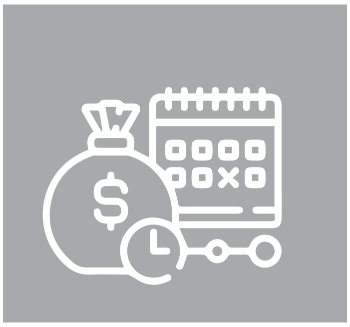


DEBT JUSTICE INITIATIVES IN THE INTERNATIONAL CONTEXT

Heidi Chow, Director, Debt Justice

You lead an organisation that has emerged as a leading voice for those low and mid-income economies that are caught up in an economic storm. Can you share with us a brief account of the vision and purpose of Debt Justice?

Originally known as the Jubilee Debt Campaign, Debt Justice emerged from the global movement for debt cancellation in the 1990s that won US$130bn of debt cancellation for countries in the global south. Although this debt cancellation had a significant impact for global south economies through releasing resources for essential public services, the incentives in the global economy that create debt crises remained the same.

That is why 54 countries are once again in a debt crisis. We continue to challenge the rules of the global economy that keep countries locked in debt and campaign for debt cancellation alongside systemic change to the global debt system. We do this by working alongside campaigners in affected countries to amplify their demands and platform their voices. Our vision is of a world that is fair, democratic and sustainable, where everyone has their basic needs met, their human rights respected, and the opportunity to flourish and live a dignified life. We believe no-one should be exploited, oppressed or driven into poverty by debt.

To what extent is the current crisis an 'act of god' and to what extent has it been engineered by those who stand to benefit from the chaos?

The current debt crisis has its origins in colonialism and neo-colonialism. Global south countries have been set up to fail because the rules of the global economy have been written by wealthy countries and corporations to benefit their interests. This has prevented global south countries from building diversified and resilient economies and instead have been forced into debt to meet people's needs. Debt has been used by rich governments and their allies in corporations and multilateral institutions as a tool to maintain and perpetuate this system. This means that countries are predisposed to harmful levels of debt and all it takes is an external shock to plunge countries into a debt crisis.

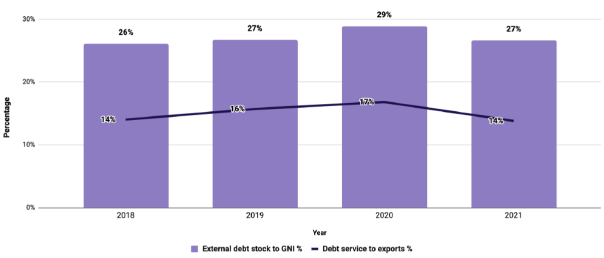
The cascading crises of the climate emergency, the pandemic and food and fuel price hikes have all acted as catalysts to trigger widespread debt crises. Meanwhile, wealthy lenders in the global north are set to make big profits if repaid in full. They engaged in irresponsible lending, understood the risks and have been remunerated for their risk. They should now be compelled to take responsibility rather than push for full repayment which could lead to economic collapse for countries in a debt crisis.

According to you, how many countries are already in default and how many are on the brink of default?

There are currently 54 countries in debt crisis where debt repayments are so high that they undermine the ability of a government to deliver basic, essential public services and to fight the climate crisis. There are nine countries in default or negotiating debt restructuring and these countries should receive political and financial support to stay in default until all creditors engage to cancel enough debt to make it sustainable.

For countries in a debt crisis, the main problem is the unsustainability of debt levels which is having a material and significant impact on ordinary people. The 54 countries in crisis are currently spending more than 15% of government revenue on debt repayments which is diverting resources away from meeting human needs such as delivering healthcare, education and other essential services to paying wealthy creditors.

External debt stock to GNI and debt service to exports
in low and middle income countries

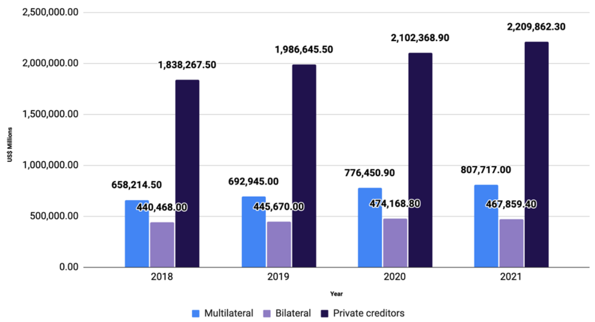


Source: Compiled by Research Intelligence Unit (RIUNIT) with data from World Bank International Debt Statistics

Taxpayer money is frequently used to bail out commercial banks in the developed world. Are there any mechanisms in place to mitigate the impacts on people in heavily indebted poor countries?

In response to the pandemic, the G20 set up the Common Framework as a way for countries to apply for debt relief. However only four countries have applied so far and none have had any debts cancelled. The scheme is failing because there is no way to compel private creditors to take part. Almost half of all global south debt payments are owed to private creditors and with no enforcement mechanism to ensure their participation, government lenders are unwilling to restructure debts that would only ensure that private lenders are paid back. This is undermining the Common Framework process, leaving the initiative powerless to take any concrete action to facilitate much-needed restructurings.

Public and publicly guaranteed long term external debt stock by creditor type in low & middle income countries

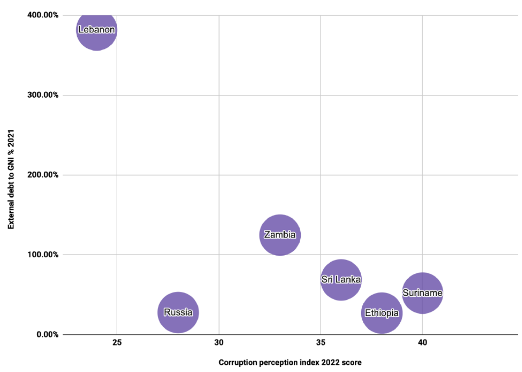


Source: Compiled by Research Intelligence Unit (RIUNIT) with data from World Bank International Debt Statistics

We have noticed that many of the countries facing a debt crisis or already caught up in one, score poorly in the corruption index. Is this something you can comment on? Are there any other significant common characteristics present in these countries?

Irresponsible lending to corrupt government elites is part of the problem – and its ordinary people in the global south that face the impacts of this. More democratic oversight is required to ensure that governments and elites are held to account domestically, meanwhile fighting for more loan transparency will help campaigners to hold their governments to account. We also need to campaign to change the incentives in the debt system to ensure that lenders are not rewarded by huge profits for their irresponsible lending. This can be done by campaigning for debt cancellation, as this ensures that lenders take responsibility for reckless lending. Otherwise, it is ordinary people that live with the long-term economic fallout of the debt crisis.

Corruption index score of countries who are already in default and are on the brink of default



Source: Compiled by Research Intelligence Unit (RIUNIT) with data from World Bank International Debt Statistics

We have also noticed that International Sovereign Bonds (ISB's) have witnessed a growth in popularity amongst emerging markets such as Sri Lanka. Are ISBs a solution or part of the problem?

International sovereign bonds are part of the problem, as they are filling a gap created by the lack of grant-based climate finance, aid and reparations. Often bonds are issued at a much higher interest rate than global north countries borrow at. Climate vulnerable countries are also subject to higher interest rates as lenders claim they need to take account of the risk of lending. In other words, lenders are aware they are engaging in risky lending and getting paid for that risk. Higher interest rates also means that countries are incredibly exposed to external shocks such as the pandemic and the Ukraine war which can plunge countries into economic turmoil. When countries most need finance, they can find that interest rates become so high that they cannot afford new bond issuances, including to refinance existing bonds.

Countries like Sri Lanka are being forced to issue high interest bonds as they lose access to traditional aid and concessional lending due to becoming categorised as middle-income countries. This does not take into account crucial factors like exposure to the climate crisis, which can generate huge costs, and debt.

The growth in international sovereign bonds also means that private creditors are now owed a larger share of global south countries' external sovereign debt. And as countries are plunged into debt crisis, bondholders are refusing to engage in meaningful debt relief – essentially refusing to take a financial hit when the risk materialises, despite reflecting the risk already in higher interest rates. Private creditors are having their cake and eating it. They can do this because there is no global mechanism to compel their participation. We are campaigning for new legislation that could ensure their engagement in debt restructuring.

Power and sway of member countries at the International Monetary Fund (IMF) is allocated according to the financial contribution they make to the IMF. Would it be fair to say that the IMF is not a democratic institution ?

Yes, this is correct. The IMF is not a democratic institution, rich countries have a majority of the votes in the institution, despite having a minority of the world's population. The IMF's long track record of policy conditionality and structural adjustment policies have left lasting damage to global south countries and hampered economic development. This underscores the importance of ensuring that any initiative to address debt crises should be done through democratic institutions such as the United Nation (UN)where global south countries are represented equally, rather than through International Financial Institutions and the G20 that are dominated by wealthy creditor countries.

What change would you / Debt Justice like to see in terms of how countries in debt traps are treated at the bilateral level ?

Almost all global south debt is governed either by English or New York law, this means that legislation could be introduced in both jurisdictions that could compel private creditors to participate in debt restructuring. This would help to unlock progress with debt restructurings as well as ensure that private creditors are made to take responsibility for reckless lending rather than be rewarded for it.

At the global level, we need an independent debt workout mechanism to resolve debt crises fairly and quickly. This would address the current power imbalance and systemic bias towards the interests of creditors as well as help to transform the debt system to prevent future reckless lending and unsustainable debt accumulation.

Debt Justice, London, United Kingdom.