110 to 150 million people will have fallen into extreme poverty, living on less than US\$ 1.90 per day. The impacts of the Covid-19 pandemic have resulted in calls for ambitious responses, both in terms of scale and policy, under the broad headline of "building back better". This briefing paper analyses the response of the World Bank Group (WBG) to the Covid-19 pandemic and reveals a persistent prioritisation of private over public interests, both in the immediate pandemic response and beyond. In fact, the WBG appears to have seized the current crisis as an opportunity to intensify its Maximising Finance for Development (MFD) approach.

The MFD approach, which has been implemented by the WBG since 2017, builds on previous strategies and represents a systematic and comprehensive effort to promote private sector development. The approach seeks to place the private sector at the heart of development, including in public service provision. The idea is for traditional Official Development Assistance (ODA) to take on a catalytic role in the mobilisation of private finance for development, including in the poorest countries. The approach deploys various instruments, many of which are referred to as "blended finance". They range from offering technical advice on how to reform policies and institutions in a particular country and/or sector, to taking "first equity loss" positions in private investment deals or providing loans to private sector agents at subsidised rates.

This WBG agenda reveals the unwillingness of the donor community to take concrete measures to scale up and strengthen public financing of development, and an inability to agree on a multilateral resolution to unsustainable sovereign debts. Furthermore, it demonstrates a lack of resolve to create a global body to deal with massive tax avoidance and evasion, which is strongly detrimental to countries in the global south.

Major donors and international institutions have failed to respond to a growing body of literature and evidence that calls into question the effectiveness of this approach and highlights its considerable negative consequences. Finally, it reflects a fundamental underlying prejudice against the public sector, which has been fuelled by austerity policies that have undermined its ability to deliver.

Our analysis highlights five points:

1. During the immediate emergency response, the WBG earmarked almost 60 per cent of the US\$ 14 billion of the Fast Track Covid-19 Facility (US\$ 8 billion) to be allocated through its private sector arm, the International Finance Corporation (IFC), instead of its public sector arms, the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). They received US\$ 6 billion. This does not respond to multiple calls across the policy spectrum for stronger public systems.
2. IFC financial sector clients and multinational companies have particularly benefited from the pandemic response. According to publicly available information, by late June 2020, 68 per cent (in value terms) of IFC Covid-19 projects targeted financial institutions. This corresponds to the first four months of the WBG's pandemic response and the close of its 2020 fiscal year. The WBG claims that this is to assist Micro, Small and Medium Enterprises (MSMEs) in navigating the fallout from the pandemic but this strategy is yet to produce results. In addition, around 50 per cent of IFC supported companies are either majority-owned by multinational companies or are themselves international conglomerates. There is a high risk that the IFC emergency response has not reached the countries, sectors and companies most in need of support.

3. Increased pressure to “get money out the door” has raised clear implementation challenges. In particular, the IFC’s focus on financial institutions has fallen short with regard to transparency and accountability, while on the WB’s side there have been questions about the very limited to no stakeholder engagement as projects are rolled out. This comes in addition to the shrinking space for civil society organisations (CSOs) to actively participate and increased reprisals against human rights activists by national governments.
4. Regarding its relationship with governments, the WBG remains set on structural reforms in support of liberalisation and deregulation. While most WB loans to governments that have been approved in the emergency response period have aimed at addressing the health crisis, others have a broader scope and include more traditional reforms in support of the private sector. This indicates a strong and continued commitment by the WBG to a market-driven approach which, among other things, has resulted in adverse health outcomes and negative impacts on gender equality.
5. The WBG ultimately aims to “build back better” by accelerating and scaling-up its support for private sector solutions. This includes an enhanced focus on public-private partnerships (PPPs) to deliver ostensibly public services, despite well-documented evidence regarding the multiple risks and implications of PPPs for the public sector and for citizens, including their high cost, fiscal risks, questionable effectiveness, and equity implications.

On closer inspection of the MFD approach in a pilot country like Kenya, it is clear that both prior to and during the pandemic, the WBG has relentlessly pursued an agenda of promoting private sector interests, including in core public sectors like health and education. This raises serious issues regarding who benefits from this agenda and at what cost. Indeed, the implementation of the MFD risks worsening inequalities and amplifying the economic and social fallout of Covid-19.

## Policy recommendations

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The WBG is a public institution with a development mandate and as such has a duty to deliver for the public good. The development financing paradigm for the next decade is at stake.

This briefing suggests short-term policy recommendations focused on the Covid-19 response and long-term measures that would allow the WBG to reconnect with its core mandate, which is ending extreme poverty and promoting shared prosperity.

In the short term:

- The WBG needs to restore the balance between the public and private sector in its Covid-19 response, including in its modalities and instruments. Developing countries are in need of concessional resources to strengthen their public systems, particularly health, education and social protection, and to stimulate the economic recovery.
- Both in its emergency response and with regard to long-term finance, the WBG must abandon policy conditions that undermine economic policies and regulatory measures aimed at strengthening domestic economies, jobs and livelihoods and civic rights. This includes abandoning those policy conditions that favour the private sector and undermine the strengthening of public services and the delivery of public goods.
- The WBG should make sure its emergency and long-term programmes are consistent with and strengthen climate resilience and the shift to low carbon pathways.
- The IFC should commit to publicly disclosing the ultimate recipients of its support and what this assistance is used for. This would ensure that IFC programmes help preserve employment and do not serve to bail out private financial institutions.
- The IFC should stop its support to commercial private health facilities that undermine public system building and that arguably has pernicious implications for women, lower-income or vulnerable populations.

## Long term measures

Given the problematic track-record of the MFD, the WBG should seriously re-evaluate this approach. If the institution wishes to “build back better”, it needs to consider the broad implications of its agenda and, instead, move towards a human rights-based approach that builds resilience and strengthens public systems.

At its core, this will require adequate levels of public finance to be achieved through, among other things, tackling tax avoidance and evasion and by using ODA to strengthen the provision of public services. The WBG, as a leading development actor, has to play its part and rethink its approach to blended finance. Immediate cancellation of debt payments should be linked to a more comprehensive approach to debt crisis resolution under the auspices of the United Nations (UN). The implementation of these measures would allow for an equitable and resilient recovery in line with the SDG and Paris commitments.

In recent years, most discussions about development finance have focused on using public money and institutions to leverage private finance. The World Bank Group (WBG) has been a lead player in this field and its Maximising Finance for Development (MFD) approach is perhaps the most widely known example of this. The WBG's MFD approach has structured the Bank's operations since 2017 and its implementation is an indication of the institution's commitment to increasing the involvement of the private sector in development. An important objective is to attract trillions of dollars managed by private institutional investors to help finance the Sustainable Development Goals (SDGs). “De-risking” private finance is central to this approach. The agenda argues that “better and smarter Official Development Assistance (ODA) can help catalyse and leverage financing from diverse sources towards the SDGs”. Various instruments have been rolled out to operationalise the blending of public and private finance (blended finance) approach at the heart of this new agenda. These include guarantees, subsidies, first-loss equity positions and public-private partnerships (PPPs).

The use of ODA (or donor funds) to mobilise private finance is not new to the WBG's private sector lending arm, the International Finance Corporation (IFC), which has had a blended finance portfolio since the late 1990s. However, in 2017, this became central to its corporate strategy (IFC 3.0) and, that same year, the WBG launched the IDA Private Sector Window (PSW), which constituted a significant scaling up of its efforts to mobilise aid resources in support of private investment in low-income countries (LICs) and fragile and conflict-affected states (FCSs). Subsequently, the capital increase approved by WBG's shareholders in 2018 came with specific and ambitious targets to move this agenda forward, despite multiple critiques of the central tenets of the approach.

At the outbreak of the Covid-19 pandemic, the WBG was called upon to respond quickly, as the demand for support from developing countries increased dramatically. In March 2020, the WBG announced a US\$ 14 billion package of fast-track Covid-19 financing (FTCF) to support countries and companies in their efforts to manage the negative impacts of the pandemic. Moreover, as the crisis projected a major global recession, the Bank announced that a further US\$ 160 billion would be committed over the next 15 months.

This briefing analyses the response of the WBG to the Covid-19 pandemic. It does so by presenting first, in Section 2, the WBG's MFD approach to development finance as its pre-existing strategy. The paper then proceeds, in Section 3, with a brief account of the WBG's response to Covid-19, which is followed, in Section 4, by a critical analysis. This reveals a persistent prioritisation of private over public interests by the WBG, both in the immediate pandemic response and beyond, as the pandemic offers the institution an opportunity to accelerate its MFD approach. Furthermore, the WBG's commitment to the promotion of private finance is likely to be compounded by the limited fiscal space that developing countries will face in the post-Covid-19 context. Section 5, then, illustrates in further detail the possible ramifications of this approach for Kenya. Kenya is a long-standing client of the WBG and a pilot of its MFD approach. Closer scrutiny of the details of the WBG's engagement with the country allows for an in-depth analysis of some of the fundamental issues inherent in the promotion of private over public interests. The final section concludes and provides concrete policy recommendations.

## 2. Maximising finance for development at the World Bank Group

Over the last decade, the WBG has been a lead player in reorienting development cooperation so that it becomes focused on using public money and institutions to leverage private finance. This was evidenced in the run up to the Third United Nations Conference on Financing for Development, resulting in the Addis Ababa Action Agenda (AAAA), which put the private sector at the heart of the UN's strategy to finance the SDGs. The WBG, together with its sister institution, the International Monetary Fund and five major multilateral development banks explicitly argued for development finance in the post-2015 era to become centrally organised around the "blending" or "leveraging" of private finance by public resources. A key document, "From Billions to Trillions: Transforming Development Finance Post-2015 Financing for Development", advocated for a "paradigmatic shift" building on the proposition that "the world needs intelligent development finance that goes well beyond filling financing gaps and that can be used strategically to unlock, leverage and catalyse private flows and domestic resources".

The core idea of this approach is to mobilise ODA to de-risk private flows. Public sector measures are considered necessary to encourage private investment as they seek to decrease perceived risk or increase anticipated returns. These measures can take various forms, from offering technical advice on how to reform policies and institutions in a particular country and/or sector, to taking first equity loss positions or providing loans to private sector agents at subsidised rates.

This approach reflects an unwillingness of the donor community to scale up and strengthen public financing of development, or at least to meet previously agreed commitments to deliver 0.7 per cent of gross national income in aid. It also suggests reticence to create a global body through which tax issues could be resolved to tackle massive tax avoidance and evasion, which is detrimental to countries in the global south. Without these measures, progress on the SDGs relies solely on limited ODA acting as a catalyst for increased private investment. It has become commonplace in donor rhetoric to hear that "the contribution of the private sector to achieving development gains must be scaled up, particularly in the poorest countries".

The WB's MFD approach, launched formally in 2017, is a good example of the push to increase the private sector contribution. The MFD, previously called the "Cascade approach", was set out as the vision for the WBG for 2030. Under the MFD approach, private finance is preferred as a first option for "sustainable" investment. If this cannot be accessed, governments and donors need to consider if upstream interventions "to address market failures" can lead to a flow of private finance. These measures include reviewing country and sector policies, regulations, pricing, institutions and capacity. Failing this, the next option is to consider the potential for various blended finance instruments like guarantees, other risk-sharing instruments and PPPs, to attract private investors. Only as a last resort should policy makers turn to public finance. This was affirmed by Philippe Le Houérou, Chief Executive Officer of the IFC at the launch of its new strategy (IFC 3.0), when he explained: "Only when all of these possibilities are exhausted, should we seek to use the limited sources of public finance". This approach, initially focused on infrastructure, is expected to be expanded to finance, education, health and agribusiness. To implement this strategy, nine pilot countries were identified: Cameroon, Cote d'Ivoire, Egypt, Indonesia, Iraq, Jordan, Kenya, Nepal, and Vietnam. In addition, according to the WB, MFD-related pilot engagements are underway in countries like Peru and Sri Lanka.

The MFD approach is an integral part of a broader institutional effort to create markets and crowd-in private finance. In particular, the MFD complements the IFC 3.0 corporate strategy, whose "success [...] requires the active involvement and collaboration of the WB in creating enabling policy and regulatory environments and on de-risking the private sector's entry into these environments". Interestingly, the MFD came with a call from then-WB president Jim Kim for a capital increase for the institution. As Kim put it when addressing WBG shareholders: "To deliver what countries need at the scale you expect of us – we need more resources [...] We can play a critical role in finding win-win solutions, where we maximize financing for development, and create opportunities for the owners of capital to make higher returns".

Despite not receiving initial support from the United States (US) Treasury, a capital increase was finally approved by WB shareholders in April 2018. The capital increase was accompanied by a policy package, which outlined four key pillars for WBG operations: (a) serve all clients; (b) create markets; (c) lead on global issues; and (d) improve the business model. While WBG shareholders referred to this as “a transformative package”, in reality, there was little new in it. Instead, the capital increase served to endorse the MFD and the WBG’s role in advancing the AAAA, while it helped translate policy objectives into policy targets. One such target is the IFC’s pledge to deliver 40 per cent of its annual commitments in IDA countries and FCSs.

The WB took an active role in promoting the MFD across Multilateral Development Banks (MDBs) and its principles were subsequently adopted as the Hamburg Principles, which provide a “common framework among MDBs to increase levels of private investment in support of development”. As such, the MDBs have agreed to focus their operations in three main areas:

- i. continue to strengthen investment capacity and policy frameworks at national and subnational levels
- ii. enhance private sector involvement and prioritise commercial sources of financing
- iii. enhance the catalytic role of the MDBs themselves

At the WBG, a scorecard system tracks performance on private mobilisations and staff incentives have become tied to success in this regard. The donor community’s strong commitment to the approach is emblematic in the Organisation for Economic Co-operation and Development’s (OECD) redefinition of how to measure ODA, as part of which donors reached a provisional agreement in December 2018 to include private sector instruments, such as equity investments and guarantees typically offered to private companies in the reporting of ODA. Moreover, the new statistic of Total Support for Sustainable Development, aimed to increase transparency of different flows, seeks to include official resources to mobilise private development finance. This measure would also “potentially cover private resources mobilised through public schemes, as well as the activities of diverse financial intermediaries, including collective investment vehicles and venture capital funds”.

The WBG’s strategic use of blended finance took on a specific form when, during the 2017-2020 replenishment of its concessional arm (the International Development Association, IDA18), donors agreed to create a US\$ 2.5 billion pilot IFC-MIGA [Multilateral Investment Guarantee Agency] Private Sector Window (PSW). The PSW places donor aid resources under the direct control of the IFC (US\$ 2 billion) and MIGA (US\$ 0.5 billion) to support their attempt to mobilise private investments in low income and fragile country contexts. Although the PSW represents a small fraction of IDA18 for the WB, it serves as an “illustration of how the World Bank Group is putting the Finance for Development (FfD) agenda into action”. IDA18, therefore, represented an important step in implementing the WBG’s vision of MFD, also including the possibility of IDA to raise funds from capital markets, with the first IDA bond raising US\$ 1.5 billion from investors in April 2018. However, raising funds in capital markets has recently raised concerns by representatives of the United States Congress regarding the financial viability of the IDA.

For the IDA, the PSW provides an opportunity “to make strategic use of public resources to catalyse private investments in these challenging markets, by leveraging IFC’s and MIGA’s business models and client relationships”. Its creation was seen as complementing the WB’s more traditional work via its public sector concessional window, IDA, which itself seeks to promote policy reforms to improve “business environments”, by now allowing it to de-risk private investments more directly. What this means in practice, is that aid resources are used to attract and subsidise private sector investments to operationalise a strategy that sees the private sector as key actor to improve development outcomes in low income and fragile country settings. The PSW institutionalises WBG-wide collaboration that seeks to harness public resources for the private sector. This was seen as essential to achieve the SDG 2030 Agenda: “Making progress on the 2030 Agenda will require a paradigm shift, one in which scarce ODA serves as a catalyst for increased private sector investment”. It should also be noted that while, previously, the IFC delivered hundreds of millions of its profits in support of IDA lending, it is now a net recipient of IDA funding. At the same time, a smaller share of its investments reaches IDA countries.

For the IFC, the IDA PSW represented a significant development and opportunity to craft a key role for itself in the blended finance landscape. Where it had previously managed smaller pilot blended finance schemes, mainly with an emphasis on climate finance, it was now endowed with substantial donor resources to mobilise in support of its new strategy. The PSW became a “critical component” of the IFC 3.0 strategy “to tackle private sector challenges by creating markets and mobilisation”. This was combined with the idea that the de-risking mechanisms would assist in “unlocking” new sources of funds from institutional investors. Indeed, the “From Billions to Trillions” agenda sought to capitalise on matching large (unused) savings to de-risked investment opportunities in LICs.

Despite being celebrated as emblematic of the WBG's MFD, and instrumental to deliver the IFC 3.0 strategy, the IDA PSW did not fulfil expectations. By late 2019 (just six months before the US\$ 2.5 billion IDA PSW should have been fully allocated), the PSW had committed just over US\$ 0.5 billion – only slightly more than a fifth of the resources available to it. Significant concerns were raised regarding the lack of transparency in the way in which aid subsidies were finding their way to private firms via the PSW. As Charles Kenny, senior fellow at the Center for Global Development, put it: “Taxpayers as well as supposed beneficiaries have the right to know how PSW aid is being used”. United States (US) Congresswoman, Maxine Waters, Chair of the US House Committee on Financial Services, led the charge. She claimed that the IDA PSW was “subsidizing private firms selected without competition on the basis of unsolicited proposals.” And suggested that the PSW was “likely to prioritize financial returns over positive development impacts, which [would] be difficult to monitor.” She added that the PSW “stands in conflict with the World Bank's own principles that call for subsidies to be justified, transparent, competitively based, focused on impact, and guarded against rent-seeking opportunities”). This was followed by the threat of withholding Congressional support for the IFC's capital increase that had been agreed in 2018, unless “these transfers stop, or at a minimum are competitively based and fully transparent down to the amounts and purpose of aid going to which firms and projects”.

These objections reflected more general concerns regarding blended finance. These range from: limited private sector mobilisation, inadequate risk sharing, lack of financial additionality, lopsided leverage ratios, unconvincing development impact, lack of transparency and accountability, high cost of investments, the creation of new liabilities, limited domestic ownership, and various types of conflicting interests, not to mention the little appetite of private investors for low income and fragile country settings and hence their low share of blended finance. Nevertheless, the IDA19 replenishment, concluded in December 2019, saw a renewal of the PSW as part of the agreement to finance the WB's aid activities for the period of July 2020 to June 2023. However, at the same time, the PSW's resource envelope was held constant (at US\$ 2.5 billion), reflecting donor unwillingness to scale up the approach.

### 3. The Covid-19 pandemic and the World Bank Group response

As Covid-19 started to wreak havoc in early 2020, successive governments locked down their economies for months on end. The measures to contain the health crisis triggered economic and social crises of unprecedented proportions, with women disproportionately impacted. This came in addition to increasing inequalities and the continued negative impacts of climate change.

In April 2020, the IMF warned the world about the scale of the crisis, saying that “the global economy will experience the worst recession since the Great Depression”, prompting calls from the global community to “build back better”. The WBG estimated that the additional financing needs for developing countries arising from the crisis would be exceptionally high and likely to persist. The WBG's latest poverty projections suggest that by 2021, an additional 110 to 150 million people will have fallen into extreme poverty, living on less than US\$ 1.90 per day. In September, the United Nations Commission for Trade and Development argued that “there is a very serious danger that the shortfall will drag developing countries into another lost decade ending any hope of realizing the ambition of the 2030 Agenda for Sustainable Development.” Furthermore, decades of austerity policies and privatisation strategies have long undermined public health systems and stifled progress on universal social protection, which has undoubtedly fuelled the dramatic global fallout from the Covid-19 pandemic.

The WBG quickly introduced measures that sought to mitigate both the immediate health emergency, as well as the longer-term fallout from the major disruption to traditional economic and social life. In mid-March 2020, it approved a US\$ 14 billion Fast Track Covid-19 Facility (FTCF) for an emergency response to the virus (see Figure 1). This constituted “the largest and fastest crisis response in the Bank Group’s history”. It entailed the approval of “specific waivers and exceptions required to enable the rapid preparation and implementation of country operations processed under the Facility”. Moreover, as the crisis projected a major global recession, the Bank committed to provide US\$ 160 billion in finance over the next 15 months, with US\$ 50 billion for LICs, and US\$ 330-350 billion by the end of June 2023.

A closer look at how the FTCF resources were distributed inside the WBG reveals a preference for private sector activities (see Figure 1). While US\$ 6 billion was to be disbursed through the public sector arms of the WB (the IBRD and IDA) to strengthen national systems, including health, education and social protection, the larger share of this package (US\$ 8 billion) was to be channelled through the WBG’s private sector arm, the IFC. According to the WBG, “the IFC will provide direct lending to existing clients affected by the outbreak, as well as support financial institution partner clients so they can continue lending to businesses”. It was the WBG’s assessment that “[t]he developing world needs private sector investment now more than ever”. This was consistent with the IFC’s strategic goal of promoting private investment, including by mobilising aid resources via the IDA PSW (World Bank and IMF 2020). The IFC also announced a massive expansion of its upstream work, i.e. to set the policy and regulatory framework for private projects, including hiring 200 new staff to identify and create bankable projects in developing countries.

Between March and late June, which marks the end of the WBG’s 2020 fiscal year, the IBRD and IDA, the public sector windows of the WBG, had approved Covid-19 related operations in 108 countries, including 33 FCSs. New commitments totalling US\$ 3.8 billion financed governments’ purchases of health equipment, personal protective equipment and training, while an additional US\$ 2.5 billion was redirected towards the Covid-19 response from an existing portfolio of operations under implementation. This reallocation raised concerns of possible future funding inadequacies in the absence of adequate funding commitments for the recovery period.

Meanwhile, the IFC organised its Covid-19 response alongside four facilities: Working Capital Solutions, Global Trade Finance, Real Sector Crisis Response and Global Trade Liquidity. With the exception of the Real Sector Envelope, these facilities are dedicated to supporting

financial intermediaries (see Figure 2) and, by late June 2020, funding commitments amounted to US\$ 3.5 billion. Publicly available information indicates that during the period between early April and late June 2020, 38 individual projects were approved, some of which benefit from aid support via the IDA PSW. Indeed, the IDA PSW dramatically accelerated commitments as part of the Covid-19 IFC response: the PSW saw an envelope of commitments (just over US\$ 0.5 billion) between April and late June equivalent in size to all its commitments in the preceding two and a half years. The IFC was explicit that “to ensure that it continues to support private sector development in low income and fragile and conflict-affected countries, strong emphasis will be placed on supporting clients operating in these countries. In addition, the IFC will leverage concessional financing from the IDA PSW [...] particularly to attract foreign direct investment into more challenging low income and fragile countries”. Interestingly, various high-level WBG staff emphasised how the pandemic presents a unique opportunity to mobilise blended finance.

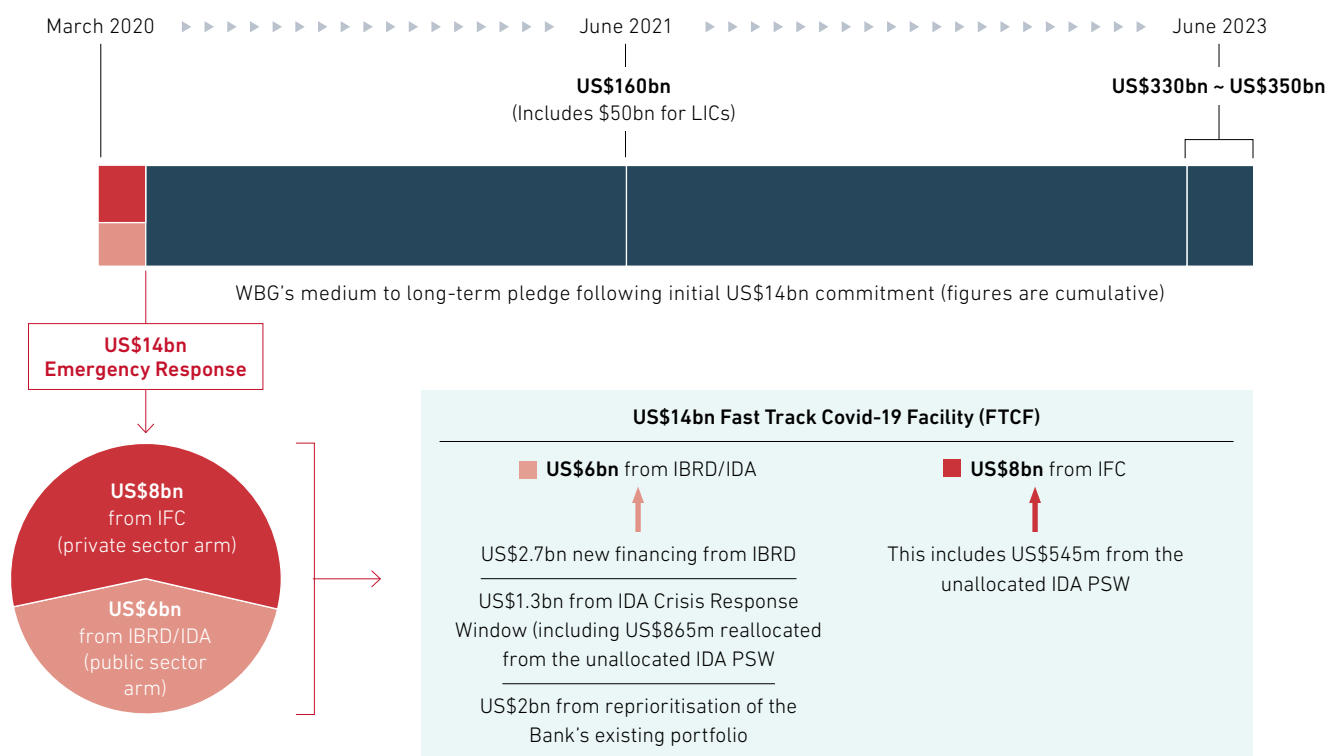
Furthermore, in April 2020 the WB’s shareholders and the G20 Finance Ministers endorsed the Debt Service Suspension Initiative, acting on a pressing issue for developing countries. They agreed on the suspension of bilateral official debt service to G20 countries of 73 eligible low-income countries and called on private creditors to participate in the initiative. However, the WB limited its action to compel only bilateral donors to grant debt relief to the world’s poorest countries. As for relief on debts owed to the WB, its President expressed the reluctance of the institution, arguing that this would risk its AAA credit rating. Instead, he called for more donor contributions to facilitate action – a position that drew strong criticism from CSOs.

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**Decades of  
austerity policies  
and privatisation  
strategies have  
undermined public  
health systems**

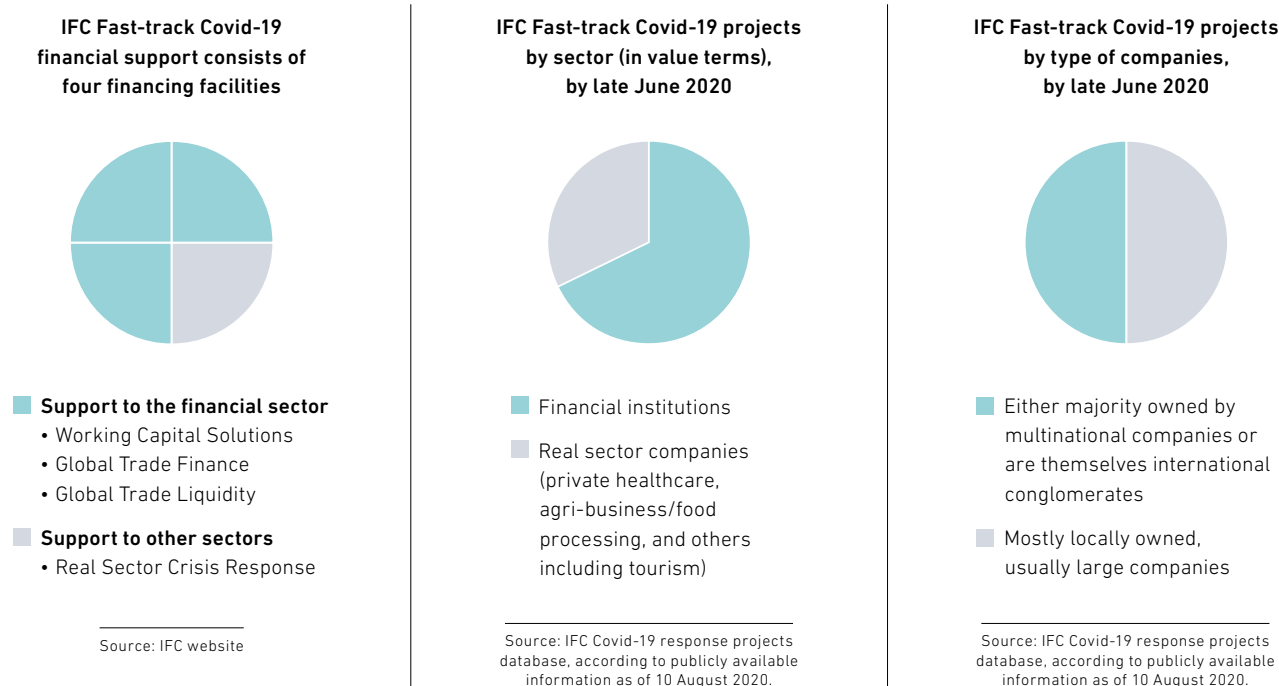
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Figure 1: World Bank Group's response to Covid-19



Source: WBG, 2020a and WBG, 2020b

Figure 2: IFC's Covid-19 emergency response



#### 4. In sickness or in health: “Maximising Finance for Development” forever

A detailed analysis of the first four months (March to late June 2020) of the WBG's response to the Covid-19 pandemic raises several issues and reveals how this pandemic provides an opportunity for the institution to enhance and accelerate its broader MFD agenda.

##### Public versus private sectors in the World Bank Group Covid-19 response

**The WBG Covid-19 response favours private sector clients over the public sector.** The large allocation to the IFC via the FTCF, at almost 60 per cent, is not consistent with the WBG's traditional trends in terms of commitments to public versus private clients. Over the last five years, its private sector operations via the IFC accounted for around 17 per cent in total commitments compared to the combined share of commitments via its public sector operations of around 70 per cent. Furthermore, the large share of the IFC in the FTCF is conflicting with multiple calls across the policy spectrum for stronger public systems, without accounting for the implied opportunity cost that every US dollar spent on de-risking or leveraging cannot be spent in support of public systems.

Moreover, the WBG's Covid-19 response reveals conflicting demands on the aid resources that were unused in the IDA PSW by the time the pandemic unfolded (see Figure 1). These resources amounted to around US\$ 1.4 billion at the start of the pandemic, of which US\$ 865 million were reallocated away from the PSW to IDA's Critical Response Window to support IDA's health Covid-19 pandemic response. This raises the question as to why all remaining resources of the PSW were not reallocated to the WB's aid response to governments via IDA. If this had been the case, global capacity to respond to the health emergency and its social and economic fallout would have been bolstered, as opposed to banks and private companies benefitting from a significant surge in available resources.

Furthermore, despite repeated calls to strengthen public sector capacities to respond to the health crisis, the IFC announced the creation of a US\$ 4 billion Global Health Platform “to directly support the private sector's ability and capacity to deliver healthcare products and services and to respond to the immediate and longer-term challenges to developing countries' already vulnerable health systems affected by Covid-19, thereby increasing the resilience and impact of developing countries' healthcare systems”.

This situation increases the tension between the institution's twin goals of ending extreme poverty and promoting shared prosperity. Indeed, the FTCT response unfolded despite shareholders' explicit demands at the 2020 Spring Meetings for the WBG to “help governments deploy resources toward public health interventions, nutrition, education, essential services, and social protection against the immediate adverse effects of the shocks.” Shareholders also expressed support for the “WBG's emphasis on boosting government preparedness to protect human capital against potential subsequent waves of the outbreak and future pandemics” and stressed that “[efforts] should place special focus on fragile situations, small island states, and the poorest and vulnerable people in all countries, with attention to gender issues” (our emphasis).

##### Who benefits?

This analysis has identified the following types of clients as those who benefit from the IFC Covid-19 response (see Figure 2).

- The financial sector: In its design, 75 per cent of the US\$ 8 billion FTCF earmarked for the IFC is meant to support the financial sector. According to publicly available information, by late June 2020 (covering the first four months of the WBG's pandemic response and the close of its 2020 fiscal year), about 68 per cent (in value terms) of committed IFC Covid-19 projects targeted financial institutions. These are predominantly banks – with one beneficiary being a very large global bank, another the largest Mongolian microfinance institution and another a very large SME-oriented group of commercial banks with headquarters in Germany.
- The non-financial sector: the remaining IFC commitments have benefited non-financial companies in the following sectors: private healthcare; agri-business/food processing; and others, including tourism, for instance, Shangri-La Asia a leading owner and operator of hotels and resorts in Asia.
- Type of clients: All the beneficiaries are existing IFC clients and are privately owned (with the exception of an Indian company). The IFC holds equity positions in some of the FTCF-targeted companies, which also indicates that the IFC itself is benefiting from these schemes (see examples in Box 1 and in Section 5 on Kenya).

- Type of companies: Around 50 per cent of IFC supported companies are either majority-owned by multinational companies or are themselves international conglomerates. The rest are mostly locally owned, usually large companies, in terms of size and/or market share, and many are listed in domestic stock exchanges. For instance: Nyva, which is the second largest market player in the Ukrainian industrial pork market; the PRAN Group, which is the leading branded food and beverage group and the largest agro-processor in Bangladesh. Finally, there is the MCS, which is one of the largest diversified business groups in Mongolia with 10 subsidiaries in several business sectors, including energy, infrastructure, information technologies, soft drinks, and property development.

#### Box 1: Examples of IFC Covid-19 projects

A US\$ 8.35 million concessionary loan (via the IDA PSW) to a French-South African multi-national joint venture (Cerbera Lancet Africa), owning a network of private clinical diagnostic laboratories across Sub-Saharan Africa, to support its expansion on the continent including through the acquisition of existing labs.

A US\$ 4 million loan (with IDA PSW support) to the activities of the healthcare subsidiary (Ciel Healthcare) of a Mauritian conglomerate, which has operations in Mauritius, Uganda and Nigeria.

A US\$ 9 million loan (also with the possibility of drawing on concessional finance) to the largest private Technical and Vocational Education provider in Jordan (Luminus) – and previously IFC poster child “combining purpose with profit” (IFC 2018b).

A loan of up to US\$ 100 million to a leading Nigerian bank (Zenith), the board of which was considering distributing an interim dividend for shareholders at the same time as receiving financial assistance from the IFC.

A US\$ 50 million loan to Garanti BBVA – Turkey’s second largest bank, which is majority owned by BBVA Spain, one of the biggest global banks in the world.

While this is only a small sample of IFC Covid-19 projects, these transactions draw attention to the type of clients and activities that are benefiting from IFC (and IDA) resources under the fast track Covid-19 response.

Specifically, our analysis raises questions regarding whether the countries, sectors and clients most in need are actually being reached with support from the IFC. The emphasis on the financial sector relies on the assumption that it is imperative to protect the financial system as a way to reach MSMEs. This indirect approach is favoured despite the challenges it brings with regard to reaching micro and small enterprises in the poorest countries, let alone the poor, particularly given the high degree of informal sector work in many developing countries. Furthermore, as our analysis indicates, around 50 per cent of IFC Covid-19 support went to beneficiaries that are either majority owned by international groups or are themselves international conglomerates. This is consistent with findings by academics that reveals that IFC lending tends to favour companies from major IFC shareholders based in the global north, and raises questions regarding the alleged additionality and development impact of IFC resources. Also, while the IFC has committed to deliver 40 per cent of its annual commitments in IDA countries and FCS, its support to these countries has remained low over the last five years, indicating the IFC’s low tolerance for risk. At the same time, there is little evidence that these investments benefit the poorest and most vulnerable. A 2019 evaluation report states that “creating markets in a manner that allows the poor to participate in markets or benefit from such efforts has remained a challenge [...] Evidence of the direct welfare implication of market creation efforts for the poor is lacking”.

Furthermore, as a result of increasing CSO pressure (see the example of Kenya in Section 5), in early March, the WBG committed to enact a “freeze on direct investments in private for-profit K-12 [from kindergarten to 12th grade] schools [...], which will also apply to any advisory and indirect investments through new funds, including with existing clients.” The announcement also called for an evaluation to be carried out by the WB’s Independent Evaluation Group, to look at the impacts of such schools on educational outcomes, access, poverty and inequality. This is a “milestone decision” that results from growing recognition of the negative impacts of private, for-profit education, which needs to be closely monitored. However, in the context of the Covid-19 pandemic – which has resulted in an education crisis – the WBG continues to play an active role in the education sector by supporting tertiary education (see the case of Luminus in Box 1) and disseminating a problematic vision of education, through its “knowledge products”, that supports an increased role of for-profit providers.

## Transparency, accountability and participation challenges

**The WBG's response to Covid-19 poses clear implementation challenges with regard to the transparency and accountability** of its operations and stakeholder engagement, particularly at the national level. The fast track facility grants specific waivers and exceptions to enable rapid preparation and implementation of programmes processed under the facility. This clashes with transparency commitments and with adequate stakeholder engagement practices that seek to ensure informed public consultations and active civil society participation. With increased pressure to "get money out the door", there has been very limited (if any) stakeholder engagement as projects are rolled out. This is even more concerning given how the pandemic has constrained freedom of movement and the shrinking of civil society space in many countries for local communities opposing development projects (notably, large infrastructure projects that imply community displacement).

It is worth noting that in response to ongoing criticism regarding the lack of transparency and accountability of IFC operations, the WBG President assured shareholders, and in particular the US, that it would increase the transparency and effectiveness of IFC operations. As part of the congressional approval for the IFC capital increase, the WBG President agreed to a set of reform commitments, including greater transparency with regard to the IFC's financial intermediary portfolio and IDA subsidies that the IFC gives to private firms to ensure that more subsidies are awarded on a competitive basis. This was a clear victory of CSOs that have long campaigned for greater transparency "to promote stronger due diligence in higher risk investments made by IFC's commercial bank clients, in particular to ensure the environment and communities are not being negatively impacted and that there is accountability when they are." In the context of the Covid-19 pandemic, there is still significant information missing to provide a full picture of who benefits from the IFC support to the financial sector.

## Structural reforms persist

Although support from the Bank's public sector windows has been portrayed as aiming to strengthen public health systems, **recipient countries are urged not to forego "structural reforms" focused on liberalisation and deregulation.** The WBG President insisted in his address to the G20 Finance in late March: "Countries will need to implement structural reforms to help shorten the time to

recovery and create confidence that the recovery can be strong. For those countries that have excessive regulations, subsidies, licensing regimes, trade protection or litigiousness as obstacles, we will work with them to foster markets, choice and faster growth prospects during the recovery".

Indeed, while most of the IBRD/IDA loans (and grants) approved in this period seek to address the health crisis, others have a broader scope and include more traditional reforms in support of the private sector. These include:

- Safeguarding the implementation of reforms that enhance foreign private sector participation in the national economy (in energy, logistics and telecommunications in Ethiopia).
- Generating private investment and enhancing public sector capacity to deliver on the government's inclusive growth agenda in Kenya.
- Fostering private participation in gas infrastructure and telecommunications in Senegal.
- Developing reforms "that are expected to support economic diversification by enhancing openness and attracting more investments into key sectors, relaxing trade barriers, reforming State Owned Enterprises (SOEs) and increasing infrastructure investment" in Indonesia.
- Removing "barriers to private sector development" and promoting "public sector efficiency and fiscal sustainability post-crisis", which implies containing the public wage bill in Ecuador."

This indicates a strong and continuing commitment by the WBG to a market-driven approach which, among other things, has resulted in adverse health outcomes and has had negative impacts on gender equality.

## The persistent commitment to private finance at the heart of development proceeds without a clear analytical or empirical rationale

## One WBG in support of the private sector

Moving forward, **the WBG aims to capitalise on its One WBG strategy which was launched in 2013 to strengthen synergies across its different affiliates in support of scaling up private sector solutions.** As highlighted in a WBG Covid-19 Crisis Response Approach Paper projecting the WBG's "longer duration approach" to the crisis response: "the approach emphasises selectivity and public-private joint interventions to scale up private sector solutions while staying focused on results". While the WBG emphasises its explicit commitment to "achieving resilient, inclusive and sustainable recovery in a world transformed by the coronavirus", its approach is strongly characterised by a persistent, and reinvigorated, celebration of private over public sector solutions to development challenges. The prejudice against the public sector remains staggering, despite a dearth of analytical or empirical evidence to underpin such a strong bias. The inclusion of "stronger public involvement in the economy" in its summary of possible long-lasting negative consequences of the pandemic is emblematic of this problematic bias. This combines with an emphasis on private sector solutions in its approach to "rebuilding better". The WBG insists that the fiscal headroom and debt capacity of developing countries are likely to be constrained post crisis which becomes its renewed rationale for further promoting private sector solutions.

The WBG is explicit about its strategy: "It will be important to crowd-in private participation in delivery of certain public services and infrastructure. [...] Governments can devise public-private schemes that leverage public and private resources and capabilities [...] Governments can establish dedicated PPP units, as well as develop PPP legal frameworks, guidelines, operating procedures and tools [...] Levelling the playing field and enabling greater competition in local markets, especially in sectors that tend to be dominated by SOEs, could improve service delivery, lower costs and increase domestic revenue mobilization through privatization, dividend distribution, royalties and concession fees, as well as general corporate taxes". Furthermore, the WBG forewarns us that it will be selective in its support and will give priority to "sustainable private sector solutions where possible". So, rather than exploiting the opportunities provided by the Covid-19 crisis for a comprehensive overhaul, including promoting a fairer tax system and advocating for comprehensive debt relief, both of which would strengthen the public sector's capacity to rebuild better, the fragilities of the public sector will be exploited to continue to promote private sector solutions.

Our analysis suggests that the WBG sees this pandemic as an opportunity to supercharge its agenda of Maximising private Finance for Development. This includes a focus on PPPs (through advisory services, policy guidelines and finance), as a way to finance infrastructure and public service provision, which proceeds despite weak evidence to support this approach and fast-growing literature denouncing its multiple risks. WBG support for PPP-related projects has indeed proceeded apace during the Covid-19 crisis. The IFC has advised road PPP projects in Brazil, a PPP project in renewable energy in India, a healthcare PPP project in Vietnam, and offers support in developing pipelines of unsolicited PPP proposals, which are those conceptualised by private companies instead of the public sector, with a US\$ 1.4 billion advisory services project. The WB has supported governments to advance reforms aimed at de-risking private investment and advancing the PPP agenda in Nigeria, Kenya and Uganda. As the Global Director of Infrastructure Finance, PPPs and Guarantees Group at the WB, Imad Fakhoury, explains: "The reality is that we need more resilient PPP and contractual frameworks going forward. PPPs, as a means to deliver infrastructure, are in constant evolution, as is governments' capacity to effectively procure and implement them. Continued focus on the development of infrastructure as an asset class will help move this along." The WBG hopes to accelerate government actions that facilitate its MFD agenda, including "to mutualize risks, reform underperforming sectors, level the playing field with subsidy removals, open up competition, and provide guarantees and other forms of risk mitigation and credit enhancement".

This persistent commitment to private finance at the heart of development proceeds without any clear analytical or empirical rationale and raises a host of issues that have been highlighted by academics and CSOs for many years. These range across fiscal liabilities as risks remain with the public sector, fragmentation of public service provision, cherry-picking by private investors, lack of context-specific design of public service provision, worsening employment conditions in privately financed public sectors, higher costs of, and inequitable access to public services, redistributions from households in developing countries to shareholders of privately financed public services against the backdrop of historic inequality, lack of flexibility due to long-term contractual terms, and so forth.

The next section examines the effects of privileging private over public agents in the Kenyan context. We focus on Kenya as a pilot country of the WB's MFD approach and a recipient of a range of WBG instruments.

## 5. Maximising Finance for Development at work: Kenya as a pilot country

Kenya is a long-standing client of the WBG and was selected as one of nine pilot countries of the MFD approach in 2017. This means that the WBG is working closely with its government to crowd in the private sector, “while optimising the use of scarce public resources”. The selection of Kenya as a pilot builds on its long-standing relationship with the WB and implies a more consistent approach to market creation – work that was already ongoing prior to 2017. In this section, we reflect on the implications of private sector bias within the Kenyan economy, including public service provision. This has several dimensions and speaks to the multiple roles of the WBG, including as a financier, advisor and standard setter.

Since early 2010s, the WB has approved several loans to shape Kenya's national regulatory framework in support of PPPs. A 2012 WB loan (US\$ 40 million) was approved “to increase private investment in the Kenya infrastructure market across sectors and to sustain this participation over an extended period of time”. To that purpose the loan finances policy reforms to create an “enabling environment” for PPPs, so that a pipeline of bankable projects can be produced. This involved technical support to change the PPP legal regulatory and financing environment and support for the preparation of individual PPPs. The loan resulted in a new PPP law, the creation of a PPP Unit, which works under the National Treasury to promote and oversee the implementation of PPPs. The loan also covered large outlays for various advisors, with tenders for transaction advisors still pending when this paper was published, each in excess of US\$ 1 million, including for hospital PPPs, toll road PPPs, and a bridge PPP. Moreover, a 2017 WB loan (US\$ 50 million) supported a project facilitation fund to finance viability gaps. This is to “make projects more attractive to private investors and act as a liquidity reserve for contingent liabilities”. As of January 2020, all this work had translated into a pipeline of 80 PPP projects in different sectors, including in transport, energy, health, education and environment, water and natural resources.

Furthermore, as part of the implementation of the MFD, the WBG released the Country Private Sector Diagnostic for Kenya in 2019. This is a tool designed to “assess opportunities for and constraints to private-sector led growth”. The report “sheds light on how the private sector can more effectively contribute to advancing the country's development goals” and “seeks to inform World Bank and IFC strategies, paving the way for joint programming to create markets and unlock private sector potential”. The report focuses on sectors like energy, health, information computer technology and transport and includes specific policy recommendations, such as “enhancing the business enabling environment”, “strengthening competition policy and removing barriers to market entry” and “linking the formal and informal sectors”. The report highlights how “prospects for PPPs are favourable in equipment supply, e-health, training and education, health insurance, and the establishment of new private hospitals”. Despite the comprehensive approach by the WBG to market creation and promotion of private sector involvement across different sectors in Kenya, important questions arise regarding its implications for core public sector provisioning.

### Health

The IFC has persistently played an active role in developing a market for healthcare providers across Africa, while the Kenyan government has been encouraged to pursue health PPPs for many years. For instance, in 2009, the IFC launched the Health in Africa initiative, a US\$ 1 billion investment project whose stated objective was to improve access to healthcare. This initiative included the Africa Health Fund and Investment Fund for Health in Africa which, through financial intermediaries, invested in insurance companies and private clinics. This model of health finance has raised several concerns as it reveals significant policy incoherence and can fuel inequality. In particular, a 2014 Oxfam study found no evidence that either fund targeted low-income users in practice or measured their attempts to do so.

Moreover, in 2010, the WB “found that the private commercial health sector has the potential to play a greater role in providing quality care to Kenyans”. A report, entitled “Private Health Sector Assessment in Kenya”, put forward several recommendations to “maximise the private sector role in health”, including the creation of a new PPP in Health Unit (housed by the Ministry of Health) to implement PPPs, the formalisation of the public-private collaboration in key health markets such as antiretroviral treatment and reproductive health services and the expansion of the private insurance sector “to create more health insurance products for lower income Kenyans”.

As part of this process, in 2015, the Kenyan government selected five foreign private sector companies for a seven-year PPP project for the supply, installation, maintenance of and training on diagnostics imaging equipment (Managed Equipment Services Partnership, MESP) across 98 public hospitals. The companies involved in this project, in order of contract amount, are: the US's General Electric Healthcare, India's Esteem Industries, the Dutch's Philips Medical Systems, China's Shenzhen Mindray Bio-medical LTD and Italy's Bellco SRL. According to the WB, this contract "enables citizens to adopt a 'pay for service' expenditure plan and affords a number of financial benefits including funding to cover equipment, maintenance and other project costs such as training." Importantly, the Bank praised the Kenyan government for this project as it represents a "model to be replicated in other African countries." However, critics – including Kenya's first auditor general – have highlighted that "high tech machines are lying idle in more than a third of the hospitals that received them" as there was no proper planning, and have argued that the project "has worsened the country's debt burden and diverted urgently needed resources from basic healthcare that would otherwise save lives."

These concerns have resulted in a parliamentary investigation at the Senate level, resulting in the publication of a report in September 2020 calling the project a "criminal enterprise" as the cost of the equipment supplied "was grossly exaggerated." Feminist economic justice specialists Simeoni and Kinoti recently concluded that the project "led to gaps in priority setting, a redirection of resources to 'non-essential' specialised equipment, as well as less access by women to this specialised equipment". They go on to say that "the MESP shines a spotlight on the wider question of what lies at the heart of development decisions and who is part of that process. Kenyan public services – publicly-funded and universally delivered – were and continue to be in a state of collapse. An unequal and undemocratic extractive global economic governance system lies at the heart of this collapse."

At the same time, the implementation of the PPP agenda in the health sector has moved forward with the Kenyatta National Hospital's PPP project. The Kenyatta National Hospital is the largest referral, teaching and research hospital in Kenya and, in October 2019, called for bids to construct a new PPP 300-bed hospital in Nairobi were issued. The PPP will be a 30-year contract and the private company will be able to recover their costs and make a profit before transferring it to the State – in practice, this means charging user fees to patients and deepening market practices in the health sector. The plan for this project was conceived back in 2012 but, according to media reports, gained momentum in 2018 when the hospital contracted a consortium from Ernst & Young Kenya, India and UK to conduct a feasibility study on the technical configuration, affordability and commercial viability of the project. This is despite the high-profile abandonment of such PPP arrangements for the construction of new hospitals in the UK, an erstwhile enthusiastic adopter and promoter of the practice.

Furthermore, private healthcare providers have been questioned for their problematic practices in Kenya. In February 2020, it was revealed that executives at the Nairobi Women's Hospital, a private equity fund-owned enterprise (TPG's Evercare Health Fund with the IFC as equity investor under the Health in Africa initiative), encouraged staff to drive up admission numbers and prevent discharges, carry out unnecessary tests as well as prescribe expensive and unnecessary medications.

## Education

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The WB has been criticised by CSOs for fuelling the privatisation of the sector, including by supporting controversial for-profit corporate chains at the expense of funding free, inclusive and quality public systems. In 2018, Kenyan citizens registered a complaint with the IFC's Ombudsman following controversy regarding the practices of Bridge International Academies – a for-profit company that runs low-cost private schools across Africa, including nearly 300 in Kenya. The complaint raised alarms bells regarding Bridge schools' working conditions, insufficient access for children with special needs, the lack of adherence to relevant health and safety requirements, lack of parental inclusion and economic discrimination. The Ombudsman found grounds for further investigation, as some of the issues represented a breach of IFC's performance standards. The investigation is due to conclude by September 2020.

## Transport

The need to develop and rehabilitate 10,000km of the national roads network has translated into a pipeline of separate “lots”, each accounting for less than 100km of road, which are packaged into separate PPPs in which the private investor will be compensated via fixed and performance-related annuities by the public sector over ten years. As of January 2020, just six of these “lots” were at “advanced stages of the PPP process”. One of the projects in the pipeline, the first toll highway outside Nairobi (Nairobi-Nakuru-Mau Summit Highway project), was in the news in late September 2020, as the government signed a 30-year PPP deal worth US\$ 1.5 billion with a consortium of French firms, Rift Valley Connect, led by Meridiam Infrastructure Africa Fund. Under the PPP model, the consortium will be expected to recover its funds from the road through user fees (tolls), while the Kenyan government will guarantee availability of traffic, through a toll fund recently enacted by the National Assembly.

While no one would contest the need for upgrading of the Kenyan road network, the question arises whether the current approach provides the most cost-effective way to do so. Parcelling up the road network into discrete (and small) lots that have clearly identified revenue streams (via the public purse) so that they can attract private (often foreign) investors reflects imperatives of private finance at the expense of an integrated publicly financed approach where planning, procurement and execution can reap economies of scale as well as reflect developmental imperatives (beyond bankability) and a broader redistributive mandate.

## In the context of the Covid-19 pandemic

**The WBG has continued its efforts to promote the private sector in Kenya, at different levels and across different sectors. While the WB approved a US\$ 50 million loan** “to prevent, detect and respond to the threat posed by Covid-19 and strengthen national systems for public health preparedness,” the focus of the interventions continues to be on crowding in private investment. A US\$ 1 billion development policy loan focused on “inclusive growth and fiscal management” was approved on 19 May 2020. This loan seeks to support further reforms in support of crowding in private investments, including PPPs, and “specific areas that require urgent attention include the need to allow for arbitration hearings to occur in an internationally acceptable seat of arbitration and the critical need to widen the definition of political events covered by the Government Support Mechanism Policy and the Letter of Support issued for PPP projects”. The policy loan clearly demonstrates that “the WBG remains committed to support the government in advancing the PPP agenda in Kenya.”

The IFC, on the other hand, approved several projects in support of financing institutions that operate in Kenya. For instance, it approved a US\$ 50 million loan to the Diamond Trust Bank Kenya, the 7<sup>th</sup> largest bank in Kenya and an Africa conglomerate active in neighbouring countries; and a US\$ 50 million loan to the Equity Bank Kenya, the second-largest bank in Kenya and a subsidiary of a group with operations across East Africa) as part of its FTCTF working capital solution programme. It also acquired a minority stake in the supermarket chain, Naivas International Limited, for US\$ 15 million, co-investing with the French private equity fund Amethis Finance.

As demonstrated, the MFD approach successfully embeds the private sector across core public service provisioning. This can be seen as part of the implementation of the Wall Street Consensus described by Professor Gabor, which seeks to reorganise development interventions around selling development finance to the market. The agenda proceeds unimpeded by the pandemic, despite multiple concerns regarding its implications for development, poverty eradication or welfare provision, which have been raised with regards to Kenya and other countries.

## 6. Conclusion and policy recommendations

In response to the economic and social crises that developing countries face as a result of the Covid-19 pandemic, the WBG has approved emergency response (FTCTF) of US\$ 14 billion and committed US\$ 160 billion in finance over the next 15 months. This briefing analyses this response and highlights the centrality of the private sector in the WBG's approach to the pandemic and in the recovery phase.

The briefing details five main features of the WBG's response to the pandemic.

1. The IFC and its private clients have prevailed in terms of resource allocation, design and implementation of Covid-19-related projects. The focus on the private sector also includes renewed support for IFC's use of blended finance.
2. IFC financial sector clients and multinational companies have particularly benefited from the pandemic response. By late June 2020, about 68 per cent (in value terms) of IFC Covid-19 projects targeted financial institutions. This ostensibly seeks to assist MSMEs in navigating the fallout from the pandemic, but this strategy is yet to produce results. In addition, around 50 per cent of IFC supported companies are either majority-owned by multinational companies or are themselves international conglomerates.

3. Despite the support from the WB's public arms (IBRD and IDA) being portrayed as aiming to strengthen public health systems, recipient countries have been urged to undergo structural reforms aimed at strengthening markets through practices such as liberalisation and deregulation. These policy conditions are at odds with the need to strengthen state capacity to deal with the multiple crises of the pandemic, climate change and inequality.
4. The increased pressure to "get money out the door" has raised clear implementation challenges. The IFC's focus on financial intermediaries has fallen short of transparency and accountability standards, while on the WB's side there have been questions about stakeholder engagement as projects are rolled out. This comes on top of shrinking space for CSOs to actively participate and increased reprisals against human rights activists.
5. Finally, the WBG continues with the MFD approach by placing PPPs, and the private sector more broadly, at the centre of the recovery.

The Covid-19 pandemic has provided the WBG with an opportunity to enhance its MFD approach. As the Kenya case study illustrates, the implementation of this approach implies a consistent and coherent approach to market creation, which translates into concrete interventions and practices at the national level. The centrality of the private sector in development in general, and public service provisioning in particular, is being strengthened both in discourse and practices, despite little, if any, evidence in support of such an approach. This will be compounded by the limited fiscal space that developing countries are likely face in the post-Covid-19 era.

## Policy recommendations

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The Covid-19 pandemic has the potential to dramatically undermine the slow progress made by developing countries towards achieving the SDGs.

This briefing suggests short-term policy recommendations, focused on the Covid-19 response, and long-term measures that would allow to better connect the institution with its core mandate.

In the short term:

- The WBG needs to restore the balance between the public and private sector in its Covid-19 response, including in its modalities and instruments. Developing countries are in need of concessional resources to strengthen their public systems, particularly health, education and social protection, and to stimulate the economic recovery. Importantly, the WBG Covid-19 response should not contribute to deepening the debt problem.
- Both in its emergency response and with regard to long-term finance, the WBG should abandon policy conditions that undermine economic policies and regulatory measures aimed at strengthening domestic economies, jobs and livelihoods and civic rights. This includes abandoning those policy conditions that favour the private sector and undermine the strengthening of public services and the delivery of public goods.
- The WBG should make sure its emergency and long-term programmes are consistent with and strengthen climate resilience and the shift to low carbon pathways. This implies a review and disclosure of carbon implications of the projects and policies it promotes, while phasing out and avoiding involvement in projects that exacerbate the climate crisis in the name of the Covid-19 response.
- The IFC should commit to publicly disclosing recipients of resources, as well as the purpose of this support. This would ensure that IFC programmes help preserve employment and do not serve to bail out private financial institutions.
- The IFC should stop its support for commercial private health facilities that undermine public system building that also arguably have pernicious implications for women, lower-income or vulnerable populations.

In the long term:

Given the evidence that highlights the problematic track-record of the MFD, it is imperative that the WBG re-evaluates this approach. If the WBG wishes to “build back better”, it needs to consider the broad implications of its agenda and move towards a human rights-based approach that builds resilience and strengthens public systems.

At its core, this will require adequate levels of public finance to be achieved through, among other things, tackling tax avoidance and evasion, and by using ODA to strengthen the provision of public services.

The WBG, as a leading development actor, should rethink its approach to blended finance. Moreover, immediate cancellation of debt payments should be linked to a more comprehensive approach to debt crisis resolution, under the auspices of the UN. This would allow for an equitable and resilient recovery in line with the SDG and Paris commitments.

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This chapter was written by Ourania Dimakou, Lecturer in Economics at SOAS University of London, María José Romero, Eurodad Policy and Advocacy Manager and PhD candidate in Development Economics, SOAS University of London, and Elisa Van Waeyenberge, Senior Lecturer and acting co-Head of the Department of Economics, SOAS University of London.

The chapter is based on a fully-referenced briefing which can be found at:  
[www.eurodad.org/never\\_let\\_a\\_pandemic\\_go\\_to\\_waste](http://www.eurodad.org/never_let_a_pandemic_go_to_waste)



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# Development Finance Institutions and Covid-19: Time to reset

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By Jan Van de Poel

## Introduction

Between 9 and 12 November 2020, over 400 Public Development Banks (PDBs) will be gathering (virtually) at the first Finance in Common summit to discuss how they will contribute to the global Covid-19 recovery effort. Development Finance Institutions (DFIs) – an important part of the diverse PDB landscape – are called upon by policy makers to play a key role in these efforts, fostering growth and job creation. However, an analysis of how DFIs are responding to the Covid-19 crisis suggests they are unable to foster inclusive and sustainable businesses and spur a much-needed transition to low-carbon economies.

As the world struggles to contain the coronavirus and recover from its social and economic impacts, DFIs are positioning themselves as the “vital frontline in the struggle to preserve [firms]” in developing countries and calling on government shareholders to increase funding capital. Similarly, proponents of the DFIs role in development argue for more risk taking by DFIs, loosening credit criteria and scaling-up blended finance. Policy makers are also looking at DFIs to play a leading role in supporting the private sector, reducing risks and improving the business environment under the broad headline of ‘building back better’.

The rise of DFIs is not new. In past decades they have become a key part of the development finance architecture as a consequence of a broader shift in the development narrative and practice prioritising the private sector. Between 2003 and 2018 the consolidated portfolio of European DFIs has increased fivefold. In 2018, five bilateral DFIs in the US, UK, Germany, France and the Netherlands committed over US\$12 billion to private sector companies, an equivalent of over ten per cent of total Official Development Assistance (ODA) from these countries.

Eurodad has criticised this trend underlining the risk of diverting scarce development resources away from interventions and modalities that have proven to be effective in delivering development results. The role of DFIs as development actors has been called into question as evidence highlights a lack of development impact, as well as a lack of alignment with effectiveness and responsible financing principles, including poor accountability and transparency, potential aid tying, increasing debt burdens and contributing to unfair tax practices. Moreover, DFI interventions should be seen as complementary to much broader systemic measures such as broadening and deepening debt relief that could create the fiscal space for countries to develop domestic schemes to support those who are losing their jobs and livelihoods and strengthen the companies with the potential to bring economies to a sustainable path.

This briefing offers an analysis of the response of five major DFIs to the pandemic since March and finds that DFIs struggle to ‘demonstrate their value as development actors’. This briefing also finds that these institutions and their business models are insufficiently equipped to demonstrate additionality and support those local economic actors that are worst affected by the pandemic and are crucial for a people-centred recovery that puts developing countries on a more sustainable and inclusive pathway. This briefing concludes by presenting key elements of an urgent reform agenda for DFI's as development actors.

### What are Development Finance Institutions?

Development Finance Institutions (DFIs) are a sub-set of public development banks. They are specialised institutions set up to support public policy objectives, mainly private sector activities in developing countries. They are usually majority-owned by governments and benefit from public guarantees, while some source their capital from public development funds reported as official development assistance (ODA).

Bilateral DFIs are commonly from Northern countries, such as the Dutch FMO or French Proparco, or part of a larger bilateral development bank, such as the German DEG – all three are among the largest in the world. The US Development Finance Corporation was formed in 2018 after a merger of the independent Overseas Private Investment Corporation and several other funds and agencies. Multilateral DFIs are the private sector arms of multilateral and regional development banks, owned by national governments. The main multilateral DFI is the World Bank's International Finance Corporation (IFC).

### How are Development Finance Institutions responding to Covid-19?

Between March 2020 – when Covid-19 was declared a global pandemic and lockdown measures were implemented outside China – and early October, four major bilateral DFIs and the IFC committed at least \$7 billion in additional investments.

### Types of investment

Describing an average DFI investment is difficult, but investees tend to be large companies or leading firms in a national domestic market. Many DFI clients are publicly listed allowing them to access substantial commercial finance. Earlier research, based on data from 2012 to 2018, found the median commitment size ranges between \$7.6 million and \$22.8.

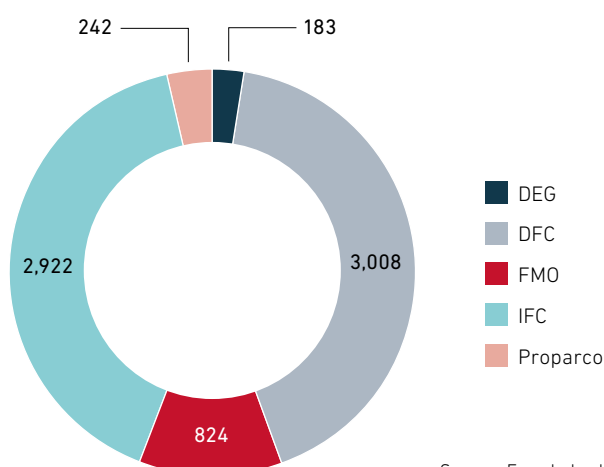
In responding to Covid-19, selected DFIs have first focused on supporting existing clients by providing liquidity to overcome the immediate impacts of the crisis. This is reflected in the fact that 78 per cent of investment projects comes in the form of loans, while 90 per cent of investments for this was possible to trace involves existing clients.

In their response plans, selected DFIs also focused on the need to provide grant-based finance, including technical assistance, to help companies mitigate the effects of the coronavirus on their business operations. This type of investment appears marginal as only 0.1 per cent of investments for which we were able to identify the financial instrument used, was in the form of grants. A third element of the response focuses on learning, exchange of information and coordination between DFIs themselves and DFIs and client companies.

Some DFIs planned to shift their investment focus to the health sector. The UK's CDC, for instance, has been providing guarantees to medical suppliers – such as BASF – to increase access to medical supplies in developing countries. In July, it provided a \$50 million guarantee enabling UNICEF to procure supplies from commercial manufacturers.

**Figure 1**

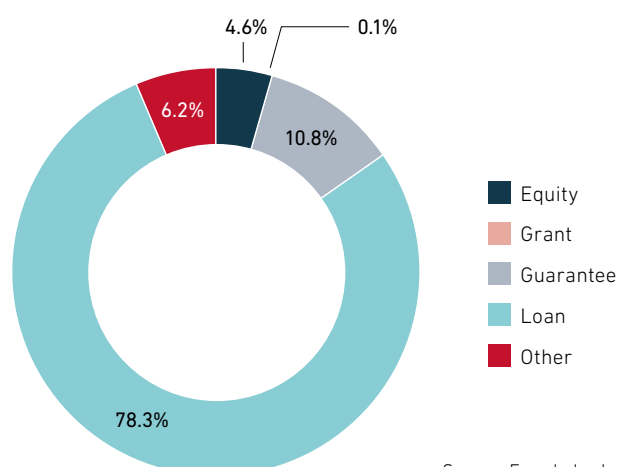
Total investments of four DFIs and IFC between March and October 2020 (US\$ million)



Source: Eurodad calculations

**Figure 2**

Financial instruments used by DFIs and IFC



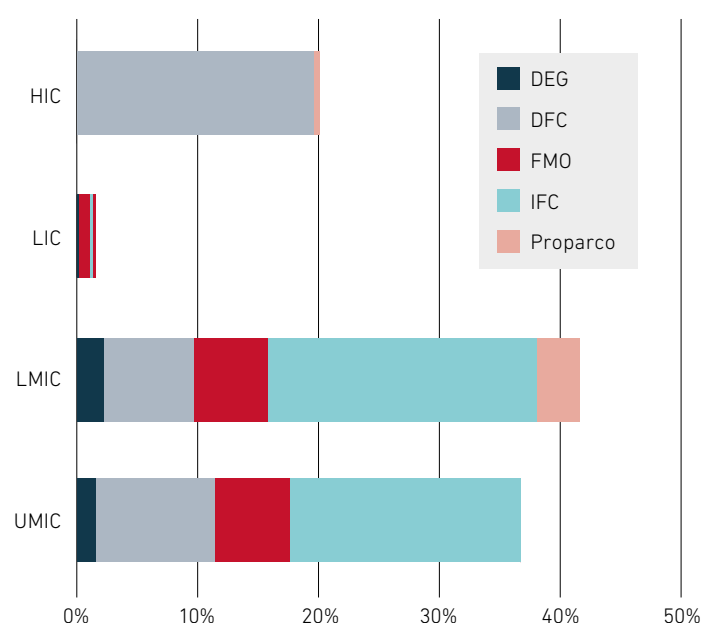
Source: Eurodad calculations

# Beneficiaries of investments

DFIs are often criticised for concentrating investment in developed and more mature markets, while additionality and potential development returns are expected to be much higher in low-income economies. Our analysis of the DFI response to the Covid-19 pandemic paints a similar picture. Taking into account that over 30 per cent of investments in our sample has a regional or global scope, over 75 per cent of investments with a national scope is directed to middle-income countries. A substantial part also services high-income economies, mainly as a consequence of an executive order expanding the US Development Finance Corporation's remit to funding projects related to the domestic US response to Covid-19. Only two per cent of total investment with a national scope is in low-income countries.

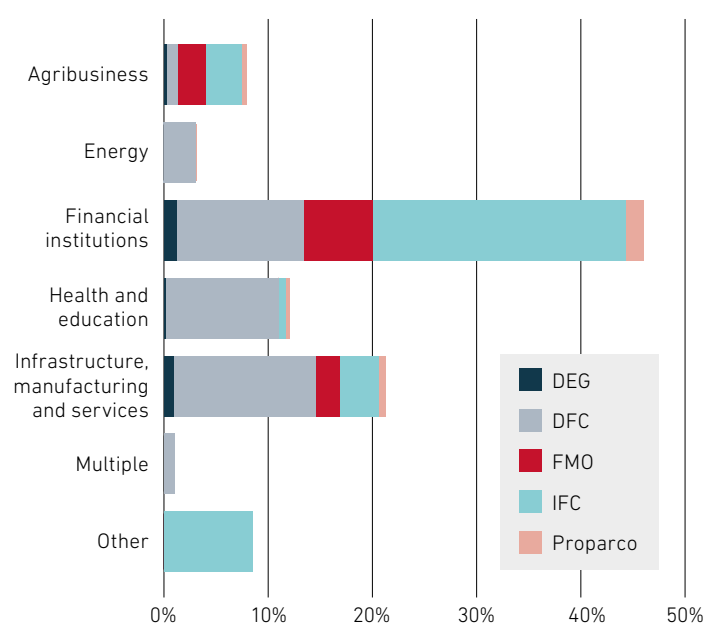
In a similar vein, DFI investments concentrate in a limited number of sectors that are likely to be commercially viable, such as financial services and infrastructure. The rationale for the dominant focus on financial sectors is the need to address access to finance for Micro-, Small and Medium-sized Enterprises (MSMEs) to which the financial sector will on-lend. Our data shows that this heavy concentration on the financial sector remains unchanged in response to Covid-19, with over 65 per cent of investments in our sample target financial institutions and infrastructure. Interestingly, health and education amount to 12 per cent of total investments. Earlier research by the Overseas Development Institute based on commitments of eight DFIs between 2012 and 2018 found less than three per cent of total investment targets the health sector directly.

**Figure 3**  
DFI investments by country income status



Source: Eurodad calculations (excluding investments with regional/global scope)

**Figure 4**  
DFIs by sector



Source: Eurodad calculations

Although the mission and objective of DFIs is to finance poverty-reducing projects in developing countries' local private sector for which private capital is not available on reasonable terms, evidence shows some DFIs serve donor interest. In the case of the IFC, as of end June 2020 around 50 per cent of IFC Covid-19 supported companies were either majority owned by multinational companies or were themselves international conglomerates. The five largest investments made by DFC between March and October 2020 include two investees based in the US (the Kodak Company and the Nevada-based Trans Pacific Network) and one in the UK (Prodigy Finance, a specialised fintech platform providing student loans). The German DFI DEG has a specific programme – AfricaConnect – to provide support to European companies that operate in Africa and offers crisis financing as part of its response to Covid-19.

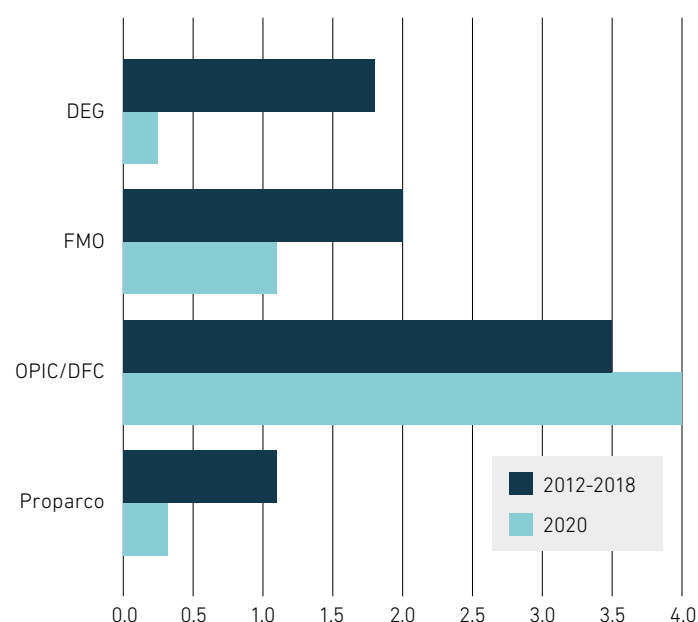
This analysis raises questions about whether the countries, sectors and clients most in need are actually being reached by selected DFIs. The strong reliance of DFIs on the financial sector risks making them ineffective. Recent research by the World Bank shows that the MSME's that are hit hardest by the crisis need grant-based finance rather than loans to make it through the pandemic. The analysis demonstrates that the majority of MSMEs are not turning to banks for support. This indicates that DFI responses are off target and add to existing inequalities in terms of access to finance for MSMEs. Furthermore, the strong focus on financial intermediaries comes with particular challenges with regards to transparency and accountability.

An additional reason for concern is the increased focus of DFIs in the health sector. Although the private sector can play a role in the provision of healthcare, DFIs need to be extremely cautious in stepping into the healthcare sector as this may contribute to further privatisation or commercialisation of public health services, create financial barriers to those in need of such services and unintentionally obstruct necessary efforts to reduce inequalities in healthcare access.

### What about additionality?

DFIs explain their development rationale primarily based on 'financial additionality'. This means that DFIs need to support investment that would not have happened if the market would have its way. Prior to the Covid-19 crisis, DFIs struggled to demonstrate their financial additionality. In their response to the 2007-2008 financial crisis, DFI additionality was also limited. Our analysis suggests the questionable financial additionality in the current responses to the Covid-19 crisis, given the strong concentration in mature markets. In addition, the argument that DFIs are counter-cyclical in times of crisis is not convincing. With the exception of the US DFC, expected total commitments of the selected bilateral DFIs in 2020 are far below the 2012-2018 average (see Figure 5). The fact that only ten per cent of investments for which this was possible to trace involved new new clients, casts further doubt on the additionality of DFI operations in response to the crisis.

**Figure 5**  
Are DFIs counter-cyclical?



Source: Eurodad calculations

## Conclusion: The need to rethink DFIs

As the international community is called to face an unprecedented health, humanitarian and economic crisis, DFIs have the responsibility not only to respond adequately, but also to rethink the way in which they operate and how they can best support the design of a more just and sustainable economic system. Covid-19 will result in an increase of global poverty for the first time in over two decades. As development actors, DFIs have a mandate to fight poverty and contribute to an economy that is sustainable and equitable. Based on this analysis of the response of DFIs to the pandemic, we have found little evidence that DFIs are up for this task, both in terms of the size as in terms of the way in which support is being allocated.

There is little doubt that DFIs can play a role in some areas, including provision of capital to innovative sectors that support the much-needed transition to low-carbon economies or capital to constrained MSMEs. However, the DFI business model seems unsuited to responding to crisis as they are not ready to take risk in their operations and tend to focus on 'low-hanging fruit'. To take up a role as development actor, an urgent rethinking of DFIs is needed based on a more realistic understanding of their role and a transformation of their business model.

In the coming days and weeks, policy makers will have an opportunity to embark on an ambitious effort to rethink the role and place of DFIs in the development finance landscape. We provide key recommendations to feed into these discussions:

### ► DFI's need to be reoriented to support a different private sector

DFIs need to go beyond a narrow focus on economic growth and prioritise investments that promote the transition to a sustainable and inclusive economy in developing countries. This requires a focus on development returns instead of financial returns and adapting business models to allow for more risk-taking. Donor government's funding decisions should be based on an assessment of development results while avoiding the reduction of investment in other modalities such as budget support or grant-based finance for social infrastructure with demonstrated development impacts.

### ► DFI's need to go beyond 'do no harm' and be transformative

DFIs need to take responsibility for the social and environmental outcomes of all their activities, including human rights, labour rights, climate and gender impacts. Their policies and operations should be aligned with the Paris Agreement and actively contribute to the fight against climate change. DFIs need to ensure that the companies they work with, as clients or partners, do not avoid or evade taxes. DFIs should promote gender equality and women's rights, where possible, and make sure investments are gender inclusive. DFIs should also refrain from investments that may further contribute to the privatisation and commercialisation of public services such as health and education.

### ► DFI's need to improve governance and accountability

DFIs need to urgently fix the many gaps that have been identified by civil society organisations and other stakeholders in terms of human rights obligations, stakeholder engagement and accountability. This needs to go beyond the clients of DFIs and include affected communities. DFIs need to have the internal capacity to assess and systematically show the impacts of their policies and investment decisions and have effective human rights, environmental, gender-sensitive and fiscal due diligence procedures, accompanied by supervision and monitoring mechanisms.

## Annex: Methodological note

The findings presented in this briefing are based on an analysis of the response of four major bilateral DFIs (FMO in The Netherlands, DEG in Germany, Proparco in France and the US Development Finance Corporation) and the World Bank Group's International Finance Corporation (IFC). The four bilateral institutions represent approximately 60 per cent of the total portfolio of European Development Finance Institutions (EDFI) in 2015. Including the UK CDC, this would amount to 76 per cent. Unfortunately, detailed information about CDC's 2020 investment projects is not publicly available.

DFC is the single largest bilateral DFI in the world and IFC is the largest multilateral DFI. For each of the five DFIs in this report we assembled a dataset of investment projects signed between March and October 2020 using publicly available data. In the event that detailed information on financing instruments or sectors was lacking, we screened project descriptions to identify sector and instrument whenever possible. In these cases, there is some room for error or subjective interpretation. Given the nature of available data sources, the presented data may underestimate real values of DFI responses.

DFI	Data	Source
FMO	92 projects included in the FMO Worldmap	<a href="https://www.fmo.nl/worldmap">https://www.fmo.nl/worldmap</a>
DFC	31 projects covered in press releases by DFC	<a href="https://www.dfc.gov/media/press-releases">https://www.dfc.gov/media/press-releases</a>
DEG	11 projects covered in DEG's Newsroom	<a href="https://www.deginvest.de/International-financing/DEG/Presse/">https://www.deginvest.de/International-financing/DEG/Presse/</a>
Proparco	14 projects featuring on Proparco's interactive map	<a href="https://www.proparco.fr/en/page-thematique-axe/investment-funds">https://www.proparco.fr/en/page-thematique-axe/investment-funds</a>
IFC	50 projects featured on IFC's website under 'Covid-19 response projects'	<a href="https://www.ifc.org/wps/wcm/connect/e8a18446-a180-468f-a86d-1da3ddd5ee99/20200929-IFC-Covid-19-Response-Projects.pdf?MOD=AJPERES&amp;CVID=njr15Ap">https://www.ifc.org/wps/wcm/connect/e8a18446-a180-468f-a86d-1da3ddd5ee99/20200929-IFC-Covid-19-Response-Projects.pdf?MOD=AJPERES&amp;CVID=njr15Ap</a>

This chapter is based on a fully-referenced briefing which can be found at:

[https://www.eurodad.org/development\\_finance\\_institutions\\_and\\_covid\\_19\\_time\\_to\\_reset](https://www.eurodad.org/development_finance_institutions_and_covid_19_time_to_reset)

# Arrested development

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International Monetary Fund lending  
and austerity post Covid-19

By Daniel Munevar

## Executive Summary

**"We need to recognize that this crisis is telling us to build resilience for the future. That means investing in education, digital capacity and human capital – the health systems and the social protection systems. We need to make sure the other crises in front of us – like the climate crisis – are well integrated and addressed. And we need to prevent inequality and poverty – including gender inequality – from raising their ugly heads again."**

Kristalina Georgieva, IMF Managing Director

A review of International Monetary Fund (IMF) staff reports for 80 countries, conducted by Eurodad, illustrates a dismal decade ahead for developing countries. The IMF reports were prepared as part of the process of approval for financial assistance between March and September of 2020. They reveal an insufficient and inadequate multilateral response to the Covid-19 pandemic which will lock a large number of countries in a decade-long crisis of debt and austerity. The need to protect and increase investment to achieve the Sustainable Development Goals (SDGs) and a fair and green recovery features in every public intervention by IMF officials. However, these commitments are difficult to find in IMF program design. IMF programs are on track to arrest development efforts in the next decade.

Main findings of the review:

- **Austerity: Harder, faster, wider.** 72 countries are projected to begin a process of fiscal consolidation as early as 2021. Tax increases and expenditure cuts are to be implemented in all 80 countries by 2023. Between 2021 and 2023, these countries will implement austerity measures worth on average 3.8 per cent of GDP. The adjustment will be front-loaded, leaving no time to recover. More than half of the projected measures, equivalent to 2 per cent of GDP, will take place in 2021. The synchronised nature of the adjustment calls into question the likelihood of a strong recovery as forecasted by the IMF.
- **A hampered Covid-19 response:** 80 countries implemented Covid-19 response packages amounting to 2.2 per cent of GDP in 2020. Failure to provide grant financing and provide upfront debt relief has forced 40 of these countries to cut public budgets to afford a response to the pandemic. These countries have implemented off-setting expenditure cuts worth 2.6 per cent GDP in 2020.
- **Paying for the costs of the pandemic four times over:** Austerity is IMF's answer to the fiscal implications of the pandemic. Austerity is designed to free up resources to stabilise debt levels and meet debt service. 59 countries have fiscal consolidation plans over the next 3 years that are larger than the Covid-19 response packages implemented in 2020. Fiscal consolidation represents 4.8 times the amount of resources allocated to Covid-19 packages in 2020.

- **Shifting the burden on to the vulnerable:** Adjustment programs aim to increase revenues through an increase of indirect taxes, and specifically VAT. Increases in indirect taxation have been proven to have negative impacts on income and gender inequality. This calls into question the IMF's calls for a fair and equitable recovery. For a group of 59 countries for which data is available, 39 are set to increase the share of indirect taxes in total government revenues. 40 countries are expected to increase indirect tax collection by 0.4 per cent of GDP with respect to pre-crisis levels.
- **Slashing public services:** Reduction of public expenditure accounts for three quarters of the total adjustment. Expenditure is set to decline by 2.6 per cent of GDP between 2020 and 2023. At least 41 countries will be left with below pre-crisis public expenditure levels. The cuts are substantial relative to the provision of public services. 40 countries are expected to implement expenditure cuts equivalent or greater than their current healthcare budget.
- **Heavier debt burdens and vulnerabilities:** 56 countries will be left with higher public debt levels by 2023. 55 will end up with higher debt service payments to their creditors. 30 countries will pay every year an additional amount equivalent to their 2020 Covid-19 packages to their creditors as increased debt service by 2023. IMF Debt Sustainability Assessments (DSA) characterise these debt dynamics as "sustainable" in 76 countries.
- **Arrested development:** A decision to prioritise debt payments and follow through with fiscal consolidation will cripple development efforts in the 2020's. The achievement of the SDGs and the commitments of the Paris Climate agreement by 2030 will be irremediably out of reach. For 46 countries for which data is available, a decade of austerity measures will reduce public expenditures from 25.7 to 23 per cent of GDP between 2020 and 2030. Public expenditures in 2030 are projected to stabilise at below pre-crisis levels. At the same time, increased debt service requirements will have 20 countries paying their creditors additional amounts equivalent to a Covid-19 response package every year for the rest of the decade.
- **All debt and no sustainable development:** IMF programs explicitly prioritise payments to creditors over the needs of the local population. This is a result of a flawed debt sustainability methodology that is unable to account for the financing requirements to achieve the SDGs and the commitments of the Paris Agreement on Climate Change. Out of 80 IMF staff reports, only 20 refer to climate change. Only seven mention the SDGs. In just one case, Samoa, is climate change included as a consideration in debt sustainability assessments.

This report illustrates the dramatic failure of the IMF and the international community to respond to the Covid-19 pandemic. The measures adopted to tackle the ongoing economic downturn fall far short of the effort needed to meet the current scale of need in the global south. The IMF projections and recommendations for fiscal consolidation set the tone for yet another "lost decade" for development. The situation we face in the wake of the pandemic means even greater need for concerted global action that puts human rights, sustainable development, gender equality and climate justice at its core.

## Introduction

A review of International Monetary Fund (IMF) staff reports for 80 countries, conducted by Eurodad, illustrates a dismal decade ahead for developing countries. The IMF reports were prepared as part of the process of approval for financial assistance between March and September of 2020. They reveal an insufficient and inadequate multilateral response to the Covid-19 pandemic which will lock a large number of countries in a decade-long crisis of debt and austerity.

The report demonstrates that 72 countries that have received IMF financing are projected to begin a process of fiscal consolidation as early as 2021. Tax increases and expenditure cuts are to be implemented in all 80 countries by 2023. These countries will implement austerity measures worth on average 3.8 per cent of Gross Domestic Product (GDP) between 2021 and 2023. The adjustment will be front-loaded, leaving no time to recover. More than half of the projected measures, equivalent to 2 per cent of GDP, will take place in 2021. The synchronised nature of the adjustment calls into question the likelihood of a strong recovery as forecasted by the IMF. As a result of this situation, IMF program countries will have larger debts and fewer resources to finance their development.

The need to protect and increase investment to achieve the Sustainable Development Goals (SDGs) and a fair and green recovery features in every public intervention by IMF officials. However, these commitments are difficult to find in IMF program design. IMF programs are on track to arrest development efforts in the next decade.

This report consists of six sections. Section one describes the data sources. In section two the report provides an overview of IMF financial assistance since the outbreak of the Covid-19 pandemic. Section three analyses the immediate impact of Covid-19 on debt and public budgets, while section four reviews the IMF fiscal consolidation projections for program countries and their implications for 2020-2023. Section five provides an analysis of the consequences of IMF emergency financing by 2030 and finally, section six concludes with Eurodad's policy recommendations.

## 1. Data sources

Official requests for financial assistance by IMF member countries are handled by the IMF Executive Board. The formal approval of a request by the Board is based on a report prepared by IMF staff. The staff report provides an assessment of the in-country situation and criteria required for a member to receive financial support. Upon approval of the request for financial assistance by the Board, the IMF staff report is published alongside an official announcement.

This study is based on the review of IMF staff reports for 80 countries. These were prepared as part of the process of approval of IMF financial assistance in the period between March and September of 2020. During this period, the IMF approved 96 programs for 81 countries for a total of US\$ 95 billion. 54 of these countries are eligible for participation in the G20 Debt Service Suspension Initiative (DSSI). The remaining 27 represent high and middle-income countries excluded from this initiative. From the total figure, 17 countries are Small Island Developmental States (SIDS). The list of countries included in the analysis can be found in the annex and the online dataset.

## 2. An overview of IMF financial assistance

Since the onset of the Covid-19 pandemic, IMF lending has been approved through a combination of new arrangements and augmentations of existing programs. New arrangements are composed mostly of credits provided through the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI). Augmentations include the provision of additional financing through existing Stand-By-Agreements (SBA), Extended Credit Facility (ECF), Extended Fund Facility (ECF) and Flexible Credit Lines (FCL). Table 1 provides a summary of the distribution of financing amongst the different facilities.

There are three issues raised by the figures in Table 1 that need to be addressed. Firstly, the amounts effectively disbursed by the IMF are a fraction of the approved figures. 55 per cent of the approved lending corresponds to the FCL. This is a pre-approved credit line to which only Chile, Colombia and Peru have access. To date, no country has approached the IMF to access available funds through the FCL. As a result, emergency financing effectively provided by the IMF is minimal compared to the headline figure. Only US\$ 36.1 billion have been disbursed so far.

**Table 1: IMF financing facilities by amount approved and country risk of debt distress**

Financing Facility	Conditionality	Concessional	Programs approved	Country risk of debt distress		Amounts approved (US\$ billion)
				In distress / High / Unsustainable*	Moderate / Low / Sustainable	
Rapid Credit Facility (RCF)	No or limited**	Yes	43	22	21	7.3
Rapid Financing Instrument (RFI)	No or limited**	No	36	2	34	21.7
Standby Credit Facility (SCF) / Extended Credit Facility (ECF)	Yes	Yes	5	4	1	0.4
Stand-By Arrangement (SBA) / Extended Fund Facility (EFF)	Yes	No	8	2	6	13.1
Flexible Credit Line (FCL)	No	No	3	0	3	52.1
<b>Total</b>	–	–	<b>95***</b>	<b>30</b>	<b>65</b>	<b>95</b>

\* Includes countries assessed by the Market Access Country Debt Sustainability Analysis (MAC DSA) as having a sustainable public debt but not with high probability.

\*\* Programs may include prior actions (see Box 1).

\*\*\* At least 26 countries have received financing through more than one facility according to data as of September 25, 2020.

Source: Eurodad calculations based on IMF staff country reports.

The second issue relates to the role of conditionalities as part of the program design and approval. Conditionalities refer to policy adjustments required by the IMF in order to grant access to financing. IMF conditionalities have been proven to undermine domestic policy space and limit the ability of governments to provide public services and fulfil their human rights obligations towards citizens. Three of the financing facilities, the RCF, RFI and FCL, do not involve the use of ex-ante conditionalities to unlock IMF financing. These arrangements account for 82 per cent of the financing facilities approved by the IMF since the start of the pandemic. As a result, fiscal projections included in these programs represent non-binding commitments (Box 1).

The provision of emergency financing free of conditionalities to a large number of countries is a positive development. However, at least 14 countries are at serious risk of requiring a long-term program from the IMF. This relates to the third issue to be addressed, which refers to the debt distress risk profile of countries receiving IMF financing. 30 loans, mostly under the RCF, have been approved to 26 countries either considered at high risk, in debt distress by the IMF Low Income Country Debt Sustainability Framework (LIC DSF), or their debt is not considered sustainable under the IMF Market Access Country Debt Sustainability Assessment (MAC DSA). From this group, 13 countries already have a long term IMF program in place: SCF, SBA, ECF or EFF. The remaining 14 have only received financial assistance through either the RCF or the RFI.

This group comprises large African countries, including Chad, Ghana, and Kenya. Several high and middle income countries whose debts are classified as sustainable, but have a high degree of vulnerability, are also at risk of transitioning to a long-term IMF program. Countries with large financing requirements in the coming years will also likely require additional loans from the IMF (See Section three).

The high degree of vulnerability of these countries means that even a slight deterioration of their financing conditions could be enough to push them into debt distress. They are prime candidates for transition into a full IMF program. Fiscal targets and policies included in RCF, RFI and FCL arrangements would cease to be non-binding. Countries requesting additional financing above the quota limits established for these facilities, through a SCF, SBA, ECF or EFF, would be subject to conditionalities in the form of prior actions, performance criteria and structural benchmarks. The implications of such a development will be explored in sections four and five of this report. The analysis now turns to the impact of the crisis on debt and public budgets.

### Box 1 - Conditionality present in IMF Covid-19 financial assistance programs

Most IMF programs are linked to conditionalities. The IMF justifies their use as a mechanism to ensure progress in program implementation and to reduce risks to the Fund resources. Conditionalities may take different forms:

- **Prior actions:** These are measures that a country agrees to take before the IMF's Executive Board approves financing or completes a review.
- **Quantitative Performance Criteria (QPC):** Specific and measurable conditions that have to be met to complete a review. QPCs target macroeconomic variables under the control of the government requesting financing. These include fiscal balance, international reserves, and external borrowing, among others.
- **Indicative targets:** In cases of high uncertainty, these may be established in addition to QPCs as quantitative indicators to assess progress of a program.
- **Structural benchmarks:** Include (often non-quantifiable) reform measures. These include reforms in broad areas of public administration, including labor markets and social security, that the IMF considers critical to achieve program goals.

IMF Covid-19 financial assistance programs include various degrees of conditionality. Only four RCF and RFI arrangements require prior actions. These include Ecuador, Liberia, Papua New Guinea and Ukraine.

Eight programs required modifications to conditionalities of existing arrangements, including QPCs, indicative targets and structural benchmarks. These include Armenia, Georgia, Angola, Gambia, Senegal, Barbados, Honduras and Ukraine.

Eighteen programs include a review of conditionalities under existing arrangements, without introducing modifications. These comprise Mauritania, Pakistan, Somalia, Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Côte d'Ivoire, Ethiopia, Gabon, Guinea, Liberia, Mali, Malawi, Niger, Sao Tome and Principe and Togo.

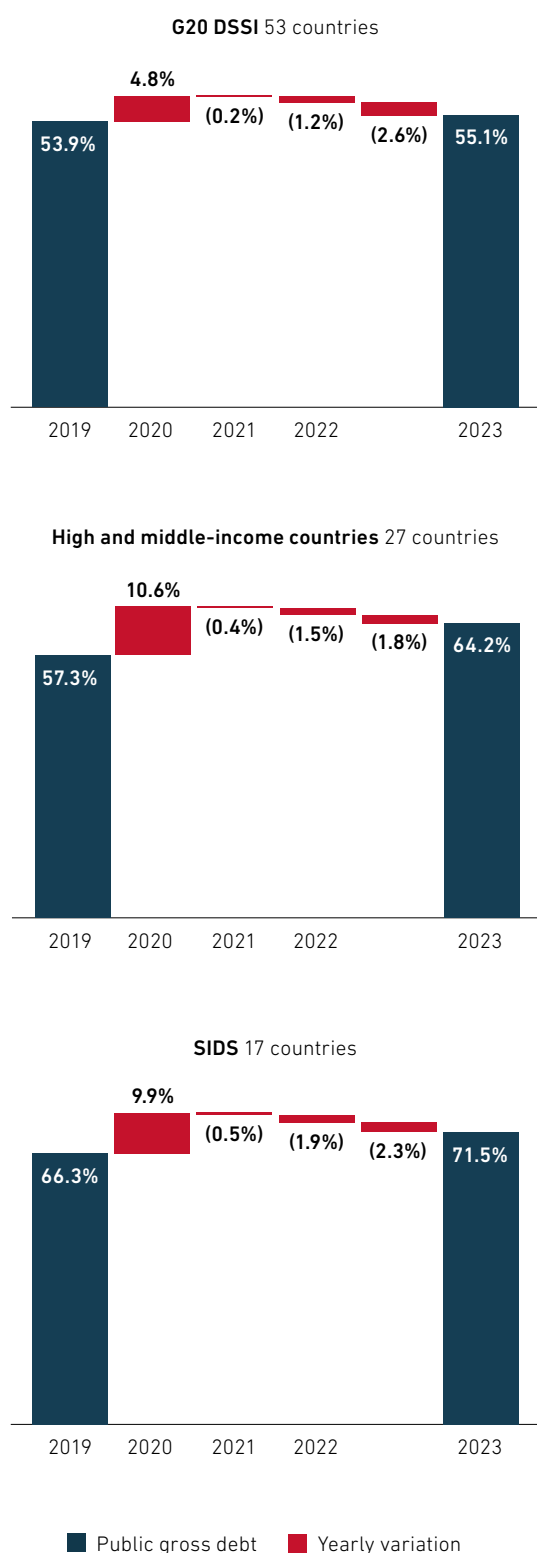
## 3. Covid-19, debt and public budgets

The Covid-19 pandemic is projected to have a substantial and immediate impact on public debt levels. For the group of 80 countries included in the analysis, public gross debt is expected to increase from 55 to 62 per cent of GDP between 2019 and 2020. The impact varies depending on the country group category (Figure 1). Countries eligible for the G20 DSSI are projected to increase their public debt from 52.9 to 58.7 per cent of GDP. High and middle-income countries will climb from 57.3 to 67.9 per cent of GDP. SIDS public debts will rise from 66.3 to 76.2 per cent of GDP.

A key factor that explains the different national trajectories is the impact of the crisis on economic growth. Emerging market economies are expected to contract by up to 3 per cent of GDP in 2020. In the meantime, low-income economies that account for the large majority of the G20 DSSI group, are expected to contract by 1 per cent of GDP. IMF projections in the context of the pandemic have been criticised as being inconsistent and over-optimistic.

As a result of these growth projections, IMF medium-term debt forecasts have an observed downward bias (Figure 1). For all three country groups, debt is expected to stabilise at below the figure reached in 2020, but above pre-crisis levels observed in 2019. 56 countries are projected to have public debt greater than levels recorded in 2019. The decline in debt levels forecasted by the IMF gives the impression that the crisis is under control. An analysis of country cases, fiscal policy and financing implications shows how inaccurate and dangerous this impression is, and will be, for the development efforts of the countries in question.

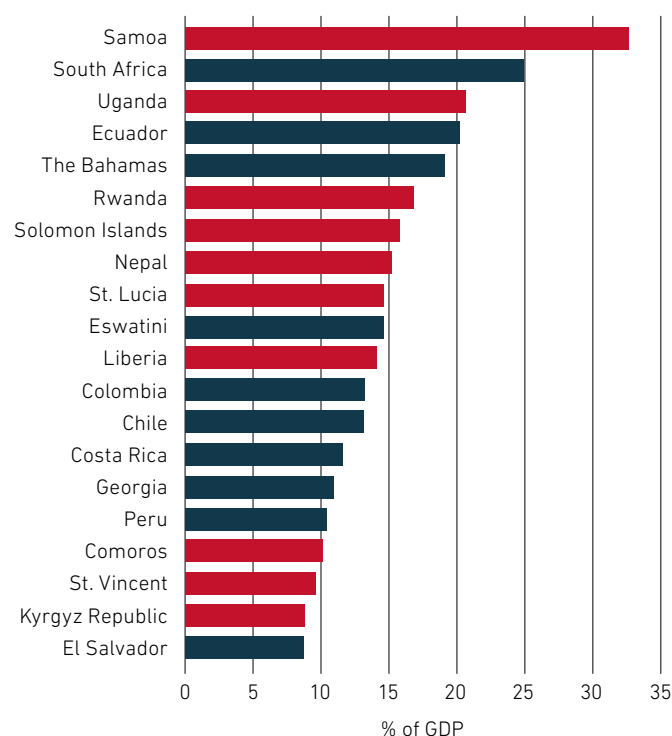
**Figure 1: Evolution of public gross debt as % of GDP (2019 – 2023)**



Figures in brackets denote a decrease.  
Source: Eurodad calculations based on IMF staff country reports.

The projected increase in public debt is substantial for many countries for the period between 2019 and 2023 (Figure 2). Of the top twenty countries with the largest increase, half are high and middle-income countries. The other half comprises countries eligible for the G20 DSSI. Even after optimistic growth forecasts, at least seventeen countries are expected to have double digit increases of their public debt levels. These dynamics highlight the failure of the multilateral response to the crisis on two accounts. Firstly, middle-income countries have not been provided with any meaningful assistance from the Global Financial Safety Net (GFSN). This is particularly relevant for countries in Latin America. Secondly, the G20 DSSI is too narrow in terms of creditor eligibility and has a too short timeline to provide support to countries badly affected by the crisis.

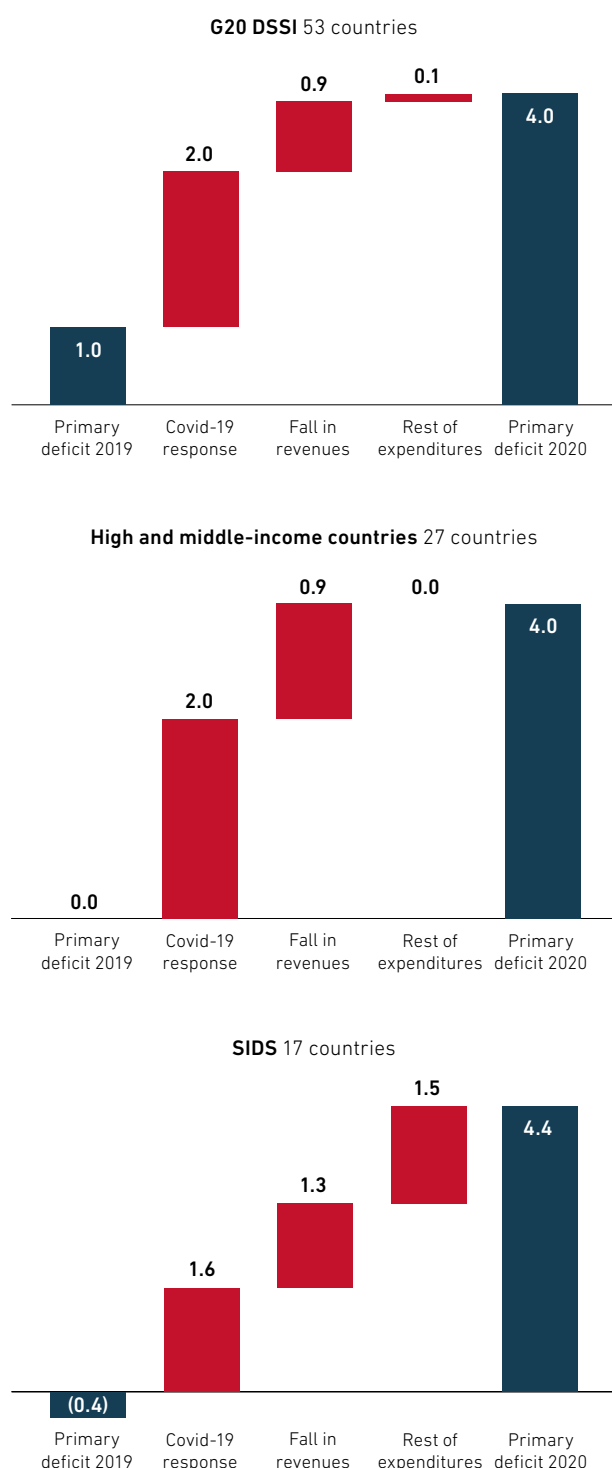
**Figure 2: Largest increase of public debt as % of GDP (2019 – 2023)**



Red color denotes G20 DSSI eligible countries  
Source: Eurodad calculations based on IMF staff country reports.

An analysis of the fiscal impact of the crisis in 2020 shows that the IMF is likely to underestimate the immediate increase in debt levels. For the group of 80 countries, the primary fiscal deficit is expected to increase from 0.7 to 4.1 per cent of GDP between 2019 and 2020. The deterioration in the fiscal position follows slightly different patterns by country group (Figure 3).

**Figure 3: Primary deficit change as % of GDP (2019-2020)**



Countries eligible for the G20 DSSI are projected to increase their primary deficit from 1 to 4 per cent of GDP. The deterioration in the fiscal position can be disaggregated in three components. First, Covid-19 response packages for these countries amount on average to 2 per cent of GDP. Second, government revenues have fallen by 0.9 per cent of GDP. Finally, other government expenses have increased by 0.1 per cent of GDP.

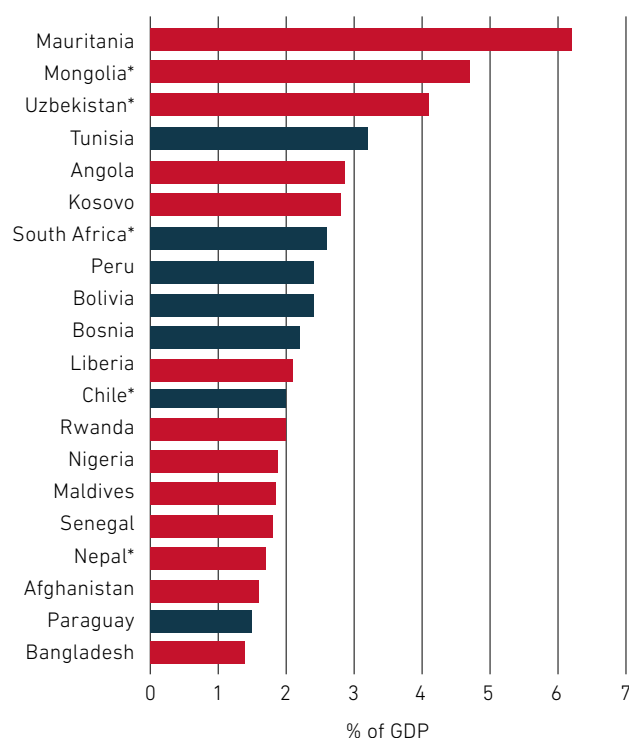
In the case of high and middle-income countries, the primary deficit increased from 0 to 4.1 per cent of GDP. Covid-19 response packages account for 2.6 per cent of GDP. The greater economic response to the Covid-19 pandemic of this group of countries is a result of higher levels of income per capita and larger public sectors. A fall in revenues accounts for most of the remaining deterioration, equivalent to 1.5 per cent of GDP.

SIDS present an increase in their primary balance from a surplus of 0.4 of GDP to a deficit of 4.4 per cent of GDP. Covid-19 response packages account for 2 per cent of GDP, while a decline in revenues and increase in other expenditures account for the remaining 1.3 and 1.5 per cent of GDP, respectively.

While the group averages provide useful information regarding the aggregate fiscal patterns, they also obscure the implications of Covid-19 response packages for a number of countries. Financing difficulties have forced at least forty countries to implement expenditure cuts in other areas of public budgets in order to afford a response to the pandemic. Figure 4 illustrates the magnitude of the expenditure cuts taking place in the middle of the pandemic. Of the twenty countries with the largest expenditure cuts, thirteen are eligible to the G20 DSSI and seven correspond to the high and middle-income group. This set of countries is projected to enact expenditure cuts equivalent, on average, to 2.6 per cent of GDP in 2020.

Primary deficit is presented as a positive figure.  
 Figures in brackets denote a primary balance surplus.  
 Source: Eurodad calculations based on IMF staff country reports.

**Figure 4: Largest public expenditure cuts to offset Covid-19 response packages as % of GDP (2020)**



Estimated as size of Covid-19 response package minus overall change in public expenditure between 2019 and 2020. A positive figure indicates that other expenditures have contracted to create fiscal space for the response.

\*Covid-19 responses include revenue measures. Figure 4 may overestimate offsetting expenditure cuts as a result.

Red color denotes G20 DSSI eligible countries.

Source: Eurodad calculations based on IMF staff country reports.

The implausible magnitude of the required expenditure cuts indicates that the IMF is likely to underestimate the immediate impact of the crisis both in its economic and human dimensions. South Africa provides an example of the problematic character of this dynamic. At a time when decisive public health and social protection measures are most needed, the government has been forced to implement off-setting expenditure cuts by 2.6 per cent of GDP in 2020. This figure is equivalent to 60 per cent of the public health budget of the country. The difficult conditions have caused health workers to protest and threaten with mass public worker strikes. To date, 16,667 people have died of Covid-19 in South Africa. The country has the highest Covid-19 death toll in Africa and ranks at 13th overall in the world.

After the pandemic, many countries will be left in a situation of heightened vulnerability and increased debt burdens. In the case of vulnerabilities, Gross Financing Needs (GFN) increased substantially in 2020 (Table 2). They are expected to remain at concerning levels in 2021, with a decline by 2023. At least 17 countries are expected to have GFN above 15 per cent of GDP in 2021. This group includes developing countries with large populations such as Egypt, Pakistan and South Africa. A second wave of the pandemic or sudden deterioration of national financing conditions would create significant problems for these countries. Without multilateral measures to address debt burdens and financing requirements, the financial stability of these countries rests on a knife-edge. A key driver of this dynamic is the evolution of public debt service. Larger debts will increase the debt burdens of most countries over the coming years. Even after assuming a decline in debt levels by 2023, debt service will stabilise at above pre-crisis levels (Table 2). Countries eligible for the G20 DSSI will experience an increase of annual debt service requirements of 1.9 per cent of GDP per year by 2023. This figure is 1.7 per cent in the case of high and middle-income countries and 1 per cent for SIDS.

To place these figures in context, thirty countries will pay an additional amount equivalent to their 2020 Covid-19 packages to their creditors as increased debt service by 2023. IMF Debt Sustainability Assessments (DSA) characterise these debt dynamics as “sustainable” in 76 countries. In most cases, sustainability is premised on the capacity of countries to deliver on the implementation of austerity measures on a breathtaking scale over the coming years. These measures will only deepen the crisis for hundreds of millions of people across the globe. Their plight will represent the mirror image of the sustainability criteria used by the IMF.

**Table 2: Evolution of gross financing needs and public debt service (2019 - 2023)**

Gross Financing Needs (GFN)						
Country group	# of countries	2019	2020	2021	2022	2023
G20 DSSI	53	8.2	12.3	10.9	10.2	9.8
High and middle-income	27	11.0	15.9	13.0	11.3	11.0
All countries	80	9.1	13.5	11.5	10.5	10.2
SIDS	17	9.6	16.0	14.5	12.6	11.9

Public debt service						
Country group	# of countries	2019	2020	2021	2022	2023
G20 DSSI	53	7.1	8.3	8.4	8.8	9.0
High and middle-income	27	9.9	11.6	11.8	11.5	11.6
All countries	80	8.4	9.4	9.5	9.5	9.9
SIDS	17	10.9	11.7	11.8	11.3	11.9

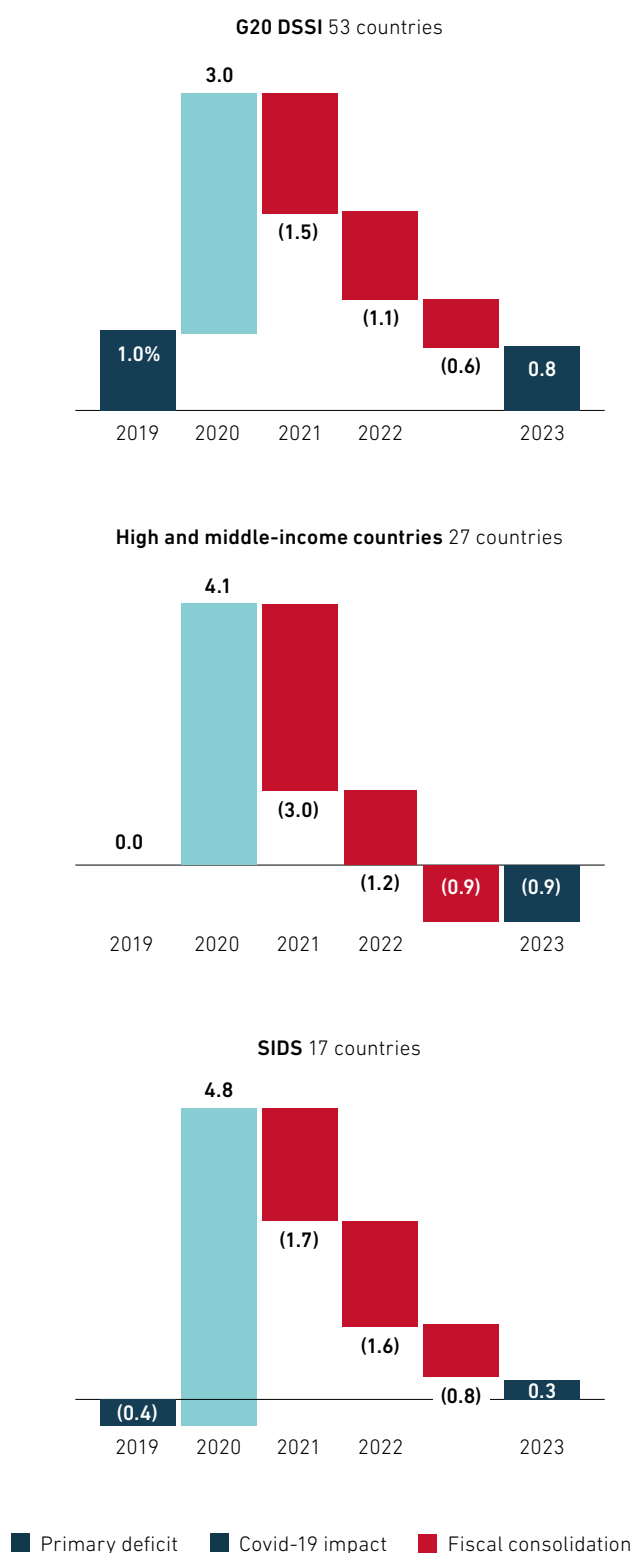
Debt service includes payments of principal and interest on domestic and external debt, including the stock of short term debt at the end of period.  
Source: Eurodad calculations based on IMF staff country reports.

#### 4. IMF Covid-19 financial assistance programs and austerity: harder, faster, wider

Developing countries are about to embark on an unprecedented and synchronised exercise of fiscal consolidation. 72 countries are expected to begin a process of fiscal consolidation as early as 2021, with austerity measures to be implemented in all 80 countries by 2023. Between 2021 and 2023, these countries will implement austerity measures worth on average 3.8 per cent of GDP. The adjustment will be front-loaded, leaving no time to recover. More than half of the projected measures, equivalent to 2 per cent of GDP, will take place in 2021.

The scale, speed and reach of the planned adjustment raises serious concerns regarding its impact on country and global growth prospects. IMF staff research shows that front-loaded fiscal consolidations in credit constrained environments which rely on expenditure cuts have a negative impact on growth. An analysis by the IMF Independent Evaluation Office (IEO) of the impact of IMF programs on growth found that both growth and fiscal targets fell short of the expected outcomes across countries during the 2008-2019 period. IMF program design in the aftermath of the Covid-19 pandemic does not take these patterns into account. Almost all programs rely on optimistic growth projections, front loaded adjustments and rely mostly on expenditure cuts (see below). Thus, even by the IMF's own criteria for fiscal adjustment design, the programs approved in recent months represent a policy blunder with potentially catastrophic repercussions. A cascade of negative feedback effects between fiscal consolidation and growth is bound to create spillover effects amongst developing economies. This will place further pressure on country level adjustment requirements to stabilise debt levels.

**Figure 5: Evolution of primary deficit as % of GDP (2019-2023)**



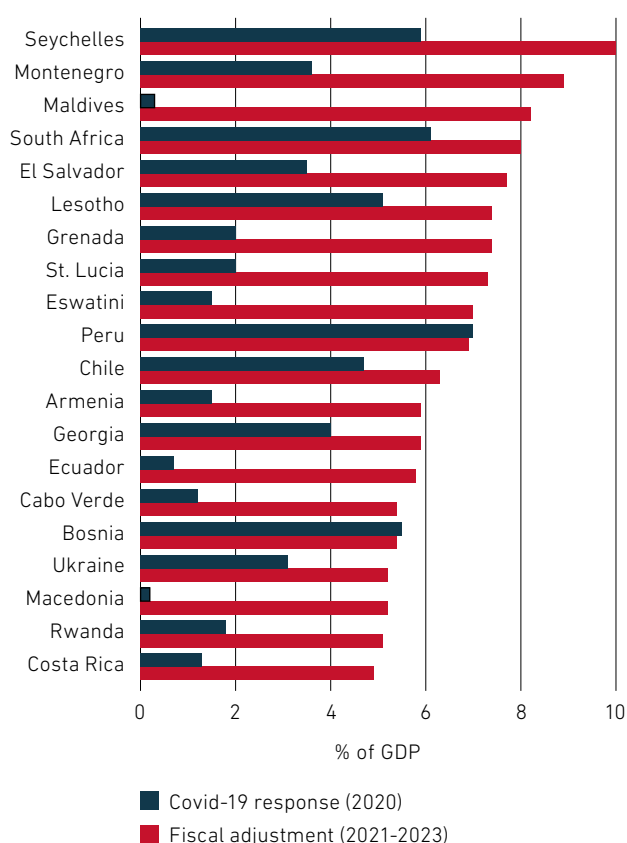
Primary deficit is presented as a positive figure.  
 Figures in brackets denote deficit reduction / primary surplus.  
 Source: Eurodad calculations based on IMF staff country reports.

It is clear that the IMF has not considered the systemic implications of its programs. This can be evidenced by the similar nature of adjustment across country groups during the 2021-2023 period (Figure 5). Countries eligible for the G20 DSSI are projected to implement austerity measures worth 3.2 per cent of GDP over the next three years. The brunt of the adjustment, equivalent to 2.6 per cent of GDP will take place over 2021 and 2022. High and middle-income countries face an even tougher challenge. This group is expected to implement austerity measures worth 5.1 per cent of GDP. These countries are projected to enact measures for 3 per cent of GDP just in 2021. SIDS will impose measures worth a total of 4.1 per cent of GDP. Of this figure, fiscal consolidation for 3.3 per cent will take place in 2021 and 2022.

The IMF is explicitly forcing countries to shift the cost of the crisis, in terms of weaker fiscal positions and larger debts, on to the shoulders of the most vulnerable. This is a direct result of the inadequate multilateral response to the crisis, as most countries have been left to fend for themselves. 59 countries have fiscal consolidation plans for the next three years that are larger than the Covid-19 response packages implemented in 2020. To offset the impact of the response to the pandemic, fiscal consolidation plans for the next three years represent 4.8 times the amount of resources allocated to the emergency response. Country specific fiscal consolidations projected by IMF staff are substantial (Figure 6).

Ecuador offers an example of the implications of this approach. The country implemented a Covid-19 response package worth 0.7 per cent of GDP in 2020. This figure is well below the group average for high and middle income countries of 2.6 per cent of GDP. The response was financed with off-setting expenditure cuts worth 0.3 per cent of GDP. Struggling with the economic impact of the Covid-19 pandemic, expenditure cuts and a debt crisis, the healthcare system of the country collapsed. Despite having a population of only 17 million people, the country has registered a total of 11,312 deaths from Covid-19, placing Ecuador as the 16th highest ranking country for Covid-19 death rates in the world. While dead bodies were piling up on the streets, the country embarked on a renegotiation of its debts with private creditors. Ecuador completed the process on September 1, 2020, exchanging bonds for a value of US\$ 17.4 billion and the participation of 98.5 per cent of the bondholders. The IMF explicitly endorsed the outcome of the negotiations with a staff level agreement that provides the country with US\$ 6.5 billion in additional financing. The success of the debt restructuring and IMF program is premised on the ability of the country to deliver on austerity measures worth 5.8 per cent of GDP over the next three years. This figure is eight times the resources the country was able to mobilise to protect the lives of its citizens in 2020.

**Figure 6: Largest fiscal consolidation plans and Covid-19 response packages as % of GDP (2020)**



Source: Eurodad calculations based on IMF staff country reports.

Fiscal consolidation is achieved through a combination of measures aimed at raising revenues and reducing expenditures. The following subsections provide an overview of the expected evolution of revenues and expenditures in the context of IMF programs over the next three years.

### Revenue mobilisation in IMF Covid-19 financial assistance programs

Government revenues for countries receiving IMF financing are projected to fall on average by 1.1 per cent of GDP in 2020. Revenues are expected to return to pre-crisis levels by 2023. On aggregate, revenue mobilisation is expected to represent a quarter of the total adjustment. This pattern is consistent across country groups (Table 3). Given the context, characterised by a reduction of commodity prices, large scale failure of small and medium-sized enterprises (SMEs) and substantial increases in unemployment, the projected recovery in national revenues will require substantial efforts by governments.

The current crisis provides an opportunity to tackle a broken and outdated international corporate tax system. This would require measures to address tax havens, international tax dodging and other illicit financial flows. In addition, governments could be encouraged to adopt a progressive tax agenda based on property and capital income taxation. However, an analysis of the IMF programs indicates a different strategy. Adjustment programs aim to increase revenues through an increase of indirect taxes, and specifically Value Added Tax (VAT). For a group of 59 countries, for which data is available, 39 are set to increase the share of indirect taxes in total government revenues. For the entire group, indirect taxes are set to increase their share in government revenues from 29.2 to 30.8 per cent between 2019 and 2023. Country group dynamics follow this pattern (Table 4). The most noticeable increase in the share of indirect taxes in government revenues takes place in SIDS. The shift in tax burdens towards local consumption is linked to the expected impact of the crisis on tourism revenues and commodities.

The shift in the composition of government revenues is reflected in the share of indirect taxation as a percentage of GDP. A total of forty countries are expected to increase indirect taxes as a percentage of GDP. For the entire group, indirect taxes are set to increase to 7.4 per cent of GDP by 2023. This represents an increase of 0.4 per of GDP with respect to pre-crisis levels. The different country groups follow the aggregate trend pointing to the existence of a systematic pattern (Table 4).

**Table 3:**  
**Evolution of government**  
**revenues as % of GDP**  
**(2019 - 2023)**

Country group	# of countries	2019	2020	2023	Variation	
					2019-2023	2020-2023
G20 DSSI	53	22.0	21.1	22.2	0.2	1.1
High and middle-income	27	26.5	25.0	26.5	0.0	1.5
All countries	80	23.5	22.4	23.6	0.1	1.2
SIDS	17	26.0	24.7	26.1	0.1	1.4

Source: Eurodad calculations based on IMF country staff reports.

**Table 4:**  
**Evolution of government**  
**revenues as % of GDP**  
**(2019 - 2023)**

Country group	# of countries	Indirect taxes (VAT) as % of revenues		# of countries with increase	Indirect taxes (VAT) as % of GDP		# of countries with increase
		2019	2023		2019	2023	
G20 DSSI	39	29.2	30.7	23	6.8	7.2	27
High and middle-income	20	29.3	31.0	16	8.5	8.9	13
All countries	59	28.7	30.3	39	7.3	7.6	40
SIDS	13	28.6	30.6	9	7.8	8.2	7

Source: Eurodad calculations based on IMF country staff reports.

This dynamic is troublesome for at least two reasons. It ratifies counterproductive IMF bias towards indirect taxation. IMF programs have been found to shift the structure of taxation toward indirect taxes without increasing overall revenues. It also raises questions regarding the IMF commitment towards a fair and equitable recovery. Increases in VAT rates have been shown to have a negative impact on income and gender equality. More recently, the Organisation for Economic Co-operation and Development (OECD) has highlighted that raising VAT taxes in the aftermath of the Covid-19 pandemic is not desirable from an equity perspective. The foreseen increase of indirect taxes in IMF program countries fails to address the structural problems that have been known to hamper domestic revenue mobilisation in developing countries. Even worse, this increase of indirect taxes raises the prices of basic goods and services in a time of crisis. This is set to cause unnecessary harm to the most vulnerable populations.

### Expenditures in IMF Covid-19 financial assistance programs

Government expenditures are projected to increase by 2.3 per cent of GDP in 2020. As discussed in the previous section, Covid-19 response packages account for most of the variation. Over the following three years, countries that have received IMF financial assistance are expected to reduce expenditures by 2.6 per cent of GDP. Expenditure reduction in the aftermath of the pandemic is expected to take place in 71 countries. The decline in expenditures will take government spending to below pre-crisis levels in 41 countries.

The country groups included in the analysis follow different patterns (Table 5). Countries eligible for the G20 DSSI are projected to reduce expenditures by 2.1 per cent of GDP over the coming years. Expenditure levels are expected to return to pre-crisis levels by 2023. Forecasts for high and middle-income countries indicate the largest reduction in expenditure amongst the three groups. Expenditures are set to decline by 3.5 per cent of GDP, taking expenditures to below 2019 levels. Finally, in the case of SIDS, expenditure cuts will reach 2.8 per cent of GDP. Total expenditure for SIDS will remain above 2019 levels.

**Table 5: Evolution of government primary expenditures as % of GDP (2019 - 2023)**

Country group	# of countries	2019	2020	2023	Variation	
					2019-2023	2020-2023
G20 DSSI	53	23.0	25.1	23.0	0.0	-2.1
High and middle-income	27	26.6	29.1	25.6	-0.9	-3.5
All countries	80	24.2	26.5	23.9	-0.3	-2.6
SIDS	17	25.6	29.1	26.3	0.7	-2.8

Source: Eurodad calculations based on IMF country staff reports.

**Table 6: Public wages as a share of government expenditures and % of GDP (2019-2023)**

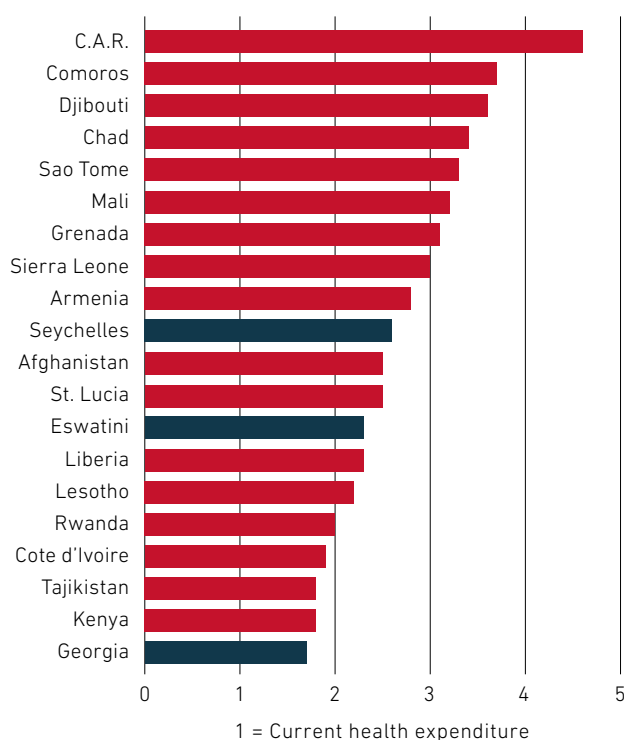
Country group	# of countries	Public sector wages as % of expenditures		# of countries with decrease	Public sector wages as % of GDP		# of countries with decrease
		2019	2023		2019	2023	
G20 DSSI	45	29.0	28.9	22	7.0	7.0	20
High and middle-income	27	28.8	28.9	12	7.5	7.1	16
All countries	72	28.9	28.9	34	7.2	7.0	36
SIDS	16	32.1	31.7	10	8.4	8.4	7

Source: Eurodad calculations based on IMF country staff reports.

An additional element of analysis that is provided in the IMF staff reports refers to public sector wages in government expenditure. For a group of 72 countries for which data is available, public sector wages are expected to retain a constant share of government expenditure, equivalent to 29 per cent of the total. As a result of the overall reduction of expenditure, public wages are expected to decline by 0.2 per cent of GDP compared to pre-crisis levels. The pattern of evolution of public wages varies across country groups. For countries eligible to the G20 DSSI and SIDS, public wages are expected to remain stable, both as a share of expenditure and GDP. In the case of high and middle-income countries, public wages are expected to decline by 0.4 per cent of GDP between 2019 and 2023. The decrease is projected to take place in 16 countries. As part of IMF financing, public workers in countries such as Costa Rica, South Africa and Tunisia can expect extensive layoffs and reductions of their wages over the coming years. Large reductions in the public sector workforce will further erode the coverage and quality of public services. As public services play a critical role in advancing human rights and reducing income and gender inequalities, this will cause long-term harm to local populations.

The impact of austerity on the provision of public services will be substantial. The size of the planned expenditure cuts is concerning when compared to the resources allocated to basic public services such as healthcare (Figure 7). At least forty countries are expected to implement expenditure cuts equivalent to their current healthcare budget. Most of the countries with the largest expenditure cuts are countries eligible for the G20 DSSI, such as Chad, Mali and Kenya. Austerity will be implemented at the same time that these countries are scheduled to resume and pay back suspended debt service payments to official creditors. This reveals the long-term costs of the DSSI, especially as countries transition from IMF emergency financing to fully-fledged programs. Without measures to address the financing requirements and debt burdens of participant countries, the IMF is forcing countries to choose which public services to provide and when. The fact that this is taking place as the world faces a pandemic and the worst economic crisis for over a century represents, at the very least, a dereliction of duty by the international community.

**Figure 7: Largest expenditure cuts relative to current public health expenditure (2020-2023)**



Red color denotes G20 DSSI eligible countries.

Source: Eurodad calculations based on IMF staff country reports.

## 5. Arrested development: IMF austerity and the SDGs in the 2020's

The year 2030 marks the end-point of the United Nations (UN) Agenda for Sustainable Development. The Agenda is composed of a set of 17 goals and 169 targets. These are commonly known as the SDGs. These include, among others, the eradication of poverty and hunger as well as the universal provision of quality health care, education and social protection. The UN estimates that developing countries face a financing gap of US\$ 2.5 trillion per year to achieve the SDGs.

In this context, the IMF low income-countries debt sustainability framework (LIC DSF) represents a useful tool to assess the impact of the Covid-19 crisis on the progress towards the SDGs. The LIC DSF analyses the evolution of debt dynamics in low-income countries over a twenty year horizon. This framework is used in 46 IMF staff reports covered in the review. An analysis of this subset of programs shows a dismal picture by the end of the decade. The baseline scenario assumes a strong economic recovery and fulfillment of fiscal targets. These projections show a future characterised by heavy debt burdens, under-funded public sectors and a global failure to achieve the goals of the 2030 Agenda and the Paris Agreement on Climate Change.

For 46 countries eligible for the G20 DSSI, public debt levels are expected to stabilise at above pre-crisis levels by 2030 (Table 7). Public debt is projected to increase from 52.8 to 55.9 per cent of GDP between 2019 and 2030. The increase is more noticeable for SIDS included in this group. The public debt level will increase from 60.7 to 67 per cent over the same period, and this increase will be widespread within the group. Thirty countries will have higher debt levels by the end of decade, with notable cases including Ghana (69.6 per cent of GDP), Kenya (69.8 per cent of GDP) and St. Vincent and the Grenadines (84.8 per cent of GDP).

**Table 7: Government debt, debt service and primary expenditures as % of GDP (2019-2030)**

Country group	Government debt			Debt service			Primary Expenditure		
	2019	2020	2030	2019	2020	2030	2019	2020	2030
G20 DSSI	52.8	58.5	55.9	6.5	7.8	8.4	23.6	25.7	23.0
SIDS	60.7	69.1	67.0	6.2	8.9	8.5	27.4	30.5	28.2

Source: Eurodad calculations based on IMF country staff reports.

Higher debt levels translate into heavier debt burdens. Countries eligible for the G20 DSSI are projected to increase debt service payments from 6.5 per cent to 8.4 per cent of GDP between 2019 and 2030. SIDS follow a similar pattern, with an increase of debt service from 6.2 to 8.5 per cent of GDP. The direct long-term consequence of the crisis will be an even greater transfer of resources from public sectors to their creditors compared to that observed before the crisis. The projected transfer is on a massive scale. 33 countries are projected to end the decade with higher debt service payments. 21 countries will pay their creditors additional amounts equivalent to an average Covid-19 response package every year of this decade between 2023 and 2030. This group includes countries such as Bangladesh, Kenya and Myanmar.

Stabilising debt levels and meeting higher debt service requirements will result in countries having to abandon the active pursuit of the 2030 Agenda and the commitments of the Paris Agreement on Climate Change. IMF research on a subset of SDGs estimates that low-income countries will require additional spending, equivalent to 15 percent of GDP. United Nations Conference on Trade and Development (UNCTAD) research found similar results and has highlighted the need for an SDG debt relief program to alleviate financing pressures. However, the projected evolution of expenditures will leave no fiscal space to fund the required investments in the SDGs and Paris Climate agreements. For the countries eligible for the G20 DSSI, public expenditures will decline from 23.6 to 23 per cent of GDP between 2019 and 2023. Expenditure levels for SIDS will follow a different path. Expenditures in these countries will increase from 27.4 to 28.2 per cent of GDP during this period. In the case of SIDS, the increase is too small to accommodate for minimum investment requirements in climate change. 28 countries are projected to have expenditure below pre-crisis levels by 2030. This group includes large countries such as Bangladesh, Ethiopia and the Democratic Republic of Congo and SIDS such as Cabo Verde and Papua New Guinea.

Failure to account for development financing requirements is not a bug, but a feature of the IMF DSA. From its inception in the 1950s, the framework of debt sustainability used by the IMF and the World Bank has been grounded in the assessment of the commitment of governments to adjust domestic resource use to levels compatible with meeting creditor claims. This feature explains why the high levels of debt observed in many countries are considered sustainable by the IMF. Debt is sustainable as long as the country is able to meet creditors' claims without incurring a large policy adjustment, even at the expense of resource mobilisation towards the SDGs.

The IMF DSA methodology has direct implications for program design. The IMF pays little to no attention to the fiscal implications of its programs on the 2030 Agenda and Climate commitments. This happens at the same time that both topics are featured heavily in public interventions by IMF officials. The review of 80 IMF staff reports, comprised of well over 4,000 pages of documentation, show that the SDGs are mentioned a total of ten times in seven country reports. The SDGs are not once mentioned as part of DSAs. The issue of climate change receives slightly more attention. The IMF focuses on two types of climate. Business and investment climate is mentioned 45 times across 17 reports. Climate change and events are mentioned a total of 87 times within twenty country reports. Climate change is cited as a consideration in a DSA in only one country report (Samoa).

With this in mind, it is clear that failure to achieve the SDGs in the aftermath of Covid-19 will not be the result of the pandemic. Rather, it will be a result of the conscious choice to privilege creditors' claims over the future of hundreds of millions of people.

## 6. Conclusion

This report illustrates the dramatic failure of the IMF and the international community to respond to the Covid-19 pandemic. The measures adopted to tackle the ongoing economic downturn fall far short of the effort needed to meet the current scale of need in the global south. The IMF projections and recommendations for fiscal consolidation set the tone for yet another “lost decade” for development. The situation we face in the wake of the pandemic means even greater need for concerted global action that puts human rights, sustainable development, gender equality and climate justice at its core. Concrete actions are required to avert the dismal future portrayed in IMF staff reports:

- **Stop austerity and prioritise Covid-19 response and recovery efforts:** Austerity measures requested by the IMF are incompatible with an effective response and recovery effort in the aftermath of Covid-19. Fulfillment of IMF program targets undermines the provision of basic public services, increases income and gender inequality and hampers growth prospects. Additional measures are required to avoid a harmful process of fiscal consolidation. These include, among others, a new allocation of Special Drawing Rights (SDR), increases in Official Development Assistance (ODA), and the establishment of effective global governance to tackle tax avoidance, evasion, illicit financial flows and sovereign debt resolution.
- **Systemic assessment of IMF financial assistance:** Even by the IMF’s own criteria for fiscal adjustment design, the programs approved in recent months represent a policy blunder of historical proportions. A cascade of negative feedback effects between fiscal consolidation and growth is bound to create spillover effects amongst developing economies. This will place further pressure on country-level fiscal targets and adjustment requirements to stabilise debt levels. The IMF needs to develop a systemic assessment of the implications of its programs and proceed to a thorough review of recently approved financial assistance.
- **Complete overhaul of DSAs:** IMF DSA methodology forces countries to abandon the active pursuit of the 2030 Agenda and the commitments of the Paris Agreement on Climate Change in order to meet creditor claims. Post Covid-19 debt relief needs cannot be assessed under this premise. A review of the methodology is needed. DSA’s must explicitly incorporate countries’ long-term financing needs to pursue the SDGs, climate goals, human rights and gender equality commitments.
- **Develop a post-Covid-19 debt relief and sustainability initiative:** IMF lending coupled with G20 DSSI simply postpones the inevitable acknowledgement of the unsustainable nature of debts in many countries across the world. Debt sustainability consistent with the SDGs and human rights can be achieved through an ambitious process of debt relief, including extensive debt cancellation. Relief must be granted to all countries in need and assessed with respect to their development financing requirements.
- **A systemic reform to address the crisis:** Multilateral discussions need to make progress towards the establishment of a permanent multilateral framework under UN auspices to support systematic, timely and fair restructuring of sovereign debt, in a process convening all creditors.

## Annex: Country list &amp; IMF staff reports

Country	Income level	Region	G20 DSSI	SIDS	Risk of debt distress	IMF Report
Bangladesh	Low-income	Asia and Pacific	Yes	-	Low	<a href="https://bit.ly/33ve9NF">https://bit.ly/33ve9NF</a>
Maldives	Upper-middle income	Asia and Pacific	Yes	Yes	High	<a href="https://bit.ly/3ixdGi4">https://bit.ly/3ixdGi4</a>
Mongolia	Lower-middle income	Asia and Pacific	Yes	-	Sustainable	<a href="https://bit.ly/33rXSsS">https://bit.ly/33rXSsS</a>
Myanmar	Lower-middle income	Asia and Pacific	Yes	-	Low	<a href="https://bit.ly/2Sowdmp">https://bit.ly/2Sowdmp</a>
Nepal	Low-income	Asia and Pacific	Yes	-	Low	<a href="https://bit.ly/33ulxHQ">https://bit.ly/33ulxHQ</a>
Papua New Guinea	Lower-middle income	Asia and Pacific	Yes	Yes	High	<a href="https://bit.ly/3leQiaW">https://bit.ly/3leQiaW</a>
Samoa	Upper-middle income	Asia and Pacific	Yes	Yes	High	<a href="https://bit.ly/30BD7Jw">https://bit.ly/30BD7Jw</a>
Solomon Islands	Lower-middle income	Asia and Pacific	Yes	Yes	Moderate	<a href="https://bit.ly/3jxjKsq">https://bit.ly/3jxjKsq</a>
Afghanistan	Low-income	Middle East and Central Asia	Yes	-	High	<a href="https://bit.ly/2EZVH6j">https://bit.ly/2EZVH6j</a>
Armenia	Upper-middle income	Middle East and Central Asia	Yes	-	Sustainable	<a href="https://bit.ly/30y8TH3">https://bit.ly/30y8TH3</a>
Djibouti	Lower-middle income	Middle East and Central Asia	Yes	-	High	<a href="https://bit.ly/3leXjc4">https://bit.ly/3leXjc4</a>
Egypt	Lower-middle income	Middle East and Central Asia	-	-	Sustainable without high probability	<a href="https://bit.ly/2Soiax8">https://bit.ly/2Soiax8</a>
Georgia	Upper-middle income	Middle East and Central Asia	-	-	Sustainable	<a href="https://bit.ly/36zb0hB">https://bit.ly/36zb0hB</a>
Jordan	Upper-middle income	Middle East and Central Asia	-	-	Sustainable	<a href="https://bit.ly/3l8K4JC">https://bit.ly/3l8K4JC</a>
Kyrgyz Republic	Lower-middle income	Middle East and Central Asia	Yes	-	Moderate	<a href="https://bit.ly/2HYBcYX">https://bit.ly/2HYBcYX</a>
Mauritania	Lower-middle income	Middle East and Central Asia	Yes	-	High	<a href="https://bit.ly/3cXmLj6">https://bit.ly/3cXmLj6</a>
Pakistan	Lower-middle income	Middle East and Central Asia	Yes	-	Sustainable	<a href="https://bit.ly/2HNiPpF">https://bit.ly/2HNiPpF</a>
Somalia	Low-income	Middle East and Central Asia	Yes	-	High	<a href="https://bit.ly/3iunXM7">https://bit.ly/3iunXM7</a>
Tajikistan	Low-income	Middle East and Central Asia	Yes	-	High	<a href="https://bit.ly/2SoOlwk">https://bit.ly/2SoOlwk</a>
Tunisia	Lower-middle income	Middle East and Central Asia	-	-	Sustainable	<a href="https://bit.ly/2Sph18z">https://bit.ly/2Sph18z</a>
Uzbekistan	Lower-middle income	Middle East and Central Asia	Yes	-	Low	<a href="https://bit.ly/3jyF3cX">https://bit.ly/3jyF3cX</a>
Angola	Lower-middle income	Sub-Saharan Africa	Yes	-	Sustainable	<a href="https://bit.ly/3nhk00l">https://bit.ly/3nhk00l</a>
Benin	Low-income	Sub-Saharan Africa	Yes	-	Moderate	<a href="https://bit.ly/3iwT3mf">https://bit.ly/3iwT3mf</a>
Burkina Faso	Low-income	Sub-Saharan Africa	Yes	-	Moderate	<a href="https://bit.ly/3jxYJh8">https://bit.ly/3jxYJh8</a>
Cabo Verde	Lower-middle income	Sub-Saharan Africa	Yes	Yes	High	<a href="https://bit.ly/30z7K20">https://bit.ly/30z7K20</a>
Cameroon	Lower-middle income	Sub-Saharan Africa	Yes	-	High	<a href="https://bit.ly/3cXnj8E">https://bit.ly/3cXnj8E</a>
Central African Republic	Low-income	Sub-Saharan Africa	Yes	-	High	<a href="https://bit.ly/36sK1o6">https://bit.ly/36sK1o6</a>
Chad	Low-income	Sub-Saharan Africa	Yes	-	High	<a href="https://bit.ly/3jxJEfJ">https://bit.ly/3jxJEfJ</a>

Country	Income level	Region	G20 DSSI	SIDS	Risk of debt distress	IMF Report
Comoros	Low-income	Sub-Saharan Africa	Yes	Yes	Moderate	<a href="https://bit.ly/33wVPUm">https://bit.ly/33wVPUm</a>
Congo DRC	Low-income	Sub-Saharan Africa	Yes	-	Moderate	<a href="https://bit.ly/2GttSnA">https://bit.ly/2GttSnA</a>
Cote d'Ivoire	Lower-middle income	Sub-Saharan Africa	Yes	-	Moderate	<a href="https://bit.ly/3jrJLt7">https://bit.ly/3jrJLt7</a>
Eswatini	Lower-middle income	Sub-Saharan Africa	-	-	Sustainable	<a href="https://bit.ly/3cXoll2">https://bit.ly/3cXoll2</a>
Ethiopia	Low-income	Sub-Saharan Africa	Yes	-	High	<a href="https://bit.ly/30yUFGc">https://bit.ly/30yUFGc</a>
Gabon	Upper-middle income	Sub-Saharan Africa	-	-	Moderate	<a href="https://bit.ly/33tgicC">https://bit.ly/33tgicC</a>
Gambia	Low-income	Sub-Saharan Africa	Yes	-	High	<a href="https://bit.ly/3d0L2F8">https://bit.ly/3d0L2F8</a>
Ghana	Lower-middle income	Sub-Saharan Africa	Yes	-	High	<a href="https://bit.ly/3l8MkAA">https://bit.ly/3l8MkAA</a>
Guinea	Low-income	Sub-Saharan Africa	Yes	-	Moderate	<a href="https://bit.ly/2Suocwd">https://bit.ly/2Suocwd</a>
Kenya	Lower-middle income	Sub-Saharan Africa	Yes	-	High	<a href="https://bit.ly/3ivXA8K">https://bit.ly/3ivXA8K</a>
Liberia	Low-income	Sub-Saharan Africa	Yes	-	High	<a href="https://bit.ly/33vSa9t">https://bit.ly/33vSa9t</a>
Lesotho	Lower-middle income	Sub-Saharan Africa	Yes	-	Moderate	<a href="https://bit.ly/30wNj5Q">https://bit.ly/30wNj5Q</a>
Madagascar	Low-income	Sub-Saharan Africa	Yes	-	Moderate	<a href="https://bit.ly/3d1HWk0">https://bit.ly/3d1HWk0</a>
Mali	Low-income	Sub-Saharan Africa	Yes	-	Moderate	<a href="https://bit.ly/36w92yy">https://bit.ly/36w92yy</a>
Malawi	Low-income	Sub-Saharan Africa	Yes	-	High	<a href="https://bit.ly/2F6WyCs">https://bit.ly/2F6WyCs</a>
Mozambique	Low-income	Sub-Saharan Africa	Yes	-	Debt distress	<a href="https://bit.ly/3li5qVh">https://bit.ly/3li5qVh</a>
Niger	Low-income	Sub-Saharan Africa	Yes	-	Moderate	<a href="https://bit.ly/33t38MW">https://bit.ly/33t38MW</a>
Nigeria	Lower-middle income	Sub-Saharan Africa	Yes	-	Sustainable	<a href="https://bit.ly/36KVcsz">https://bit.ly/36KVcsz</a>
Rwanda	Low-income	Sub-Saharan Africa	Yes	-	Moderate	<a href="https://bit.ly/2HY1cDO">https://bit.ly/2HY1cDO</a>
Sao Tome and Principe	Lower-middle income	Sub-Saharan Africa	Yes	Yes	Debt distress	<a href="https://bit.ly/33x59HT">https://bit.ly/33x59HT</a>
Senegal	Lower-middle income	Sub-Saharan Africa	Yes	-	Moderate	<a href="https://bit.ly/3nfY3zj">https://bit.ly/3nfY3zj</a>
Seychelles	High-income	Sub-Saharan Africa	-	Yes	Sustainable	<a href="https://bit.ly/30yWAdK">https://bit.ly/30yWAdK</a>
Sierra Leone	Low-income	Sub-Saharan Africa	Yes	-	High	<a href="https://bit.ly/3lbaeLW">https://bit.ly/3lbaeLW</a>
South Africa	Upper-middle income	Sub-Saharan Africa	-	-	Sustainable	<a href="https://bit.ly/3iwD8V9">https://bit.ly/3iwD8V9</a>
Togo	Low-income	Sub-Saharan Africa	Yes	-	High	<a href="https://bit.ly/3lbQMgY">https://bit.ly/3lbQMgY</a>
Uganda	Low-income	Sub-Saharan Africa	Yes	-	Low	<a href="https://bit.ly/3d0alHx">https://bit.ly/3d0alHx</a>

Country	Income level	Region	G20 DSSI	SIDS	Risk of debt distress	IMF Report
Bolivia	Lower-middle income	Latin America & Caribbean	-	-	Sustainable	<a href="https://bit.ly/34iEBsU">https://bit.ly/34iEBsU</a>
Chile	High-income	Latin America & Caribbean	-	-	Sustainable	<a href="https://bit.ly/34tuLJj">https://bit.ly/34tuLJj</a>
Colombia	Upper-middle income	Latin America & Caribbean	-	-	Sustainable	<a href="https://bit.ly/30yX182">https://bit.ly/30yX182</a>
Costa Rica	Upper-middle income	Latin America & Caribbean	-	-	Sustainable	<a href="https://bit.ly/3d0bDIR">https://bit.ly/3d0bDIR</a>
Dominica	Upper-middle income	Latin America & Caribbean	Yes	Yes	No staff report	
Dominican Republic	Upper-middle income	Latin America & Caribbean	-	Yes	Sustainable	<a href="https://bit.ly/3iqe6He">https://bit.ly/3iqe6He</a>
Ecuador	Upper-middle income	Latin America & Caribbean	-	-	Sustainable	<a href="https://bit.ly/3izZoNM">https://bit.ly/3izZoNM</a>
El Salvador	Lower-middle income	Latin America & Caribbean	-	-	Sustainable	<a href="https://bit.ly/36x6Qa9">https://bit.ly/36x6Qa9</a>
Grenada	Upper-middle income	Latin America & Caribbean	Yes	Yes	Debt distress	<a href="https://bit.ly/30u8Jkb">https://bit.ly/30u8Jkb</a>
Guatemala	Upper-middle income	Latin America & Caribbean	-	-	Sustainable	<a href="https://bit.ly/33vtLRh">https://bit.ly/33vtLRh</a>
Haiti	Low-income	Latin America & Caribbean	Yes	Yes	High	<a href="https://bit.ly/2Ss7oG6">https://bit.ly/2Ss7oG6</a>
Honduras	Lower-middle income	Latin America & Caribbean	Yes	-	Low	<a href="https://bit.ly/2F5j7r8">https://bit.ly/2F5j7r8</a>
Jamaica	Upper-middle income	Latin America & Caribbean	-	Yes	Sustainable	<a href="https://bit.ly/36u6r8t">https://bit.ly/36u6r8t</a>
Panama	High-income	Latin America & Caribbean	-	-	Sustainable	<a href="https://bit.ly/33vFPSL">https://bit.ly/33vFPSL</a>
Paraguay	Upper-middle income	Latin America & Caribbean	-	-	Sustainable	<a href="https://bit.ly/30xKmlD">https://bit.ly/30xKmlD</a>
Peru	Upper-middle income	Latin America & Caribbean	-	-	Sustainable	<a href="https://bit.ly/3itwIGd">https://bit.ly/3itwIGd</a>
St. Lucia	Upper-middle income	Latin America & Caribbean	Yes	Yes	Sustainable	<a href="https://bit.ly/36u7u8t">https://bit.ly/36u7u8t</a>
St. Vincent and the Grenadines	Upper-middle income	Latin America & Caribbean	Yes	Yes	High	<a href="https://bit.ly/36xwBan">https://bit.ly/36xwBan</a>
Albania	Upper-middle income	Europe	-	-	Sustainable	<a href="https://bit.ly/3lfcq5i">https://bit.ly/3lfcq5i</a>
Bosnia and Herzegovina	Upper-middle income	Europe	-	-	Sustainable	<a href="https://bit.ly/2SoTHYq">https://bit.ly/2SoTHYq</a>
Kosovo	Upper-middle income	Europe	Yes	-	Sustainable	<a href="https://bit.ly/34n4JD6">https://bit.ly/34n4JD6</a>
Moldova	Lower-middle income	Europe	Yes	-	Low	<a href="https://bit.ly/2Su2Mzo">https://bit.ly/2Su2Mzo</a>
Montenegro	Upper-middle income	Europe	-	-	Sustainable	<a href="https://bit.ly/3iyzvhr">https://bit.ly/3iyzvhr</a>
Republic of North Macedonia	Upper-middle income	Europe	-	-	Sustainable	<a href="https://bit.ly/2HWSJAO">https://bit.ly/2HWSJAO</a>
Ukraine	Lower-middle income	Europe	-	-	Sustainable	<a href="https://bit.ly/2GEaDHG">https://bit.ly/2GEaDHG</a>

This chapter is based on a fully-referenced briefing which can be found at: [www.eurodad.org/arrested\\_development](http://www.eurodad.org/arrested_development)

## Endnotes

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