Statement: Australian Civil Society Organisations Call for a Debt Jubilee in Response to the Covid-19 Health and Economic Crisis

8 April 2020

Overview

We, the undersigned members of Australian Civil Society, are deeply concerned about the potential impact of the global COVID-19 pandemic on sovereign debt for the world's poorest countries. Many of these Low Income Countries (LICs) are already in debt distress or risk thereof, and for the last few years have used an increasing amount of their budgets to make payments to manage their sovereign debt at the cost of improving vital societal functions such as health infrastructure, welfare and education. This impact is felt more strongly by women who rely on public services, supplement these services through the provision of unpaid care, and are more likely to be employed in these sectors.

Consequently, these countries face significant challenges in responding to the current global health pandemic and the resulting economic crisis.

Some of the at-risk countries are our near neighbours in the Pacific, which are already struggling to meet the financial demands of the impact of climate change, including from the greater frequency of cyclones. The arrival of tropical cyclone Harold this week is a case in point.

The outbreaks of COVID-19 so far show that a rapid response is essential. Governments need to have resources for decisive action today. Any delay will make the pandemic more difficult to control and a later repair of economic damage more costly, especially for borrower countries.

We understand that an announcement is going to be made on an emergency package ahead of the International Monetary Fund (IMF)'s and World Bank's Spring Meetings next week. Our organisations, which have an in-depth understanding of development in the Asia-Pacific and beyond, would like to make the following recommendations to the Australian Government in relation to this package.

We are calling for the Australian Government to use its influence (via its significant role in the IMF and the World Bank, the Paris Club, and on the G20) to push for the following:

- Cancellation of all external debt payments due to be made in 2020
- Provision of emergency additional finance which does not create debt
- The Establishment of a UN-led Permanent Mechanism to Resolve Future Debt Crises

The COVID-19 Shock and Vulnerable Low Income Countries (LICs)

The COVID-19 virus brings with it both a health and an economic crisis. Without swift action now to bolster fragile and overstretched health systems and testing in LICs, there are grave risks of further spread of the virus. Whilst the impacts will be felt by all of us, it is the most vulnerable and marginalized in LICs, including women and girls, who will be hardest hit.

Economically, the COVID-19 crisis is already on track to have an even greater impact than the Global Financial Crisis (GFC) of 2008. There are three channels of transmission that could trigger a crisis in a low income country. First, the public health channel, where an outbreak of the epidemic and ensuing quarantine measures could bring economic activity to a halt over several months, and perhaps even longer. Second, a financial channel, where a sudden stop in capital flows could bring domestic credit and finance to a halt. Third, a trade channel, through which a large drop in export revenues limits the capacity of a country to access necessary foreign currency to provide critical imports.

The financing needed to prevent both a health and an economic catastrophe will be immense. The United Nations Conference on Trade and Development (UNCTAD) has calculated that there will be a $2 to $3 trillion dollar financing gap for developing countries in the next two years. Research by the European Network on Debt and Development (EURODAD) estimates that the impact of the crisis will force the 45 most vulnerable countries to request US$93.8 billion in emergency financing.

Our organisations are concerned that aid without subsequent debt relief will be counter-productive. Debt payments will increase at the same time that countries need to expand healthcare and social protection in response to the crisis. LICs had already been facing heightened debt vulnerabilities and rising debt costs before the COVID-19 outbreak. The scale of the public health crisis and need for rapid policy responses means vital government resources must be urgently directed towards the needs of populations and not diverted to lenders.

Research by EURODAD estimates that the 69 most at risk countries are likely to require a minimum of US$ 93.8 billion to meet minimum foreign exchange reserve thresholds and fiscal buffers to face the ongoing crisis until the end of 2020. Without a cancellation of external debt for the next nine months, at least US$ 21.8 billion of this sum would be diverted away from much needed measures to response to COVID-19 in order to pay creditors. For countries receiving financing under any of the credit facilities made available by multilateral institutions such as IMF and the World Bank, public debt as a share of GDP would increase on average by 14.2 percentage points. The same report calculates that with debt cancellation in 2020 for those countries in debt distress, the amount needed for emergency aid for those 69 countries falls to US$ 73.1 billion.[1]

African Finance Ministers have called for a suspension of all interest payments in 2020, and all principal and interest payments by fragile states. The United Nations Secretary General has called for debt restructuring, including waivers on interest payments in 2020. The Ethiopian Prime Minister Abiy Ahmed and the Prime Minister of Pakistan Imran Khan are among those leaders who have called for a debt write off for their countries and other vulnerable nations. UNCTAD have called for a debt Jubilee for distressed economies.

For all of the reasons above, a truly multilateral response is needed that includes multilateral, bilateral and private creditors. The IMF and the World Bank, in a joint statement two weeks ago, have already called on creditor governments to agree to requests for forbearance from the world's 76 poorest countries (known as IDA countries), given the impact of the COVID-19 crisis.

Australia's Role and Implications for the Pacific

We urge the government to heed this call now, while there is still an opportunity to shape the outcome of the conversations that are taking place now in preparation for the World Bank-IMF Spring Meetings.

As a member of the G20 and of the Paris Club of creditor nations, Australia occupies an important place of influence in discussions about international financial matters. Australia also exerts significant influence via its role as a middle power and its participation in important IMF and World Bank processes.

[1] This was calculated by adding the 59 countries are eligible for IFI concessional financing to 13 high-income small states and four countries that have graduated from concessionality eligibility since 2010. This came to 69 countries where data was available.

Australia also has a responsibility to support Pacific nations through this crisis, a role it has already acknowledged in preparing emergency financial and medical aid to Pacific nations likely to be impacted by the crisis. Papua New Guinea (PNG) is currently negotiating with Australia, the IMF and the World Bank for a $US2 billion bailout in response to the coronavirus epidemic. Moreover, it is in Australia's national interest to ensure that our Pacific neighbours enjoy peace and stability.

Research suggests that of the 30 LICs currently at high or moderate risk of debt distress, eight are Pacific Island Nations (Kiribati, Marshall Islands, Micronesia, Tonga, Tuvalu, PNG, Solomon Islands and Vanuatu). The research also shows that if emergency financing were given as loans (not grants) and without debt suspension, public debt would skyrocket in three of these countries (Kiribati by 38%, Tonga by 30% and the Solomon Islands by 20%). A worsening debt situation in any of the above countries would exacerbate the aforementioned impacts of the COVID-19 crisis on health spending.

What We Are Calling For

We, the under-signed organisations, aware of the severe impacts on hundreds of millions of people from the health, social and economic crises faced by countries in the Global South as a result of COVID-19, call for the Australian Government to use its influence at the IMF, the World Bank, the Paris Club and to G20 to support the following:

1. **Cancellation of all external debt payments due to be made in 2020:**

All principal, interest and charges on sovereign external debt due in 2020 should be cancelled permanently to all countries in need: most urgently for IDA and PRGT countries. (IDA refers the World Bank's list of countries eligible for International Development Assistance and PRGT refers to IMF countries receiving concessional support through its Poverty Reduction and Growth Trust.)

Cancelling debt payments is the fastest way to keep money in countries and free up resources to tackle the urgent health, social and economic crises resulting from the COVID-19 global pandemic. This cancellation should extend to all multilateral and bilateral debt repayments, as well as including debt repayments to private lenders.

2. **Provision of emergency additional finance which does not create debt:**

The emergency finance provided to assist with the health and economic crisis in vulnerable countries must be given as grants, not loans. Furthermore, this emergency financing must be provided without requiring extensive policy conditionalities that in the past have been used to promote market-friendly policy reforms such as privatisation, deregulation and trade liberalisation. Following EURODAD, we estimate that

We also call for the Australian Government to agree that any bilateral Australian aid supplied to Pacific nations in response to the current COVID-19 health crisis or the subsequent economic crisis is done via grants and not loans.

3. **The Establishment of a UN-led Permanent Mechanism to Resolve Future Debt Crises:**

The large number of countries that will likely face a debt default calls for a renewed push towards the establishment of a comprehensive, fair and transparent international framework to deal with debt restructuring under the auspices of the UN. Such a framework could speed up the process of global economic recovery by reducing the losses imposed on debtors by the lack of an effective system for sovereign debt resolution. It would also ensure the interests of both debtors and creditors are factored into a just resolution.