

CAFOD supporter briefing on debt and coronavirus: Speak up to cancel the debt

Why are we calling for immediate debt cancellation?

Covid-19 has hit developing countries hard

The coronavirus crisis is causing havoc right across the world. People have lost loved ones, communities have been shattered and lives have been turned upside down.

The worst global health crisis in a century has also had terrible economic consequences – and it is the poorest people who will be hit the hardest. Many countries have been plunged into a new debt crisis as they attempt to respond to the threat of the virus whilst also managing debts that have catapulted. Even before the crisis hit, 34 countries were already in debt default or at high risk of being so and 64 developing countries were already spending more on debt payments to other governments or institutions than they were on their own countries' healthcare.

Debt cancellation should not be seen as a question of mercy or forgiveness, but as a question of justice and survival.

What needs to happen?

This is an emergency

Cancelling debt payments is the fastest way to keep money within countries. This can help countries to increase spending on healthcare, provide a safety net to the most vulnerable people and finance the rebuilding of their economies.

If we act quickly to call on our leaders here in the UK to stand alongside leaders of the world's poorest nations, we can ensure debt relief saves lives.

Debt payments need to be cancelled immediately for all countries that need it until the end of 2021

Debt cancellation must be made available to all countries which need it to prevent their poorest people being plunged deeper into poverty.

This must include all low- and middle-income countries in such need, going beyond the 77 poorest nations already identified by the G20 as being eligible for debt relief.

The International Monetary Fund and G20 must also extend the debt cancellation period to include debts owed until at least the end of 2021. Failing to do so will merely postpone a crisis.

Debt cancellation must include debt owed to all creditors – and the UK has a role to play

Private creditors must also cancel debt payments due in 2020 and 2021. If this doesn't happen, the money which is freed up by the cancellation of some debts risks simply being used to pay off private banks and hedge funds.

The UK must pass new legislation, like it did in 2010, to prevent poor countries from being sued by private lenders for defaulting on debt in the UK. An estimated 90 per cent of bonds under the G20's suspension initiative are governed by English law.

The role of the World Bank and the International Monetary Fund

The World Bank and the IMF should use their reserves to cancel debt repayments for countries in the global south that need it. The World Bank holds reserves in US dollars, while the IMF also holds reserves in US dollars and in gold.

Debt relief and additional finance must be given without conditions attached

Debt relief should not come with strings attached, such as restrictions on how governments should use freed up resources.

Under the 'Heavily Indebted Poor Countries Initiative', which was created in previous decades, countries used the financial breathing space provided to invest in health and education. This led to improvements in maternal and child mortality and participation of children in primary education.

All existing debts must be restructured and global finance must be reformed to prevent a new debt crisis

We need a new global process to deal with long-term debt restructuring (including overall debt cancellation). This should be overseen by the United Nations in order to bring debt repayments down to a sustainable level.

The absence of a comprehensive process means that poorer countries are in a weaker position when negotiating with individual creditors.

Which countries need debts cancelled?

Countries most in need

All low- and middle-income countries must have debts cancelled. There are poor and vulnerable people in countries throughout Africa, Asia and Latin America who are suffering from the immediate health and economic impacts of the pandemic.

According to the International Monetary Fund, a country is in debt distress when it doesn't have enough money to pay back its debts. But for CAFOD, we have a wider

definition. A country should be considered as being in a debt crisis when it cannot meet the needs of its citizens for services such as education and healthcare because it is paying off its debts.

While attention is often paid to the needs of the 77 poorest nations, CAFOD believes that debt relief needs to go further to include all low- and middle-income countries that are struggling with debt payments.

For example, Ghana – with a population of 29 million people – was in deep debt distress even before Covid-19 hit. Ghana is due to spend \$3.8bn on external debt payments in 2020. It is currently spending almost four times more on servicing its external debt than it is on public healthcare for its people.

Likewise, in Central African Republic – where there are only three ventilators in a country of almost five million people – the country is due to spend \$25 million on external debt payments in 2020.

Who do developing countries owe money to?

Debts are owed to bilateral lenders, multilateral lenders and private lenders and all three types of debt need to be cancelled

In 2018, low- and middle-income countries owed a total of \$7.8 trillion in external debt.

These countries owed money to three types of lenders:

- 1) Other countries (bilateral debt)
- 2) Institutions such as the World Bank and the International Monetary Fund (multilateral debt)
- 3) Private banks and hedge funds (private lenders).

All these debts need to be cancelled. This is vital if we stand a chance of avoiding a major debt crisis. Otherwise, debt which is cancelled or suspended by one lender will just be used to pay off whoever they still owe money to another lender.

How can debts be cancelled?

Debt payments could be cancelled right away

The simplest way to cancel debts is for lenders to simply waive the debt by agreeing for it not to be paid. The IMF has already agreed to cancel debt payments owed to it for six months for the 25 of the poorest countries – saving a combined \$215 million.

The World Bank and IMF can use their cash and gold reserves to pay for cancelled debt payments and overall debt. This is what happened when debts were cancelled following the Jubilee debt campaigning in the late 1990s and early 2000s.

Private banks and hedge funds can accept they will not be paid and be prevented from suing developing countries. The most effective way of preventing this is for countries such as the UK passing legislation which makes it harder for private creditors to successfully sue countries that don't pay them.

As well as cancelling debt payments in the short-term, we also need to put in place long-term solutions to avoid debt crises from re-emerging. We cannot afford to see a repetition of what has happened during past debt crises. In these situations, new World Bank and IMF loans were issued to countries in debt distress, but these were in effect used to pay off private lenders. This only resolved the issue in the short term, whilst the debts piled up and led to another debt crisis.

We need world leaders to urgently set up a new mechanism, overseen by the United Nations, to deal with countries overall debts to avoid them being forced to continue to use up their scarce resources on paying off debts. Without a standardised mechanism in place, poorer countries are forced to negotiate directly with powerful lenders on a case-by-case basis.

What help have developing countries received so far?

Not enough to meet the scale of devastation

Governments around the world, including the UK's, face one of the worst economic crises in history.

But the international community is not meeting the scale of the crisis. To date, just over 70 developing countries have been offered the opportunity to suspend debt payments to other countries for a few months (saving an estimated \$12 billion).

This is a big, positive step and wouldn't have been achieved if thousands of people hadn't spoken up. But it still doesn't go far enough as it simply defers a deeper debt crisis to a few years' time and does not cover the debts they owe the World Bank or private creditors like hedge funds.

What is the UK's role?

The UK is a lender country and has influence in international institutions such as the World Bank and IMF

The UK government has contributed £150 million to the IMF's debt relief scheme as part of the Covid-19 global response.

The UK was also part of the G20 agreement to suspend debt payments due in 2020 from the 77 poorest nations.

The UK is a major player in the G20, as well as being a powerful shareholder in both the IMF and World Bank. This means it has an important role to play in ensuring

these global institutions act fast to push each of these institutions go further in agreeing debt cancellation and making sure the pandemic doesn't cause lasting damage to the world's poorest people.

As around 90 per cent of bonds from the world's poorest 77 countries are governed under English law, the UK can help to prevent these countries from being sued in the UK if they fail to pay debts. The government should pass legislation to prevent this happening, as it did in 2010.

What are the important moments for this campaign?

G20, World Bank and IMF meetings

There are two vital moments in 2020 where world leaders will come together to discuss their response to the crisis.

The G20 Finance Ministers meeting on 18-19 July brings together finance ministers from the world's wealthiest nations

In October, the World Bank and IMF will host their annual meetings.

These spaces are where major decisions are taken that can affect the lives of the world's poorest people. Campaigners have successfully influenced decisions taken in these meetings before, and we have to make sure they get the message loud and clear again in 2020.

Why are developing countries back in a debt crisis?

Insufficient funds have forced them to borrow

It is over two decades since people were talking about what was then called the 'third world debt crisis'.

During this time, campaigners from across the world successfully urged world leaders to cancel billions of pounds of debts for the world's poorest nations. The Heavily Indebted Poor Countries Initiative (HIPC) and the Multilateral Debt Relief Initiative cancelled \$130 billion of debt for 36 countries between 1998 and 2010.

By the start of 2020, many countries are back in debt distress – including many that were covered by these earlier initiatives. That is because fundamental problems were not solved. At the start of 2020, 34 countries were in debt default (not being able to pay off their debts) or at high risk of being so.

Poorer countries have no choice but to continue borrowing (and then pay back high interest) because their governments do not have enough income to meet the needs of their populations. Whilst there are many complex reasons for this, a major contributing factor is that too much money leaves through things like tax avoidance and evasion.

The global economic downturn caused by the coronavirus pandemic makes the need for full debt cancellation and additional financial support even more pressing given that governments are unlikely to see their revenue go up enough in the short to medium term.

The economic slowdown around the world has led to a collapse in the price of raw materials like oil and copper, on which many developing country economies depend.

Many countries are also being hit by falling tourism revenues, loss of remittances (money sent back home by family members overseas) and other falls in demand for exports.

The pandemic has also seen historic amounts of investment leave developing countries because investors are less willing to invest in riskier places. This has led to a collapse in confidence of lenders and investors in the ability of countries to repay their debts, causing their future borrowing costs to spiral and undermining their ability to refinance their existing debt.

If debts are cancelled will there be corruption? What guarantees are there that governments will spend the money on improving people's lives?

We need to ensure effective checks and balances and a strong civil society

Corruption is a possibility in any country, including the UK. That is why we need to work for sufficient checks and balances built into any political system and space for civil society to hold governments to account for their policies and spending.

CAFOD's network of trusted local experts includes groups such as ZimCodd in Zimbabwe who are tracking government budgets and speaking out. After 36 poor countries had their debts cancelled between 1998-2010, governments increased investment in education and healthcare. This was reflected in improvements in child mortality and the number of children going to primary school. Key to this change was monitoring of government budgets by civil society organisations.

Other experts in our network include Caritas Zambia, which has played a crucial role in monitoring the country's debt situation and pressuring the government to be transparent about debt and how public money is spent.

What has Pope Francis said about debt?

Debt relief is urgent when people are suffering

Pope Francis has spoken out on the injustice of debt, saying: "It cannot be expected that the debts which have been contracted should be paid at the price of unbearable sacrifices. In such cases it is necessary to find... ways to lighten, defer or even cancel the debt." As the Holy Father says, "it is not right to demand or expect

payment when the effect would be the imposition of political choices leading to hunger and despair for entire peoples.”