



# The G20 Debt Service Suspension Initiative: Draining out the Titanic with a bucket?

*Eurodad's shadow report on the limitations of the G20 Debt Service Suspension Initiative*

## 2.0 updated version

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## 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 US\\$ 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 US\$ 5.3 billion<sup>1</sup>, just under half of the initial US\$ 12 billion announced as potential temporary debt relief.

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<sup>1</sup> This is the amount shared by different institutions, including the IMF, World Bank, G20 and Paris Club, as of July 2020, and correspond to the 46 countries that had, to that date, requested DSSI. If we analyse the data provided by the World Bank, which is based on their projections

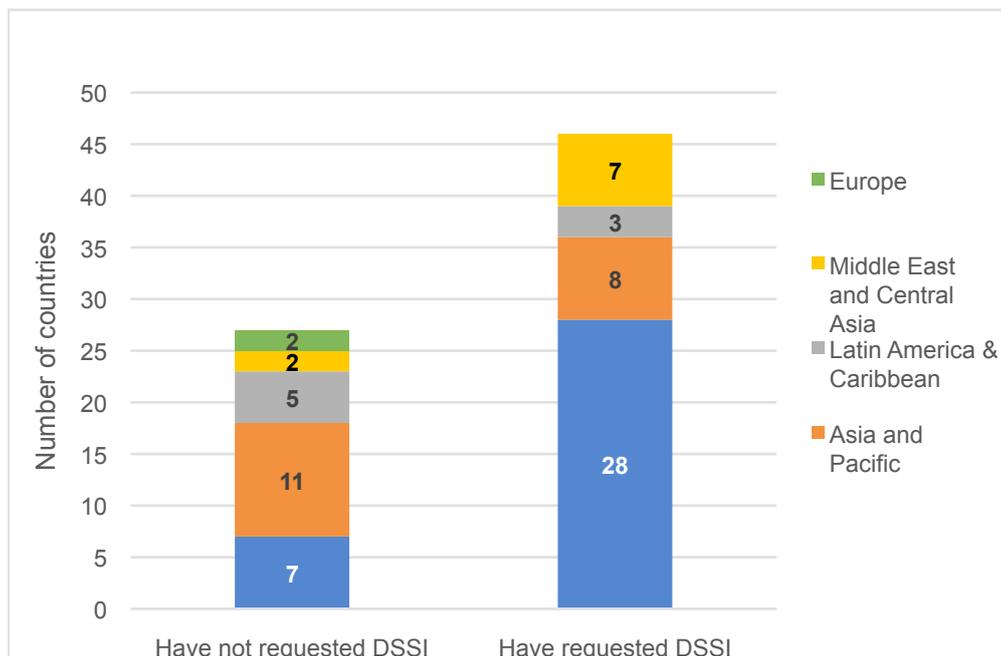
According to the joint debt sustainability analyses carried out by the World Bank and the IMF, among the 26 countries that had not requested to join the initiative, 11 countries were at high risk of debt distress or were already in debt distress in August 2020. These countries include Ghana, Haiti, Kenya, 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**



Source: Eurodad based on World Bank data, 6 October 2020

## 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

considering the information available of outstanding debt by end 2018, the amount that the 46 countries that have requested entering the DSSI had scheduled to be paid between May and December 2020 is US\$ 8.79 billion.

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<sup>2</sup>, the 68 eligible countries for which data is available, have around US\$ 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 US\$ 5.3 billion of postponed payments, but also the US\$ 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	11.54	13.56	10.97	8.28	12.15
	32.42%	27.03%	31.53%	28.16%	23.00%	30.41%
<b>Official bilateral</b>	11.55	17.36	15.93	14.36	13.94	14.18
	36.66%	40.65%	37.03%	36.88%	38.73%	35.48%
<b>Official multilateral</b>	9.75	13.80	13.52	13.61	13.78	13.63
	30.92%	32.32%	31.44%	34.96%	38.26%	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	7.47	9.47	6.12	3.44	7.04
	31.43%	25.49%	32.45%	25.23%	15.86%	27.48%
<b>Official bilateral</b>	8.79	13.00	11.49	9.98	9.93	10.32
	39.83%	44.37%	39.37%	41.17%	45.83%	40.25%
<b>Official multilateral</b>	6.34	8.83	8.22	8.14	8.30	8.27
	28.74%	30.14%	28.18%	33.59%	38.30%	32.27%

<sup>2</sup> Data published by the World Bank as part of the [International Debt Statistics](#) portal corresponds to 68 out of 73 eligible countries for the [DSSI](#) that report external debt to the World Bank's Debtor Reporting System (DRS). Debt service payments data are based on the disbursed and outstanding long-term external debt at the end of 2018, excluding principal in arrears. Projected debt service payments do not take account of any increase in debt service that may arise from new loans contracted after 31 December 2018 or any reduction in debt service resulting from debt restructuring arrangements concluded on a bilateral basis or in multilateral fora after 31 December 2018, including agreements in the context of the HIPC initiative. For more information, read the [methodological note](#) provided by the World Bank.

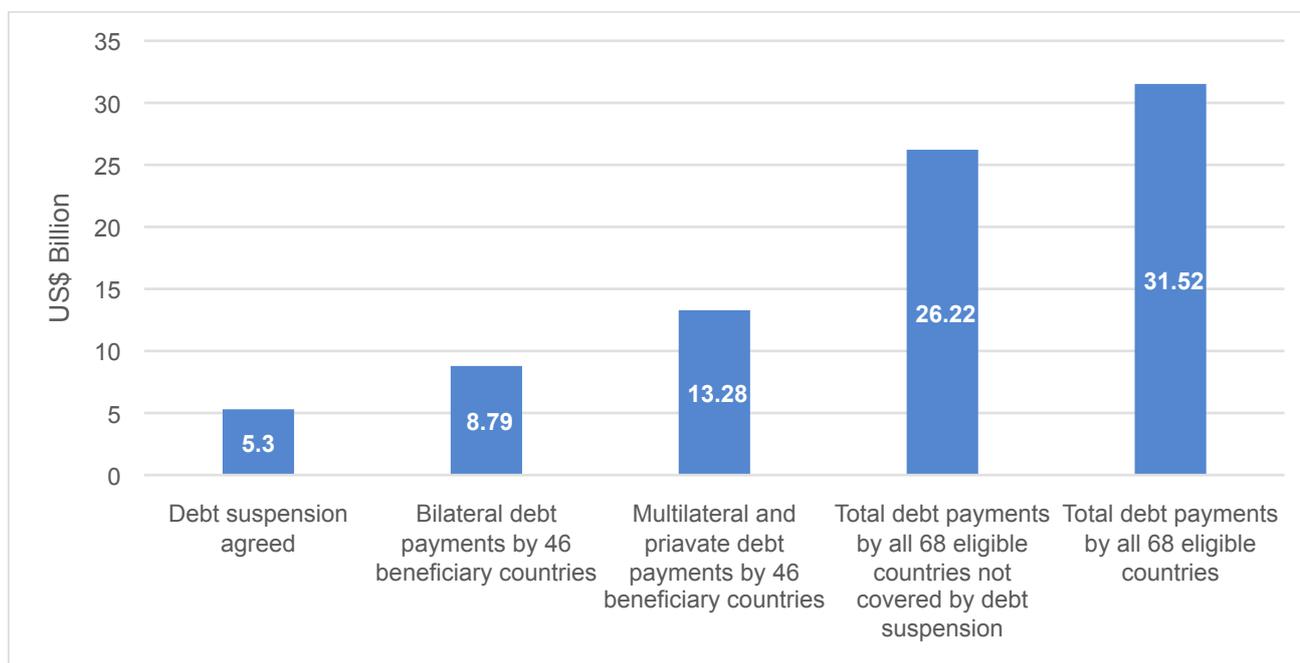
<b>Total</b>	<b>22.07</b>	<b>29.29</b>	<b>29.18</b>	<b>24.24</b>	<b>21.66</b>	<b>25.63</b>
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Source. Eurodad from International Debt Statistics, World Bank, October 2020

### 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 24 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 US\$ 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 US\$ 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<sup>3</sup>. This accounts for US\$ 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)**

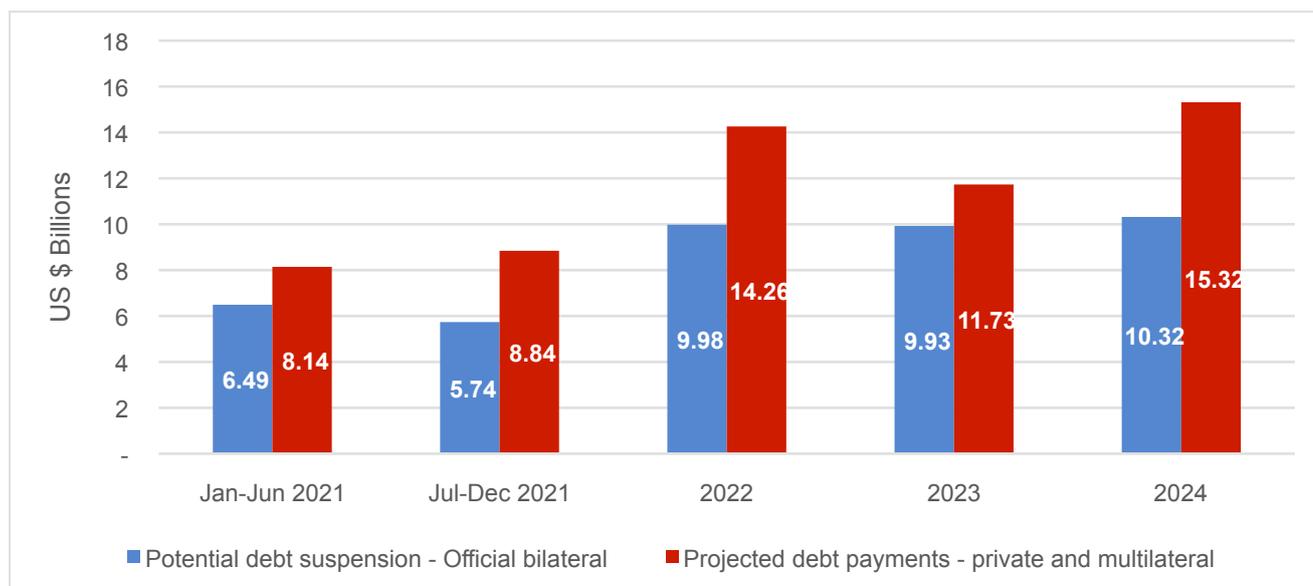


Source. Eurodad from International Debt Statistics, World Bank, October 2020

An extension of six months, from January to June 2021, would potentially cover only 44 per cent of debt payments by the 46 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 US\$ 17 billion to multilateral and private lenders during 2021.

<sup>3</sup> Total debt payments by all 68 eligible countries not covered by debt suspension.

**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 US\$ 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<sup>4</sup>. The potential volume of suspended debt via these agreements amounts to US\$ 1.8 billion.

**Table 3: 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 4: 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

<sup>4</sup> Countries that have so far signed an agreement with the Paris Club lenders are: Angola, Burkina Faso, Cabo Verde, Cameroon, Chad, Comoros, Congo (Democratic Republic of), Congo (Republic of), Djibouti, Dominica, Ethiopia, Grenada, Guinea, Ivory Coast, Kyrgyz Republic, Mali, Mauritania, Myanmar, Nepal, Niger, Pakistan, Papua New Guinea, Samoa, São Tomé and Príncipe, Senegal, Sierra Leone, Togo and Zambia

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 US\$ 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.

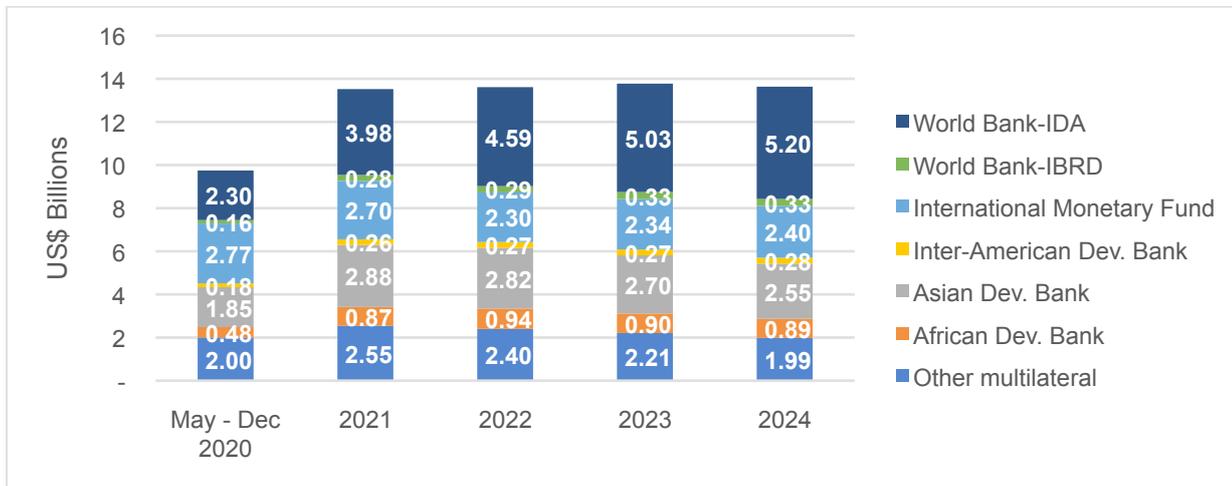
The inability of the G20, IFIs, private creditors and Credit Rating Agencies (CRAs) to provide an adequate response to the magnitude of the crisis prompted by the onset of the Covid-19 pandemic means that for many countries, they will not receive the support they urgently need until it is too late and 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\$)



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

In 2018, the World Bank alone held US\$ 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 US\$ 2.46 billion. This could grow to more than US\$ 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 US\$ 9.75 billion in total between May and December 2020 and US\$ 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 US\\$ 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 US\$ 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 US\$ 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 US\$ 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 US\$ 10.22 billion to private creditors. The 46 countries that are receiving debt service suspension are paying US\$ 6.94 billion to private creditors. This is US\$ 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 <sup>5</sup>	5.40	7.17	3.11	2.25	1.96
	<b>Private lenders</b>	<b>10.22</b>	<b>13.56</b>	<b>10.97</b>	<b>8.28</b>	<b>12.15</b>
<b>46 DSSI beneficiaries</b>	Bondholders	<b>2.52</b>	3.35	3.85	1.84	5.66
	Non-official	<b>4.41</b>	6.12	2.26	1.60	1.38
	<b>Private lenders</b>	<b>6.94</b>	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

<sup>5</sup> According to the World Bank methodological note. “Non-official bilateral” includes all other private creditors (so. besides bondholders), including those that are officially supported by an export credit guarantee, or other form of risk-mitigating guarantee, from an official bilateral entity or multilateral institution.

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?

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

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

[US\\$ 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 US\$ 273.43 billion in 2020. The overwhelming majority of these payments is owed to private creditors: US\$ 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 [US\\$ 100 billion](#) between February and April 2020, a steady recovery has taken place. Aggregated outflows since the beginning of the year now stand at [US\\$ 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 [US\\$ 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.



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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 Philippines<sup>6</sup>, and illustrate the shortcomings of the DSSI initiative

#### 3.1. Nepal<sup>7</sup>

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 US\$ 18.8 million for the remainder of 2020. In addition, the country received a loan under the IMF RCF for US\$ 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 US\$ 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 US\$ 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 US\$ 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 US\$ 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

<sup>6</sup> This cases of Nepal, Cameroon, Kenya and El Salvador were prepared by Fanny Gallois (Plateforme Dette et Développement), Jürgen Kaiser (Erlasjahr.de) and Daniel Munevar (Eurodad), in July 2020. The cases of Pakistan, Zambia and The Philippines have been prepared by *Abdul Khaliq (ISEJ Pakistan and CADTM Network)*, AFRODAD - African Forum and Network on Debt and Development and the Jesuit Center for Theological Reflection (JCTR), and by Asian People's Movement on Debt and Development (APMDD), respectively, and edited by Daniel Munevar (Eurodad) in September and October 2020.

<sup>7</sup> Unless noted, all figures from this section correspond to IMF (2020) "Nepal—Request For Disbursement Under The Rapid Credit Facility—press Release; Staff Report; And Statement By The Executive Director For Nepal" IMF Country Report No. 20/155.

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 US\$ 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 US\$ 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 US\$ [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 [US\\$ 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 US\$ 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<sup>8</sup>

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 US\$ 803 million in 2020. On the other hand, external public debt of the country owed to private creditors amounts to US\$ 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 US\$ 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 US\$ 1.6 billion (1.9 per cent of GDP) in 2020. Remittances are also expected to contract by US\$ 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 US\$ 1.44 billion (1.44 per cent of GDP). Financing for these measures has been provided, in part, by an IMF RCF loan of US\$ 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 US\$ 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 US\$ 793 million and US\$ 663 million in debt service. Similar figures are projected for the coming years.

<sup>8</sup> Unless noted, all figures from this section correspond to IMF (2020) "Republic Of Kenya - Request For Disbursement Under The Rapid Credit Facility—press Release; Staff Report; And Statement By The Executive Director For The Republic Of Kenya" IMF Country Report No. 20/156.

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 (Erlasjhar.de), July 2020

Before the economic fallout of the Covid-19 pandemic was felt in El Salvador, the 'pulgarcito de America'<sup>9</sup> 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<sup>10</sup> 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 US\$ 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

<sup>9</sup> As the smallest country in continental America, El Salvador is affectionately called Pulgarcito de America (the "Tom Thumb of the Americas").

<sup>10</sup> The Highly Indebted Poor Countries (HIPC) initiative was a debt relief scheme launched by the World Bank and endorsed in 1996 and implemented by G7 and Paris Club creditor countries. It provided significant debt relief from bilateral Paris Club creditors for a group of 36 countries, and it was complemented in 2005 with the Multilateral Debt Relief Initiative (MDRI), that provided additional cancellation of multilateral debt.

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 US\$ 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 [US\\$ 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 US\$ 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 US\$ 27.8 billion to meet external debt service payments between September 2020 and June 2023. This figure includes payments for US\$ 19.4 billion to the IMF, World Bank, ADB and China. The external debt of the country stands at US\$ 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 US\$ 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 US\$ 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 [US\\$ 18.3 billion](#), which is equivalent to 78.1 per cent of GDP. From this figure, US\$ 11.2 billion corresponds to external public debt. Nearly half of this figure (US\$ 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 [US\\$ 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 [US\\$ 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](#) (US\$ 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.

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All opinions are Eurodad's alone, and all errors and omissions are the author's responsibility.





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