GLOBAL WEEK OF ACTION
FOR JUSTICE AND
DEBT CANCELLATION
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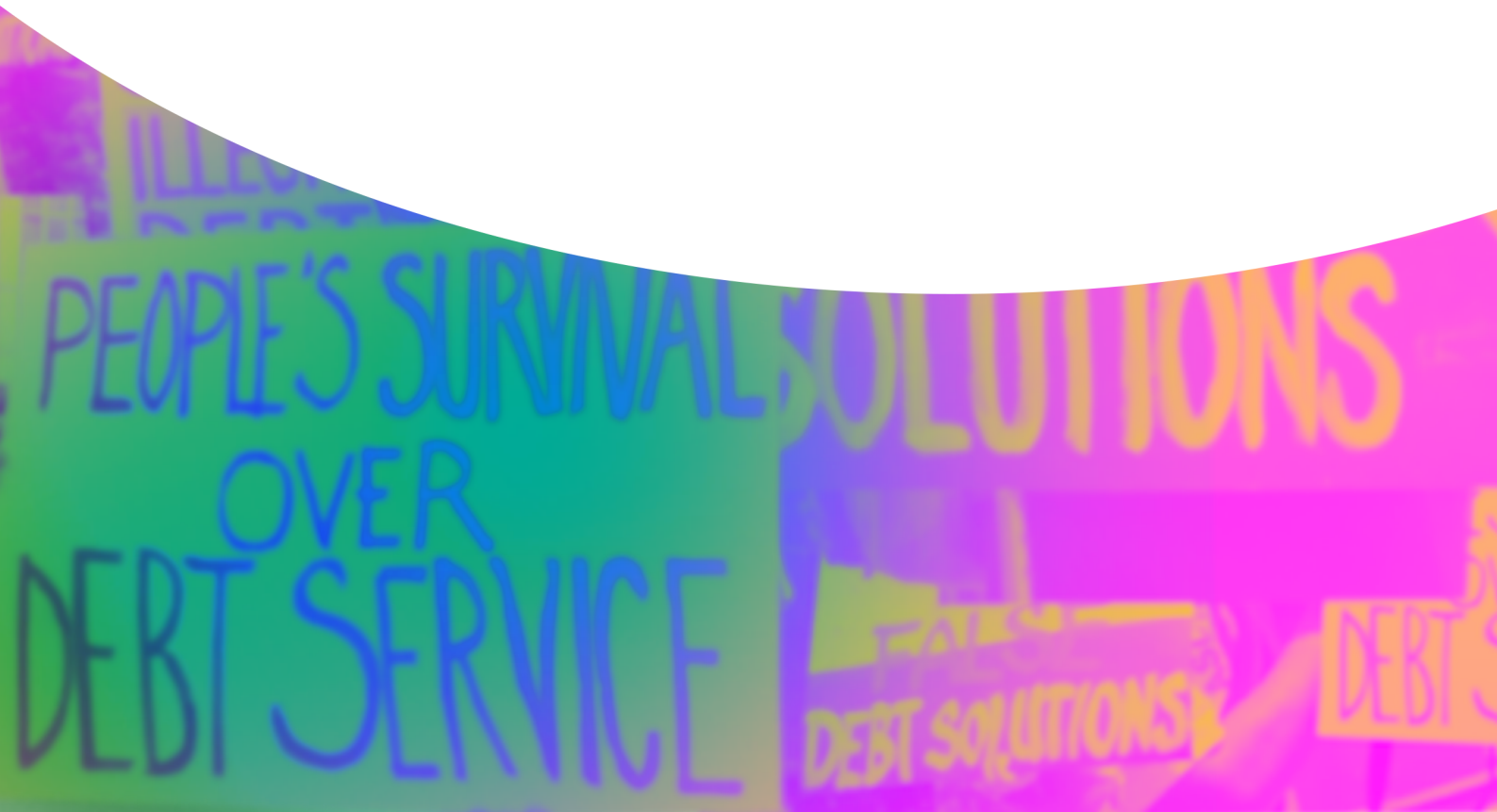
A DEBT CRISIS IN THREE ACTS



The state of play

According to IMF and World Bank calculations, 60% of low-income countries are in debt distress or high risk of debt distress. Assessments made by CSOs, including Debt Justice or Jubilee Germany, show an even dimmer scenario. Countries like Zambia, Sri Lanka, Zimbabwe, Suriname or Lebanon have already defaulted on their debt. Low-income countries like Ghana, Malawi or Mozambique, are struggling to pay their debts and are cutting public spending in a dramatic context of increasing food and energy prices. Middle income countries are also facing increasing difficulties given the high levels of indebtedness, particularly with private creditors, including countries like Argentina, Laos, Pakistan, Egypt, Kenya or Tunisia are also facing difficult debt positions.

Already elevated external sovereign debt burdens before Covid-19 were exacerbated with additional borrowing during the pandemic and increasing debt-servicing costs, pushing a rising number of low and middle-income countries to the brink of default. The World Bank was already alerting in march that "over the next 12 months, as many as a dozen developing economies could prove unable to service their debt". And the context has done nothing but get worse.

The ongoing climate emergency challenges and increasing impacts of climate change; the food and energy supply challenges and price spikes driven by the spill overs of the war in Ukraine but also by highly speculative markets; interest rates increases driven by monetary policies in advanced economies to tackle the global inflation; currency depreciation and increasing bond yields; and insufficient and inadequate responses from the international community to the multiple crises, can all together worsen the already very complex debt situation and lead to an unprecedented humanitarian crisis.

According to UN DESA, many low-income countries have cut public investment and capital spending and have implemented major reallocations of resources from key development areas, including Cameroon, Liberia and Mauritania in Africa, Myanmar and Nepal in Asia, and some small island developing States such as Tonga and Samoa. And the cuts have done nothing but start. Debt Justice UK looked at the IMF projections and concluded that countries in debt crisis are expected to spend less in 2023 than in 2019, despite the urgent need for increased public expenditure in response to surging food and fuel prices.

For the many communities in the global south being affected by debt led austerity, as governments are reallocating resources from essential public services and social protection to repay their creditors, there is no doubt we are already in a full-blown debt crisis.

The false solutions

There is an urgent need to act now. The proposals put in place by the G20, namely the Debt Service Suspension Initiative (DSSI) -approved in April 2020 and finalised in December 2021-, and the Common Framework for Debt Treatments beyond DSSI -approved in November 2020 and still ongoing-, have proved insufficient and highly ineffective in providing a timely and fair response to the rising debt problems. The DSSI did not provide any debt cancellation, just a temporary US$ 13 billion debt payments suspension for 46 countries. The suspended payments have to be resumed as early as 2023. More so, only bilateral creditors participated, and therefore less than one quarter of the payments made between May 2020 and December 2021 by the beneficiary countries were suspended.

The Common Framework is so far failing to deliver the timely and lasting debt relief it promised. Only 3 countries, Zambia, Chad and Ethiopia have applied. None of them have obtained any debt cancellation or a single dollar has been restructured. Excluding many middle-income countries facing debt distress, leaving multilateral debt out of the restructuring and without an effective tool to make private creditors participate,

the Common Framework is demonstrating it is no silver bullet.

As the process in Zambia is showing, the Common Framework proposal does not differ much from the complex and long restructuring negotiations that the other countries need to face with their multiple lenders - a process that even David Malpass, president of the World Bank, described as a Debtor's Prison. The only - and remarkable - difference is that China and other non-Paris Club creditors are at the table together with the Paris Club creditors (western countries) to negotiate in one single bilateral creditor committee with the debtor country. For the rest, debt restructuring remains a chaotic process, without clear rules written, where the result depends on how good the countries' lawyers were when debt was issued (so depending on the clauses in the debt contracts) and how good your lawyers are during the negotiations.

As it's happening with Zambia, Ethiopia and Chad today, countries in debt distress are and will be caught between creditor disputes, which are already increasing the economic and social costs of debt crisis resolution, while the economic consequences of the pandemic, and inflationary tensions remain to be addressed. Furthermore, the condition of having an IMF program for entering this Common Framework opens the door to a new wave of austerity and fiscal consolidation in the global south, as the case of Zambia shows.

Zambia as the Common Framework test case

Zambia was the first African nation to default post-Covid-19 on its Eurobonds, estimated at US$17.3 billion, in November 2020. Joining Ethiopia and Chad, Zambia requested for debt restructuring under the Common Framework. The process has taken so far almost two years, without any agreement on the restructuring.
After getting assurances from bilateral creditors (including China and Paris Club creditors) that they will engage in the debt restructuring, in 31st August 2022, Zambia signed a US$1.3 billion loan agreement with the International Monetary Fund (IMF); with an immediate payment of US$185 million payment as part of the 38-month arrangement. With the new loan, the IMF released its Debt Sustainability Assessment for Zambia. The document states that $8.4 billion of debt payments needs to be cancelled by bilateral government and external private creditors between 2022 and 2025 (this corresponds to 90% of payments to these creditors), further cancellation will be needed of payments between 2026 and 2031 but sets no limits on payments after 2031. The debt restructuring and cancellation will come at the cost of Austerity. The program also establishes that, for the IMF, Zambia should pursue "a large, front-loaded and sustained fiscal consolidation". The program aims at reducing fiscal deficit from a 6% of GDP in 2021 to a surplus of 3.2 of GDP by 2025. A fiscal consolidation of more than 9% in 4 years (2022-2025) to be achieved by government spending cuts, reduced subsidies, reforms and revenue increase through increasing VAT and energy tariffs, among others.

With Chinese debt representing about 17.6% of Zambia's total external debt payments, Zambia is also negotiating with China to have US$8.4 billion in debt remitted over the course of three years. Private creditors, representing 47% of Zambia's external debt, have so far refused the IMF DSA, describing the debt relief targets as "arbitrary".

The options available to Zambia at best serve as palliatives, rather than long term solutions for a country facing the stark realities of a crippling economic crisis. These stop-gap measures may address immediate liquidity problems, but do not provide lasting solutions for Zambia. Although Zambia's debt problems predate the pandemic, and are attributable to years of economic mismanagement and ineffective public investment programs, the country makes an important case for understanding the debt crisis African nations are facing and the limited options within the extant sovereign debt architecture to deal with these challenges. For example, the AfSDJN in a recent statement has argued that the ongoing debt

restructuring for Zambia, a climate vulnerable country, presents an opportunity to explore innovative ideas beyond the measures currently available.

The way forward

Debt cancellation works. We have seen in many cases how reducing debt stock and debt payments allow for countries to increase their social spending and infrastructure investment. Some countries are not willing to ask for debt cancellation as it might affect their market access, but the reality is that only with sustainable debt levels will countries regain market access.

Debt cancellation is not only efficient, particularly when we consider the commitments in relation to human rights and SDGs, but it is also the just thing to do. Throughout decades of colonialism and neo-colonialism, exploitation of natural resources and human capital, fossil fuel-based growth and carbon emissions, global north countries, considered creditor countries, have accumulated a huge social, ecological and climate debt owed to the people in the global south. Today these same rich nations fail to deliver the system changing solutions that these communities need, including immediate debt cancellation by all lenders for all countries in need.

The later we take action, the costlier the debt restructuring will be, in terms of money, but also in terms of human lives. There is no time to waste. A timely, comprehensive and fair debt restructuring process (including sufficient debt write-off) saves resources to borrowers and creditors, but most importantly, it saves lives. However, the existing debt architecture, including the G20 Common Framework, is not fit for purpose, as it won't deliver on the debt cancellation that many countries need, from **all their creditors**.

Voluntary approaches with private creditors, and with non-collaborative official creditors, won't work. We just saw how billions of dollars went to rich investors and financial institutions pockets in 2020 and 2021, while impoverished countries were trying to fight a global pandemic and didn't have enough resources to provide the most basic health protection services or buy vaccines for their citizens.

Piecemeal solutions won't work either. A new debt service suspension, as some are suggesting, could help many countries, but it would also throw the can down the road making the problem bigger in the coming years. Collective Action Clauses, state contingent clauses, Hurricane clauses, can help with debt resolution, but we need comprehensive and binding responsible lending and borrowing rules. More debt transparency would be positive, but only if it is binding for all lenders and borrowers, and accessible in a global public debt registry. We need to include climate risk and financing needs, human rights and development impact assessments in debt sustainability analyses to widen their focus solely from economic considerations to also address the impact of a country's debt burden on its ability to meet development goals and create the conditions for the realisation of all universal human rights. We need all of these and much more.

We need a systemic reform towards a **rules-based debt resolution framework that binds all creditors participation and that is not ruled by creditors.** The Common Framework, as the DSSI before, was designed and is being discussed in a non-inclusive space, the G20, where most debtor countries are not represented. The G20 and the G7, both creditor-dominated forums, are far from willing to let go of a system that gives them all the decision-making power in global economic governance, including on sovereign debt resolution.

As the saying goes "if you're not at the table, you're on the menu". When developing countries are excluded from the decision-making table when it comes to sovereign debt resolution, the responses framed and decided by creditors end up being fatal for the peoples of the global south. A more inclusive and truly multilateral dialogue is needed to deliver the urgent and systemic solutions to the

pressing multidimensional crises, including a profound debt architecture reform.

Without an ambitious, multilateral, inclusive and fair process leading to the debt cancellation of unsustainable and illegitimate debts, the resulting crisis will keep exacerbating the already staggering levels of social, gender, racial and economic inequality, within and between countries. Without prompt and sufficient debt cancellation available for all the countries in need and from all creditors, there will be no chance of achieving the Sustainable Development Goals. Neither to tackle the climate emergency. Without debt justice, there's no climate justice, gender justice, economic justice or social justice.

As our colleague Lidy Nacpil, from the Asian People's Movement on Debt and Development, stated: "The debt problem has to be understood more broadly as more than just a problem of liquidity or insolvency. We need bold and system-changing solutions - not temporary tiny relief measures, not false solutions, and not fiscal responses in the form of massive lending that further aggravates our debt burdens and overwhelmingly obliterates whatever little temporary debt relief is extended". ■