Concept Note

Ambassadorial level dialogue on addressing sovereign debt distress in LDCs, LLDCs and SIDS in the time of Covid-19

Virtual Meeting

Organized by UN-OHRLLS and Kazakhstan, Chair of the Group of LLDCs in collaboration with Malawi, Chair of Group of LDCs and Belize, Chair of the Alliance of Small Island States (AOSIS)

18 June 2020, 3-6 PM

1. Background

The COVID-19 pandemic is an unprecedented human tragedy whose health and economic consequences will exacerbate the dramatic disruptions in the life of millions of people. The pandemic emerged at a time when the world was already on an unsustainable path of achieving the SDGs. The pandemic has worsened existing vulnerabilities. Many countries face a decline in investment, trade, remittances, growing debt burdens, and severely reduced fiscal space. The hardest hit are the most vulnerable countries, namely. LDCs, LLDCs and SIDS, who face huge spending needs to finance the immediate health response well beyond their capacities. Such a shift of focus will reverse the achievements in SDGs in these countries. The price of inaction, however, will also be devastating, with an immense loss of human life and livelihoods.

LDCs, LLDCs and SIDS economies are heavily reliant on international trade of primary commodities, selected manufacturing and service exports, such as minerals, food, oil, garments and tourism as well as remittances from their diasporas. Due to COVID-19 related dramatic supply and demand shocks in the world economy and the inevitable major disruptions to international trade, these countries face a huge fall in government revenue as well as foreign exchange earnings making it difficult to meet their own development needs and external debt obligations.

The COVID-19 pandemic hit at a time when many of these countries were already struggling with unsustainable debt burden. By end of April 2020, 7 LDCs, LLDCs and SIDS were classified as debt distressed, while an additional 23 were rated at a high risk of debt distress. In LDCs, the debt service-to-export ratio rose from 4.2 per cent in 2008 to 9.4 per cent in 2018. This debt burden includes both private and public debt. According to UN-DESA, for many LLDCs, their external debt is predominantly private non-guaranteed debt, which increased from 14 per cent in 2000 to
47 per cent in 2018. The debt service on private non-guaranteed debt – owed by private entities in these countries – now accounts for nearly 80 per cent of all external debt service payments. While official debt remains the most significant portion of the external debt of most LDCs, commercial credit doubled from 2010 through 2019, from 6 to 12 per cent of public external debt, driven by international bond issuance. For example, more than half of external public debt in six Small Island Developing States is owed to commercial creditors, mostly through bonds. Any debt service moratorium or relief to meaningfully address these countries’ challenges would have to include commercial creditors1.

The economic fallout from the coronavirus pandemic has exacerbated the debt challenges faced by many LDCs, LLDCs, and SIDS. According to UNCTAD2, in 2020 and 2021 alone, repayments on public external debt are estimated at nearly $3.4 trillion – between $2 trillion and $2.3 trillion in high-income developing countries and between $666 billion and $1.06 trillion in middle- and low-income countries. Debt servicing costs for IDA-eligible countries, to which almost all LDCs belong, more than doubled between 2000 and 2019, increasing from 6 to 13 per cent of government revenue, which is often more than spending on health.3

High debt servicing not only cripples the much-needed investment in SDGs in LDCs, LLDCs and SIDS’, it also hinders immediate response to COVID-19. Many of these countries have practically no fiscal space to increase expenditures while at the same time public finances have deteriorated with lower tax revenues, reduced demand for commodities, a nearly complete collapse of the tourism sector or a dramatic fall in diaspora remittances. Unless substantial debt relief is provided, multiple defaults are inevitable. Several calls for debt relief to ease the burden on developing countries have been made. UN Secretary-General also continues to advocate for debt relief for countries not in a position to service their debt and has called on debt moratorium to be extended to all developing countries that are unable to service their debt, including several middle-income countries...followed by targeted debt relief...to prevent defaults leading to prolonged financial and economic crises. In his report “Debt and COVID-19: A Global Response in Solidarity”: UN Secretary-General’s report recommends a three-pronged approach to addressing the debt crisis: (i) a full standstill on all debt service (bilateral, multilateral and commercial) for all developing countries that request it, while ensuring that developing countries without high debt burdens still have access to credit needed to finance COVID-19 responses; (ii) additional debt relief for highly indebted developing countries to avoid defaults and create space for SDG investments; and (iii) progress in the international financial architecture, through fairer and more effective mechanisms for debt crisis resolution, as well as more responsible borrowing and lending.

Some of the efforts so far made to respond to the calls for debt relief include the partial debt service suspensions offered to low-income developing countries eligible to the World Bank’s International Development Association (IDA). The IMF also offered further debt service relief to 25 of the poorest countries. At the spring meetings of IMF and World Bank G-20 creditors have agreed to provide a moratorium of debt service payments to the poorest countries (IDA eligible and LDCs)

between May and December 2020, covering also 23 LLDCs and 13 SIDS. While welcome, these actions will not suffice to avoid defaults as, multilateral and commercial debt are excluded from debt service suspension for all countries, and several LLDCs and SIDS at risk are entirely excluded from the initiative⁴.

The Group of LDCs in its recent Statement on COVID 19⁵ has called for comprehensive measures to address the debt problems of LDCs including through debt cancelation, extension of debt-standstill and providing grants-based ODA.

2. Objectives

The objectives of the meeting are:

- Provide a platform for sharing information on debt relief and other initiatives aimed to mitigate the debt situation in the affected countries;
- Explore measures necessary to head off a looming debt disaster in the vulnerable countries stemming from the economic fallout from the coronavirus pandemic;
- Discuss possible solutions to addressing private debt; and
- Elaborate on the way forward in maintaining their debt sustainability in the long-run while fulfilling their growing financing needs to implement the 2030 Agenda.

3. Participation

The Meeting will be attended by representatives from LDCs, LLDCs, and SIDS. Representatives of relevant UN system entities and financial institutions and other stakeholders will also be invited to participate.

4. Format

The programme will have opening session, presentations by Chairs of the three Groups of Countries to be followed by presentations by panelists, an interactive discussion and the closing session. A summary of the discussion will be availed after the meeting.

5. Organizers

The dialogue is organized by Chair of LLDCs, Kazakhstan and UN-OHRLLS in collaboration with Chairs of LDCs and SIDS.

6. Outcome

An official summary will be issued as an outcome of this meeting.

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⁵ A/74/843