Tim Jones, Jubilee Debt Campaign

Introduction

Your excellencies, I am delighted to be with you for this very important discussion

Jubilee Debt Campaign has worked for cancellation of unjust and unpayable debt for over 20 years.

Since the Covid crisis began we have helped coordinate international civil society calls for debt cancellation in response to the crisis. Over 250 leading organisations have joined this call, and approaching 1 million people have signed petitions calling for debt cancellation.

What we are calling for – summary

In summary, we are calling for an immediate cancellation of external debt payments for all IDA countries and LDCs, all middle income countries with high debt burdens, and all vulnerable Small Island Developing States. This should be for at least two years and possibly longer.

Secondly, we are calling for a comprehensive framework to be created in the medium term that will cancel debts down to a sustainable level on a case by case basis for all countries emerging from this crisis with unsustainable debt.

We do not yet know what longer term impact the crisis will have – a two stage process makes sense to save countries money now through immediate payment cancellation, followed by a comprehensive relief package for all who need it once the picture is clearer.

Detail by creditor grouping

To implement such a programme is complicated – I will now address some of the ways forward across different creditor groupings.

1) Bilateral

We welcome the G20 offer of a bilateral debt service suspension. This should be extended to end-2022. It should also be extended to more countries – especially Small Islands States and LLDCs.

We are concerned that some countries are not requesting the suspension because of the perceived impact on their credit rating and borrowing costs. Mr Estevao has already covered why this is not the case.
2) Private
Now to private creditors. It is morally wrong for private external creditors to keep being paid high interest during this crisis when health systems are underfunded. This is even more the case when public money which is meant to be responding to the crisis – whether the G20 debt suspension or new loans from the IMF and World Bank – is effectively being used to pay off private creditors. But this is effectively what we are now seeing as long as private lenders keep being paid in full.

Here are some suggestions for ways forward:

i) If a country suspends debt payments to private creditors they risk being sued in London or New York. We are calling on the UK and New York to introduce legislation to prevent any country being sued for suspending debt payments at the moment. This would give governments greater legal protection, but also greater leverage in negotiations with private creditors.

ii) We should acknowledge that research has continually shown that for countries with high debts, restructuring the debt is the best way forward.

A 2018 review by the IMF found that in IMF programmes in countries with high debt vulnerabilities, where a debt restructuring was carried out 85% of programmes were fully or partially successful, and 15% unsuccessful. In contrast, in programmes without a debt restructuring, 50% were unsuccessful with 45% partially successful and just 5% fully successful.

Previously, the IMF has concluded that “debt restructurings have often been too little and too late, thus failing to reestablish debt sustainability and market access in a durable way”.

iii) This quote leads me on to my third point – as the IMF say, debt restructuring might be the way to achieve durable market access, not something that will prevent it.

I want you to imagine two hypothetical countries, both trapped with a high external debt burden now.

The first keeps paying in full, through borrowing more money, cutting public spending and using up its valuable foreign currency reserves. In two years’ time it has an even higher debt burden.

The second restructures debt now, leading to a lower debt payment burden in two years’ time.
As the IMF says, research continually shows that the second country is more likely to be able to borrow at lower interest rates in two years, because it is the one that now has a sustainable debt. Markets forget debt restructurings remarkably quickly.

iv) Even more fundamentally, I want to question whether being able to borrow at interest rate of 6%-10%, in foreign currency, is a sustainable source of development finance. Such high and risky interest rates create a large burden on government finances – such expensive loans have to be very well used for a country to be in a better financial position from undertaking such borrowing.

3) Multilateral
I don’t have much time left, but we do think multilateral debt payments should be cancelled as well. This is particularly important for some of the poorest and most vulnerable countries, where multilateral debt often makes up a large part of their debt burden.

We accept cancelling multilateral debt does need to be paid for. But there are a large variety of sources available. The IMF’s gold reserves are worth around $150 billion, and its cash reserves have doubled in recent years to $27 billion. A Special Drawing Rights issuance should happen, and richer countries could apportion some of their issuance to multilateral institutions to pay for debt payment cancellation, as well as making other forms of donations.

In contrast, debt payments to the World Bank of countries covered by the G20 suspension are around $3-$4 billion a year, so only small amounts of gold sales, SDR issuances, reserves and donations would need to be used to fund short term debt payment cancellation.

Transparency
I want to support the importance of transparency – it will lead to lower interest rates, but also better quality loans and spending. Lenders as well as borrowers should be transparent – but very difficult to get any information on loans from most lenders across the official and private sectors. Among the structural changes needed for sustainable debt in the future, a key one is that all information on all loans to governments need to be disclosed in one place.

To conclude
We need much greater urgency to cancel debt payments now to help countries through this crisis, and to create a more transparent and sustainable system
for managing debt in the future.