

2020

GLOBAL SOVEREIGN DEBT MONITOR

GLOBAL SOVEREIGN DEBT MONITOR 2020

At a glance

The global debt crisis is gripping more and more countries in the Global South. It is threatening the livelihoods of millions of people. At the same time, many over-indebted countries are suffering massively from the impacts of climate change. Bone crushing debt servicing is hampering urgently needed adaptation measures.

Indebtedness worldwide: 124 out of 154 developing countries and emerging economies examined are critically indebted. The situation is especially critical in Bhutan, Mongolia, Sri Lanka, Djibouti, Cape Verde, Mozambique, Sudan, Argentina, El Salvador, Jamaica, Lebanon and Kirgizstan. In absolute terms, the external debt of all countries reviewed amounts to 7.81 trillion dollars.

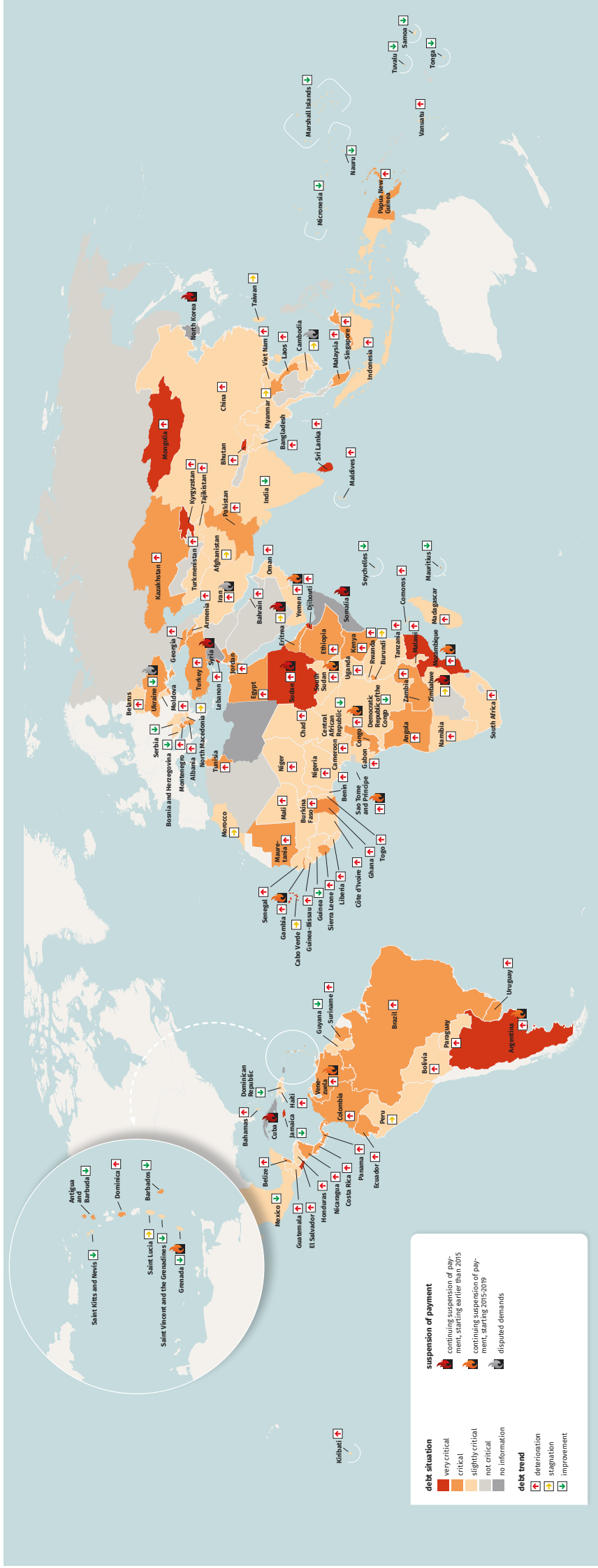
- **Countries in default:** 19 governments have currently had to suspend, either in full or partly, payments to their foreign creditors.
- **Risk factors raising the threat of indebtedness:** The difference between the low interest rates in the North and the high profits in the South continues to fuel capital export. A high demand for infrastructure in the South, dependence on a small number of commodities for export and weak governance in some countries of the South are amplifying the tendency towards unsustainable indebtedness.
- **Climate change is aggravating the debt crisis:** Climate change and the disasters it triggers are becoming increasingly severe and often present a special threat to highly indebted countries. Small island nations in the Pacific and the Caribbean as well as the countries in the Sahel Zone are particularly hard hit. An agreement on compensation provided for victims of climate change by its perpetrators has still not been reached.
- **Debt relief mechanisms are lacking:** No internationally coordinated mechanism on coping with recent debt crises is in place. This leads to a prolongation of debt crises. People in the countries affected are bearing the costs.
- **China and other “non-traditional creditors”:** In order to be able to cope with a debt crisis, the creditors have to negotiate with one another and with the debtor. In the current debt crisis, increasing private loan making and the status of China, which has become the most important creditor for many debtor countries, are complicating coordination.

Recommendations to the German Federal Government:

- The German Federal Government ought to advocate for ensuring that natural disasters do not lead to debt crises in poor countries. Both in the climate negotiations and in the United Nations (UN) Financing for Development process and the International Monetary Fund (IMF), it ought to urge the creation of a debt relief option to the benefit of countries particularly hard hit by climate change. Such an option ought to consist of a moratorium on debts and a debt restructuring covering all claims.
- In order to make the system of international loan making and the debt restructuring that it entails more accountable for creditors and debtors, such case-by-case decisions ought to be replaced by an efficient sovereign insolvency procedure under the rule of law for highly indebted and insolvent countries.
- To achieve this, the German Federal Government ought to provide active political support for regional initiatives such as those suggested by the group of low income countries and the Community of Caribbean States in the United Nations.

Global Debt Situation

Map showing the debt situation of critically indebted countries in the Global South, the trend and the suspension of payment



You can also find the map online:

https://erlassjahr.de/wordpress/wp-content/uploads/2020/04/Karte_SR20_engl_online-scaled.jpg

IMPRINT

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CONTENTS

The global debt crisis in times of climate change	6
Preface – Pirmin Spiegel and Eva-Maria Hartmann	
Indebted countries worldwide	8
Jürgen Kaiser	
Between weltschmerz and sleepwalking	18
Kristina Rehbein	
When climate change turns into a debt trap	23
Jürgen Kaiser	

PREFACE

The global debt crisis in times of climate change



Pirmin Spiegel has been Director General and Chairman of MISEREOR since 2012. He studied theology and philosophy and was ordained Priest in 1986.



Eva-Maria Hartmann has been active both in a full and in an honorary capacity in the field of education for sustainable development and Global Learning for many years. Since 2015, the retired biology and chemistry teacher has been a member of the erlassjahr.de Board.

Sri Lanka, Djibouti, Cape Verde or Mozambique – more and more countries in the Global South are becoming highly indebted. This has worrying consequences for the poor population in particular. The rising over-indebtedness of states contributes to poverty and inequality. There is not enough money for sufficient preventive healthcare or an education system that is accessible to all. Now an additional danger is emerging. Climate change and its dangerous consequences are posing a further threat to the poorest of the poor. MISEREOR partners from Sri Lanka and Pakistan, for example, report rainy seasons starting earlier and increasingly intensive and deadly landslides as well as failed harvests due to droughts. It is particularly people living on farming who are hit by the effects of progressing climate change. But the inhabitants of poor districts in cities are especially vulnerable too, for hardship often forces them to settle in particularly hazardous areas – for example on steep slopes or in the floodplains of rivers (see *climate briefings*, pp. 29-31).

erlassjahr.de and MISEREOR have chosen this “double vulnerability” as the topic of the Global Sovereign Debt Monitor 2020. For in many countries of the Global South, social, political and ecological crises go hand in hand with the insolvency of governments. The *Schuldenreport 2020* demonstrates how the debt spiral is turning more and more quickly in more and more countries of the Global South – despite all the warnings of the International Monetary Fund (IMF) (see *“Indebted countries worldwide”*, p. 8). If these countries are additionally hit by disasters, a vicious circle starts to develop, with the states becoming more and more indebted and/or saving at the expense of the poorest. This in turn makes the latter more and more vulnerable to the impacts of climate change. As already mentioned, this is a vicious circle, especially since the creditors are often countries in the Global North that significantly contribute to climate change, whereas the poor suffering from its impacts are least to blame for it.

It is precisely this vicious circle that Pope Francis’ Encyclical “*Laudato si*” draws attention to. He speaks of the North’s ecological debts to the South, and one of the ways he would like to see these debts paid is to have Southern debts cancelled. Just how urgently swift and internationally coordinated action is called for has not yet reached the ears of politicians. Rethinking is only very gradually becoming apparent. And yet it is high time to provide those heavily indebted states that are affected by anthropogenic climate change with a opportunity to overcome their

**The crisis continues,
even more countries
have slipped into it.**

bone crushing debt burden. In “When climate change turns into a debt trap” (p. 25), Jürgen Kaiser shows how highly indebted countries threatened by the consequences of climate change would benefit from the creation of a debt cancellation option and thus reclaim fiscal policy scope to cope with crises.

An analysis of the worldwide debt situation shows that the crisis is continuing, and that even more countries have slipped into it. The *Schuldenreport 2020* demonstrates that 124 countries are now critically indebted, two more than last year. Sub-Saharan Africa and Latin America show the most critical trends (see “*Indebted countries worldwide*”, p. 8). And whereas only small states were unable to pay up in the past years, Argentina is now the first economic heavyweight that has at least partly run into default.

As Kristina Rehbein demonstrates in her article “Between weltenschmerz and sleepwalking” (p. 20), the discussion on the global debts crisis bears a number of parallels to the way that climate change is treated: Bold and legally binding steps on the part of the international community are called for to cope with these global challenges and shift the burden from the economically weak to the better performing states. After all, it is primarily the governments and businesses in the countries of the North whose prosperity depends on credit deals in the Global South and which benefit from growth thanks to hardly restricted CO₂ emissions. Instead of accounting for this, those politically responsible, including the German Government and the IMF, are focusing on small, isolated measures. These may individually point in the right direction, but they only make modest contributions to mitigating the global debt crisis. Such an approach is strongly reminiscent of the policy of small and ever insufficient steps of the Climate Cabinet.

With the Sustainable Development Goals (SDG) and the Paris Climate Agreement, humanity has set itself ambitious goals for a future in which all people can live in dignity and within the planetary boundaries. Given the debt crisis, the question is arising for more and more countries, and especially for those in the Global South, whether they will ever be able to achieve these goals.

Wishing you an interesting read,
Eva-Maria Hartmann and Pirmin Spiegel

Indebted countries worldwide

Currently, 124 developing countries and emerging economies in Asia, Africa, eastern Europe and Latin America are in critical debt.

Jürgen Kaiser

Debts of developing countries and emerging economies to banks, investors, governments and multilateral financial institutions continue to be on the rise – both in absolute terms and in relation to economic performance. Currently, 124 developing countries and emerging economies are showing a critical debt situation. Capital export from the low-interest countries of the Global North continues to be the most important driver of indebtedness in the South.

For many years, *erlassjahr.de* and MISEREOR have warned in the annual *Schuldenreports* of the danger of persistently rising debt indicators among several countries inevitably leading to a new debt crisis resembling that following the 1982 Mexican Shock or the 1998 Asian Crisis. What is new is that global financial institutions such as the International Monetary Fund (IMF) and the World Bank are also warning of a new debt crisis, as was recently the case at their joint Annual Meeting in October 2019.

Determined and consistent crisis management is bound to fail as long as creditors and debtors are under the illusion up to the moment that payments are suspended that what is really an obvious crisis could still be averted. One reason for this is that the rich countries have an immediate interest in debt servicing being maintained, and the other is that it is indeed difficult to unequivocally determine clear criteria for debt sustainability. All that creditors as well as debtors can do is analyse the

character and possible scope of an emerging debt problem as accurately as possible.

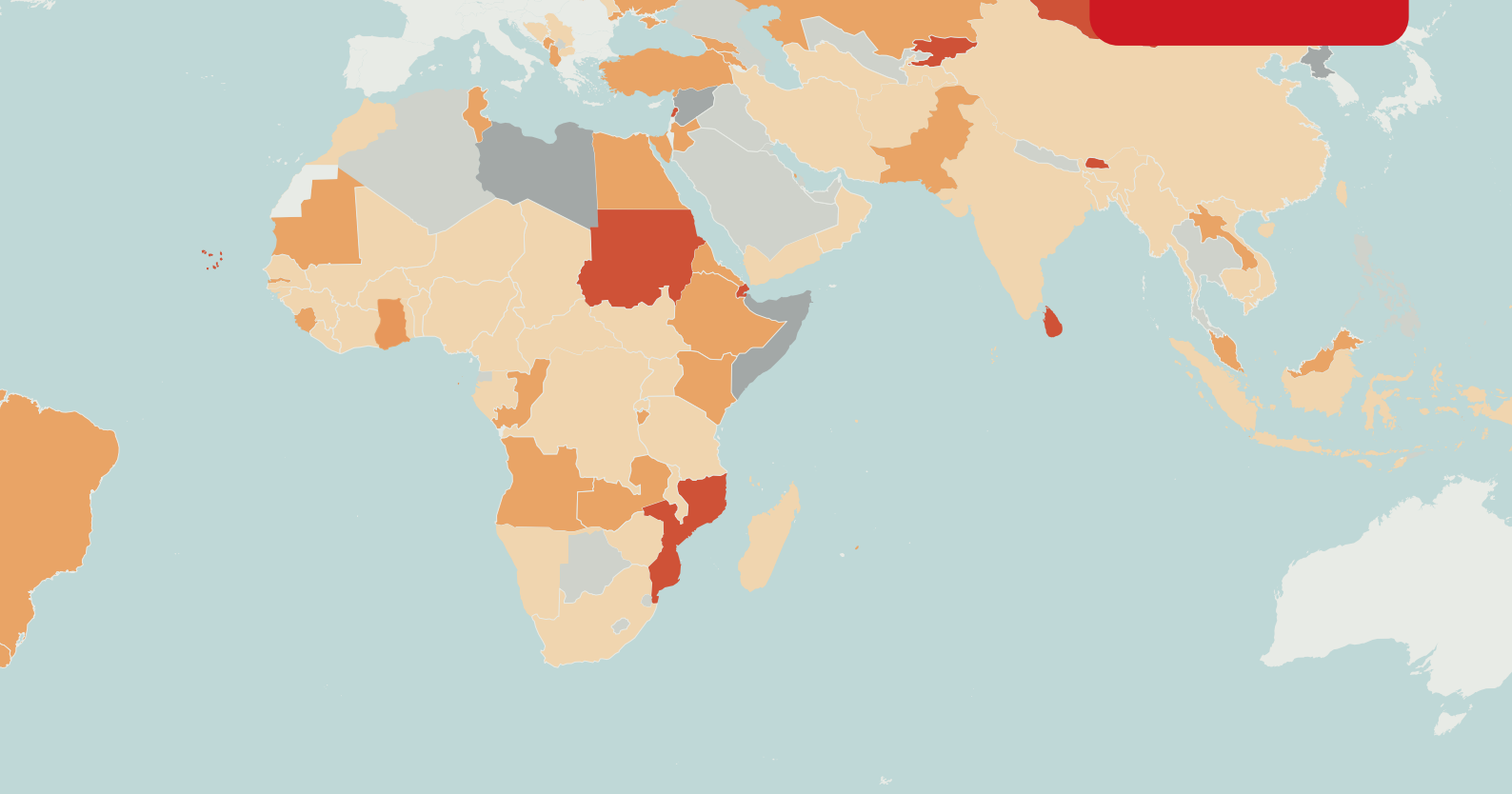
This is why the *Schuldenreport*, just like the international institutions, uses a combination of several indicators that either describe sovereign domestic and external debt or the total external debt of a country's public and private sectors (see Fig. 1).

Global debt levels and debt structure

In late 2018 the external debts of all developing countries and emerging economies added up to 7.81 trillion US dollars. However, only long-term debts with a maturity of one year or more are relevant for the discussion on acute indebtedness and possible debt relief. These long-term debts amounted to 5.505 trillion US dollars, out of which 2.935 trillion US dollars are owed by public institutions of the debtor countries or by private debtors with a government guarantee. 2,570 trillion US dollars are owed by private debtors without any public guarantees.

On the creditor side, government debt and government guarantees of the developing countries and emerging economies amounting to 1.103 trillion dollars are owed to public creditors, 667 billion of which is accounted for by multilateral financial institutions such as the World Bank and the IMF,

The external debts of all developing countries and emerging economies amount to 7.81 trillion US dollars.



as well as regional development banks. The remaining 437 billion US dollars is owed to bilateral public creditors, i.e. to other governments in the context of development cooperation or as a result of government-guaranteed trade.¹ Out of the public debts to foreign private creditors, totalling 1.832 trillion US dollars, 1.393 billion US dollars are owed to bondholders and 439 billion US dollars to classic bank due to normal loan making.

Private debtors exclusively receive loans of any substantial volume from private creditors. Here, the 2,570 trillion US dollars referred to are divided between bank loans (2.086 trillion US dollars), and only to a small extent (484 billion US dollars) to bonds that these private companies and banks have placed on the international equity market.

From late 2014 to late 2018, without any exception, external debts of all developing countries and emerging economies rose in all components referred to above. However, the external debts of public institutions grew faster than those of the private debtors (see Fig. 2, p. 10). There are differences within the individual groups of creditors, too. Claims of the traditional western creditors have receded. They grew on the part of non-traditional creditors, especially China, as well as those of private creditors.

Public debt of developing countries and emerging economies at home and abroad grew around 50 per

External debts of public institutions have grown faster than those of private debtors.

Fig. 1: Debt composition

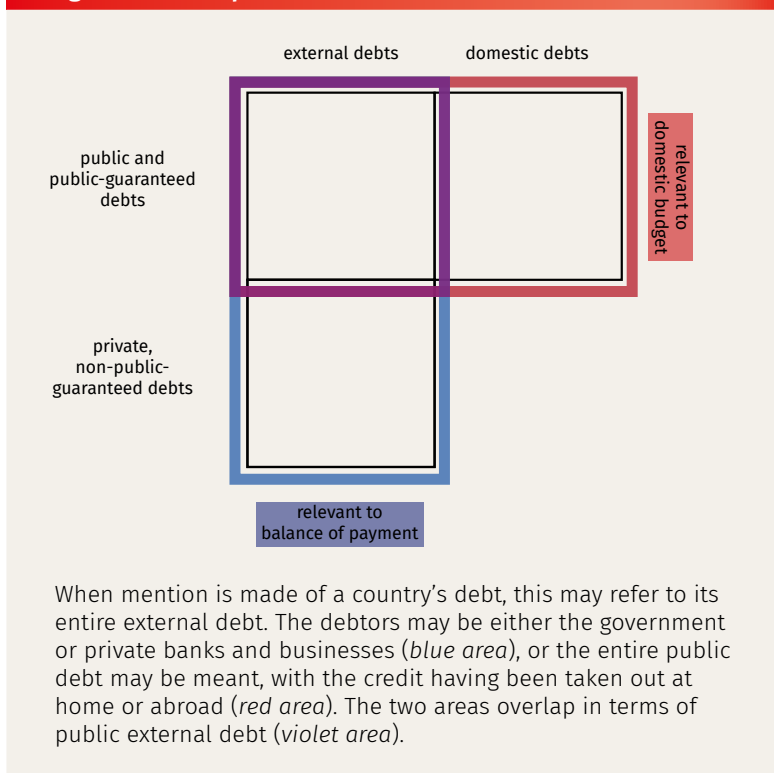
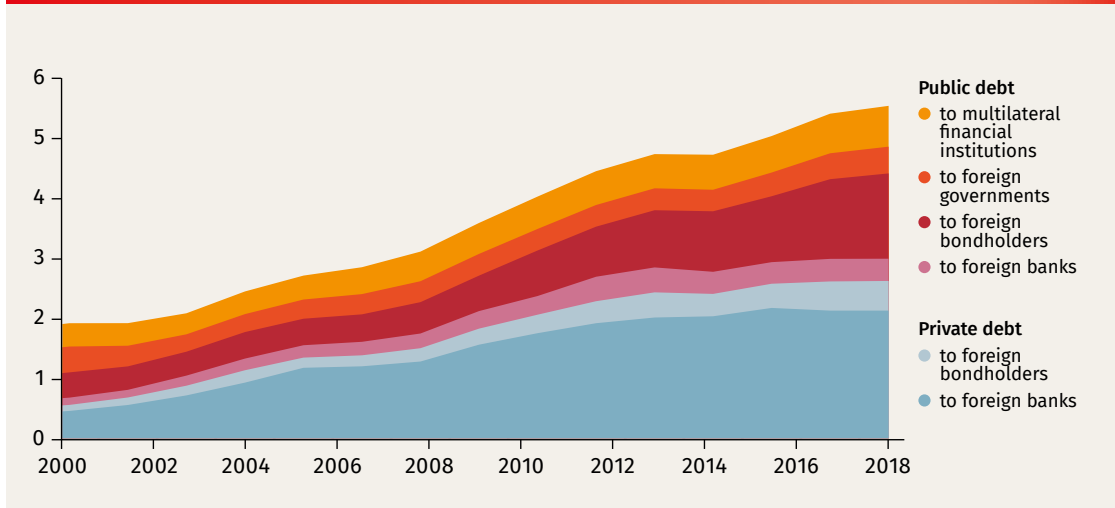


Fig. 2: Breakdown of public and private external debt according to groups of creditors (2000-2018) in trillions of US dollars



cent faster than overall external debt. This reflects the strong trend towards domestic borrowing in local currencies that numerous governments have resorted to in order to eliminate currency risks. In some cases, in doing so, they have applied compulsory means, such as requiring national banks to maintain part of their reserves in the form of government bonds, or forcing the central bank to buy up such bonds. Owing to this, some countries show a public debt growing at a disproportionately high rate in comparison to overall external debt.²

Affected regions

Out of the 154 developing countries and emerging economies examined, 124 exceed at least the lowest threshold value of one or more of the five debt indicators or were rated by the IMF as countries with an at least moderate risk of over-indebtedness. On average, the 124 countries exceed 4.5 of the total 15 thresholds for all five indicators, which puts the average between the categories “slightly critical” and “critical” (see Box: Methodology on the article “Indebted Countries Worldwide”, p. 16). Moreover, the trend is negative. The number of worsening values exceeds that of improvements by 1.9 on average. Both with regard to the debt situation and to the trend towards an aggravation of the situation, the five world regions differ significantly from one another (see Figs. 3 and 4).

In a detailed overview of the five regions,

- **Europe/CIS** tends to correspond most to the worldwide average, both in terms of the debt situation and the trend;
- **Asia/Pacific** shows both below-average debt levels and a somewhat less problematic trend compared to the worldwide average;
- the debt level in **Latin America/the Caribbean** is slightly above the average and the trend slightly below it;
- there are no positive trends at all in the numerically very small **North Africa/Middle East** group, whereas the debt level is still slightly below average;
- **sub-Saharan Africa** has the largest number of indebted countries and demonstrates a disproportionately problematic trend.

Of course the situation as described above is not uniform throughout all the respective regions. Rather, there are tangible differences between the individual countries within each region, as demonstrated in Table 1 (pp. 32-34).

Traditional countries in crisis

In late 2019, 19 countries worldwide were in default (see Table 2, p. 12). With suspensions of payments lasting for at least five years, they belong to the “usual suspects” of the global debt crisis. Three of

these countries, Somalia, Eritrea and Sudan, are still earmarked for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative³. In the near future, they may be able to enjoy far-reaching

Somalia has good prospects for debt relief in the near future.

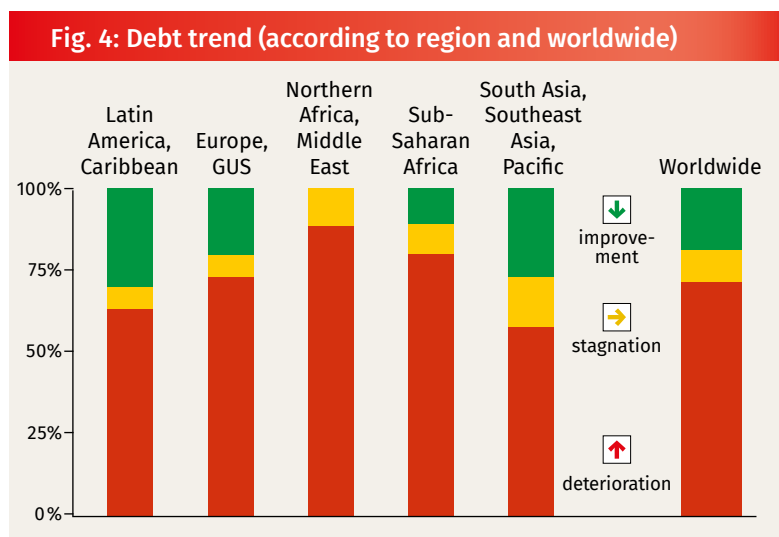
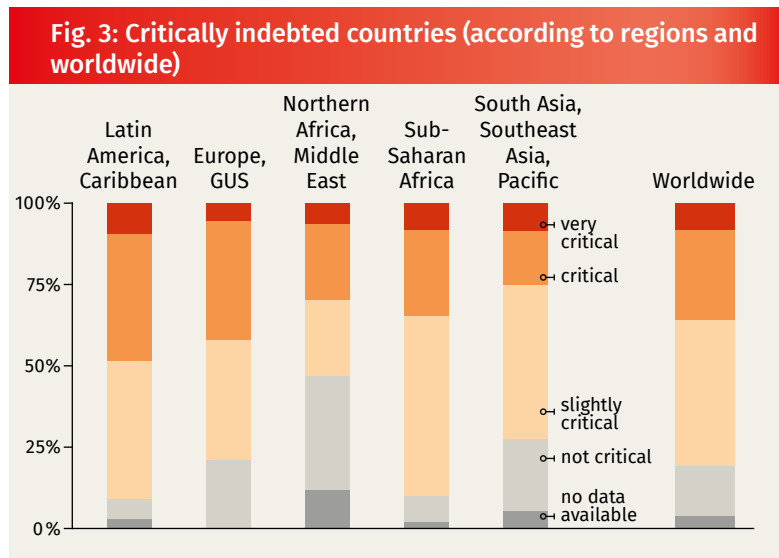
debt relief, provided that the respective political conditions have been met. Somalia has made the most progress in this respect. Following years of civil war, this country is now able to demonstrate that statehood is working by and large. And in talks with the multilateral financial institutions, progress has been made to a level that the next IMF programme in the coming year could fulfil the first condition for comprehensive debt cancellation under the HIPC Initiative.⁴

By contrast, in Sudan, this process is still in its infancy. French President Emmanuel Macron’s proposal to convene a debt conference for Sudan as soon as the USA has removed the country from the list of supporters of terrorism, following the transition from President Al-Bashir’s dictatorship to a democratic state, has been one of a number of signs that there is also a strong interest among creditors to clear old debts.⁵ In Eritrea, the peace resolution with Ethiopia has given rise to hope of progress in the debt issue. However, détente in foreign policy has not resulted in the country’s democratisation so far.

Long-term indebted Zimbabwe did not qualify for the HIPC Initiative because it was not regarded as a low-income country in the mid-nineties. As its debt crisis intensified, its creditors again and again signalled hopes of its being eligible for a comprehensive, HIPC-like debt reduction as soon as its domestic policy situation allowed this. Exploratory talks held by the Zimbabwean debt network ZIMCODD with creditor governments in the summer of 2019 revealed that while Germany and other countries were demonstrating a tangible interest in relieving the country of its burden, the country’s domestic policy climate has once again worsened since President Emmerson Mnangagwa took power in 2017. Consequently, at least in the short term, debt relief is hardly realistic. Moreover, ZIMCODD itself also doubts that debt relief would really help

the population at large, and hence the chief sufferers from decades of economic mismanagement. Until such an initiative materialises, Zimbabwe will remain in a state of default and hence without any regular access to international credit.

Cambodia, Ukraine and Iraq are three countries the debts of which to the USA, Russia and Kuwait are at least partly very old but remain disputed between debtors and creditors. At the moment, these debts do not represent any immediate economic threat to the three countries, as they are not being serviced. However, they could become a problem



should either the creditors themselves go to court with their claims or sell them to aggressive institutional investors, so-called “vulture funds”, which would then claim the full volume of these debts (usually in US courts) and then attempt to enforce verdicts by seizing the foreign assets of the states affected.

A number of other countries that were still fully or at least partly in default last year have since managed to achieve agreements with their mostly private creditors. They include Chad, Angola und Barbados. But all three of these countries continue to be highly indebted, which makes them extremely vulnerable to external shocks, such as a price slump among export goods.

New crisis countries

Finally, there is a group of nine states that ran into insolvency during the last five years. The most notable new member on this list of “new crisis countries” is Argentina. With neoliberal Mauricio Macri taking office as President in 2015, hopes rose that capital would be flowing into the country again on a grand scale. But these hopes were dashed, for while the capital flows did indeed materialise, at the same time, the slashing of capital controls resulted in renewed capital flight, the level of which exceeded that of inflowing capital. Therefore, President Macri had to suspend payments to a number of domestic creditors in the summer of 2019 and requested a standby credit from the IMF. The latter then granted Argentina the biggest credit in its history, amounting to 57 billion US dollars. When Peronist Alberto Fernández won the elections in October 2019, despite the IMF’s and the White House’s support to former President Macri, immediately after election day, the private creditors formed a creditors’ committee in preparation for the debt restructuring negotiations they were now reckoning with. In addition to the demands of the private bondholders, the new government could also question the still outstanding claims of the industrialised countries amounting to just below 4 million US dollars. They go back to the Paris Club agreement of 2014, which was very disadvantageous for Argentina, and to which the then government under Cristina Fernández de Kirchner had resorted in the (vain) hope of Western support

Vulture funds could plunge Cambodia, Ukraine and Iraq into debt crisis.

Tab. 2: Suspensions of payments

 continuing suspension of payment	 continuing suspension of payment	 disputed demands
starting earlier than 2015	starting 2015-2019	
<ul style="list-style-type: none"> • Cuba • Eritrea • North Korea • Somalia • Sudan • Syria • Zimbabwe 	<ul style="list-style-type: none"> • Argentina • Gambia • Grenada • Mozambique • Republic of the Congo • Sao Tome and Principe • South Sudan • Venezuela • Yemen 	<ul style="list-style-type: none"> • Cambodia • Iraq • Ukraine

in the then conflict with the vulture funds⁶. Ultimately, also the repayment of the massive IMF credit could be questioned by the new government.

Risk factors for insolvency

Thanks to individual debt restructurings, the number of countries that are actually in default has dropped vis-à-vis last year’s analysis. Nevertheless, an overall view of the debt situation and medium-term developments suggests a clear trend towards higher risks in more and more countries. Four factors in different combinations are threatening solvency in currently critically indebted countries:



High dependency on hard currency income from commodity exports

Countries with a so-called extractivist economic model depend to a high degree on one or a small number of export products, and when prices

slump, they have to make up for the arising deficits in their trade balance or their public budgets by taking out international loans. The costs of such extended debt servicing have to be covered by growth effects in other parts of the economy or by saving on “soft” public spending such as education and health. Examples of such extractivistic economies among the highly indebted countries include Mongolia, Venezuela, Zambia and the Republic of Congo as well as Mozambique, which is in a special situation and has as yet not drawn any income from the expected gas exports.



Political and social fragility

Some of the most heavily indebted countries are right in the middle of civil wars and are not performing any debt servicing. Once they are at peace with one another, whenever that may be, in all probability, they will require debt relief. Such countries include Syria and Yemen. Furthermore, below the threshold to open civil war, there are a number of countries that do enjoy intact statehood but are experiencing continuing or acute political crises that make loan taking more expensive and repayments unlikely. Examples of these countries include critically indebted Lebanon – the only country that shows all indicators in the highest possible category this year – and Bosnia and Herzegovina, paralysed by ethnic fragmentation.



A particularly problematic debt structure

A country’s risk of insolvency is significantly influenced by the structure of its sovereign debt, especially by the interest levels agreed and the accumulation of maturities over time. For example, credits granted at low interest rates and over a long period may be largely unproblematic. However, if there is no access to favourable new credits, i.e. if old credits have to be refinanced by taking out more expensive new credits, one and the same debt burden can plunge the country into a liquidity crisis. Such a situation is referred to as a debt trap. This affects e.g. countries which to a special degree have opted for credits from China that are abundantly on offer but are comparatively expensive⁷ in order to finance the development of their infrastructure. The major railway projects in Kenya are one good example of this. But an emerging economy like Argentina is also affected

Argentina

Threat of renewed default as of 2020	Greatest risk factor: de-industrialised economy, over-indebtedness to IMF
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Mozambique

Default – “hidden debt” not serviced since 2016	Greatest risk factor: dependence on launch of offshore gas extraction
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because during the last four years, having put its faith in continuing refinancing of its debts, it covered ongoing budget deficits by taking out ever larger credits.



Vulnerability towards external shocks

Countries that are exposed to more and increasingly severe natural disasters owing to their special geographic location and as a result of global climate change exemplify this threat. They include almost all of the Small Island Development States (SIDS)⁸. Tropical cyclones have an even greater impact in SIDS in comparison to their overall economic performance than in larger countries, which usually also have areas that have not been affected by a natural disaster. For example, damage caused by tropical cyclone Erika amounted to around 90 per cent of Dominica’s overall economic performance, whereas the by no means less destructive cyclone Idai caused damage totalling a “mere” approx. 15 per cent of Mozambique’s gross domestic product. Many SIDS depend on just a small number of economic activities – and mostly of the kind that tend to be

hardest hit by natural disasters, i.e. agriculture and tourism.

Of course countries may also be affected by a combination of the four risk factors described above. The country briefs in this *Schuldenreport* highlight as examples the respective most important risks of and causes for the vulnerability of individual states and describe for what reasons payments have already been suspended or could be so shortly. Detailed accounts of debt risks are contained in the country briefs on the *erlassjahr.de* website.⁹

Outlook

The major cause of the global increase in debt is the simultaneous occurrence of low interest rates in the Global North and the high demand for infrastructure financing in the Global South. The attractive interest to be gained there is the most important driver of ongoing capital exports to poor countries and thus also of the continuing debt accumulation in many countries in Asia, Africa and Latin America as well as in some European countries.

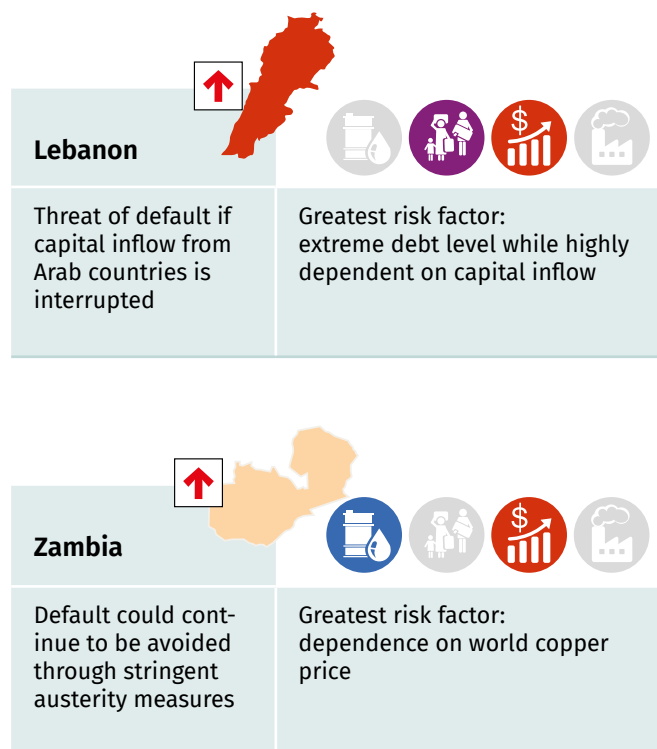
Furthermore, two other developments ought to be mentioned that have brought countries and regions into a particularly critical debt situation over the last four years:

→ The continuing dominance of the neo-liberal paradigm of liberalising equity markets as far as possible in order to make countries attractive for investors. In South America, in terms of foreign trade, Chile has successfully operated with this model for quite a long period – albeit at the expense of extreme social polarisation. It would not be surprising if Chile – which at the moment is still below the critical thresholds regarding all of its debt indicators but shows a strongly rising debt trend – would once again appear among the critically indebted countries in the next *Schuldenreport*. In contrast, neighbouring Argentina is not at the beginning but more at the end of such a debt and investment cycle (*see above*).

→ China’s ascent to becoming the most important bilateral creditor of numerous countries, accompanied by the loss in significance of the

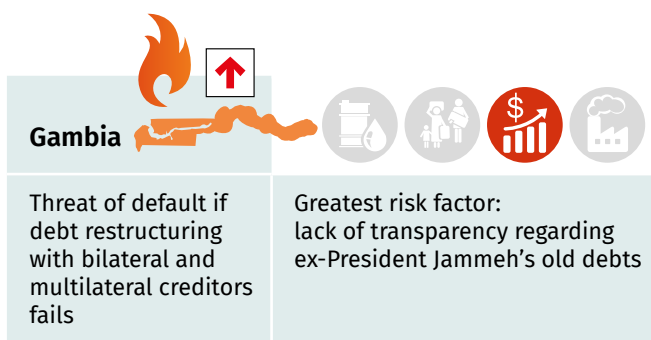
traditional bilateral and multilateral creditors. China’s lending is available almost everywhere and granted it in large amounts. At the same time it is very expensive and, as a rule, stringently tied to the purchase of Chinese goods and services. Countries in all three continents, including Kenya and Zambia in Africa and Ecuador in Latin America, have taken advantage of Chinese financing in order to be able to cover budget deficits on a grand scale and implement infrastructure projects. This has very rapidly led to critical debt situations that are going to become further aggravated in the absence of comprehensive debt restructuring opportunities.

With a view to coping with future sovereign insolvencies, both the growth of liberalised private lending and China’s prominent position as a creditor are posing considerable problems regarding the coordination of creditors. Despite the partial introduction of Collective Action Clauses, private bondholders still constitute the group of creditors most



difficult to organise, and in some countries, China is in such a prominent creditor position that it would not agree to being integrated in procedures such as those of the Paris Club if only for this reason. However, the insight among more and more political actors that the instruments through which the debt crisis of the 1990s was contained rather than resolved are not suitable for this century's challenges is a positive aspect.

Rising award of private credit and China's prominent status as a creditor are presenting considerable problems regarding coping with sovereign insolvency in the future.



- ¹ All industrialised countries promote exports among their enterprises by offering public guarantees for risky exports. If the importer in another country is unable to pay, public export insurance compensates for losses on the part of the domestic enterprise. In Germany, this is performed by Euler Hermes SA.
- ² In Table 1 (pp. 32-34), those countries tend to show a rising trend regarding the two indicators relating to public debt rather than those relating to external debt.
- ³ In Table 1 (pp. 32-34), those countries tend to show a rising trend regarding the two indicators relating to public debt rather than those relating to external debt.
- ⁴ The IMF refers to this as Upper Credit Tranche quality.
- ⁵ Reuters (2019): "France offers a conference on Sudan's debt if US lifts sanctions", 30.09.2019, www.reuters.com/article/us-france-sudan/france-offers-a-conference-on-sudans-debt-if-us-lifts-sanctions-idUSKBN1WF200.
- ⁶ Kaiser, J. (2015): "Geierfonds – was sie tun, warum es sie gibt, und was man gegen sie tun kann", in: *erlassjahr.de und Kindernothilfe: Schuldenreport 2015*, pp. 63-68.
- ⁷ Kaiser, J. and M. Stutz (2019): "China als Gläubiger von Staaten im Globalen Süden – Anti-imperialistische Solidarität oder moderne Schuldenfalle?", *erlassjahr.de-Fachinformation* 62.
- ⁸ The SIDS comprise 38 independent states and 20 territories. See: sustainabledevelopment.un.org/topics/sids/list.
- ⁹ See erlassjahr.de/informieren/.

Box 1: Methodology of the article: "Indebted States Worldwide"

The Debt Monitor analyses **three dimensions** of debt:

- the **debt situation**, i.e. the level of debt indicators as at the reporting date 31.12.2018,
- the **trend**, i.e. the change in this debt situation over a period of four years (2015-2018), and
- the intermediate and ongoing **suspension of debt service payments** by individual countries.

The debt indicators for the analysis are:

$$\frac{\text{public debt}}{\text{gross domestic product}}$$

Is the government more indebted at home and abroad than the productivity of the entire economy allows?

Public debt includes the explicit and implicit liabilities of the public sector - from central government to public enterprises. Public debt also includes the debts of private companies for which the state has issued a guarantee.

$$\frac{\text{public debt}}{\text{annual government revenue}}$$

Is the government so heavily indebted at home and abroad that its income can no longer guarantee ongoing debt servicing?

$$\frac{\text{external debt}}{\text{gross domestic product}}$$

Does the entire economy have more payment obligations vis-à-vis foreign countries than its economic performance allows?

External debt includes the liabilities of both the public and private sectors of a country vis-à-vis foreign creditors. The indicator points to the overall economic burden i.e. whether an economy produces enough goods and services to service its debt.

$$\frac{\text{external debt}}{\text{annual export earnings}}$$

Are the external debts of the state, citizens and companies so high that exports cannot generate enough foreign exchange to pay the debts?

In most cases, external debt cannot be repaid in local currency. Debt servicing requires the generation of foreign exchange through exports, migrant remittances, or new indebtedness.

$$\frac{\text{debt service}}{\text{annual export earnings}}$$

Is the current external debt servicing of the state, citizens, and companies so high that exports do not at present generate enough foreign exchange to pay interest and repayments due in the current year?

This indicator shows the ratio of annual repayment and interest payments to export earnings. It shows whether the annual debt service - irrespective of the overall debt level - overstretches the current performance of an economy in a given year.

There are three risk levels for each of the five indicators. The background of the values in different shades of orange indicates the level to which the value is to be allocated (see Table 1, pp. 32-34). A dark orange-coloured value means that all three thresholds are exceeded and the value must therefore be allocated to the third risk level.

Levels of risk of over-indebtedness (in per cent)

	No risk of debt distress	First level	Second level	Highest level
$\frac{\text{public debt}}{\text{GNI or GDP}}$	< 50	50-75	> 75-100	> 100
$\frac{\text{public debt}}{\text{annual government revenue}}$	< 200	200-300	> 300-400	> 400
$\frac{\text{external debt}}{\text{GNI or GDP}}$	< 40	40-60	> 60-80	> 80
$\frac{\text{external debt}}{\text{annual export earnings}}$	< 150	150-225	> 225-300	> 300
$\frac{\text{debt service}}{\text{annual export earnings}}$	< 15	15-22,5	> 22,5-30	> 30

Based on the debt indicators the **debt situation** of each country is divided into three categories: slightly critical, critical and very critical (see map “Global Debt Situation”, p. 3). Table 1 (p. 32-34) lists all countries for which the value of at least one debt indicator exceeds at least the lowest of the three thresholds (see “Levels of risk of over-indebtedness”, above) or for which the International Monetary Fund certifies at least a medium risk of debt distress. According to the three risk levels for each of the five debt indicators, a value between 0 and 15 results for each country. For example, if all five debt indicators of a country are in the highest level of risk of over-indebtedness, i.e. exceeding all three thresholds for all five debt indicators, it has a value of 15. The categories are defined as follows:

- 0-4 → slightly critical
- 5-9 → critical
- 10-15 → very critical

The **trend** indicates for each debt indicator whether it has changed by at least 10 per cent in the four years from 2015 to 2018 (see Table 1, pp. 32-34). In addition, an aggregated debt trend was calculated for each country (see map “Global Debt Situation”, p. 3). If more debt indicators have improved than deteriorated over a period of four years, the general trend is presented as a decline. If more indicators have deteriorated than improved, the general debt situation is said to have risen.

Permanent and interim **suspensions of payment** on the basis of Table 2 (p. 12) are also shown on the world map.

Between weltschmerz and sleepwalking

How countries worldwide are slipping
unprepared into the debt crisis

Kristina Rehbein

In October 2019, at the Annual Meeting of the International Monetary Fund (IMF) and the World Bank in Washington, the global financial institutions painted a gloomy picture. Once again, the IMF had to reduce its global economic growth projection, putting it at the lowest level since the global financial crisis.¹ The IMF maintained that risks for the global economy were on the increase, and it predicted that global debt distress risks would rise further. Also, debt service payments were already at a level that even countries with a low risk of debt distress were no longer in a position to perform investments needed to combat poverty and inequality. For example, owing to interest payments making up the second largest cost item in its 2019 budget, Uganda had to drastically cut public expenditure.² All this was contributing to the global sustainable development goals probably not being achieved worldwide by 2030.³

Experts in Washington once again highlighted the “gloomy” developments in the global economy, and one of them even referred to the situation as “weltschmerz”. And

The Sustainable Development Goals will probably not be achieved by 2030.

yet this situation was anything but new. Already in the previous year, the participants of the IMF annual meetings in Bali had reached agreement on the threats and extent of the emerging crisis. Analyses by erlassjahr.de and Misereor at the time showed that already then, those responsible had failed to agree deter-

mined and sufficient steps to cope with the debt crisis at an early stage.⁵ There is therefore growing mention by financial and economic experts, of the world “sleepwalking”⁶ into the next global financial crisis.

Despite an aggravated debt situation, there is a lack of will to take political action.

Most recently, however, at least the admission of the lack of adequate responses to a threatening new debt crisis seem to have reached the international financial institutions: in February 2020 and in co-operation with the World Bank, the IMF has published an analysis of debt vulnerabilities in Low Income Economies („LIEs”).⁷ The paper takes up a recently published analysis by the World Bank entitled „Global Waves of Debt”,⁸ as it quite realistically describes the extent, the pace and some specific characteristics of the new debt buildup. The new document, however, goes one decisive step further than previous discussions, as it states that presently existing debt workout procedures do not provide an adequate answer to the crises that are coming our way.

Any such statement has not been found in a joint paper by the institutions since the World Bank and IMF had to admit that a few maturity extensions and partial debt reductions under Paris Club terms would not be sufficient to contain and overcome the last big debt crisis of the Global South in the mid-1990s, thus laying the ground for the subsequent Heavily Indebted Poor Countries (HIPC) Initiative.

Unlike earlier assessments, the institutions no longer try to deny the fact that there are no comprehensive and efficient procedures in place to deal with the next crisis. On the contrary, part 33 of the paper on debt vulnerabilities in LIEs identifies the deficits in the existing debt resolution architecture:

- The Paris Club has not played any significant role in any debt restructuring since early 2015. It also holds only a relatively minor part of official bilateral claims on most indebted sovereigns, and thus is almost irrelevant.
- While 87 per cent of all new sovereign bond emissions by LIEs do include collective action clauses to improve (bond) creditor coordination in debt restructurings, bonded debt is still a minor asset class for most countries.
- Wherever restructurings had to be implemented across several asset classes, they were “protracted, incomplete and intransparent”.

Consequently, the paper concludes in part 40: „Debt resolution frameworks show worrying signs that they are not effective enough. (...) A review of the architecture for sovereign debt resolution is needed.“⁴⁹

If this reform momentum is not quickly blocked within the IMF, like the IMF proposal for a sovereign debt restructuring mechanism of 2001, or other attempts to discuss the limitations of the current framework such as in 2013, which fell prey to the Europeans’ fear of enhanced debt relief for Greece, this paper has the potential to become a decisive impulse to renew discussions on a rule-of-law based efficient debt workout mechanism, which the global civil society debt movement, including *erlassjahr.de*, has been calling for through the last three decades.

A multi-pronged approach where to? Faint-hearted prevention instead of comprehensive resolution proposals

In April 2019, IMF Deputy Managing Director David Lipton had already stated during a public panel debate that given a changed and more complicated creditor landscape, the IMF was preparing itself for coping with complex debt crises in order

to support debtor countries in their negotiations with their creditors.¹⁰ Only six months previously, the Washington financial institution had presented itself clueless given that no appropriate mechanisms were available for the coordination of creditors – a key problem in the current debt crisis. In August 2019, according to the IMF, almost half of all low-income countries were displaying a high risk of debt distress or were already in default¹¹ – twice as many as in 2013. However, the international financial institutions and political decision-makers have failed to come up with any answer to how the ensuing debt crises can be coped with. Concern over various creditors not taking part in multilateral debt restructuring continued to be voiced, especially with regard to China who is the most important bilateral official creditor for many developing countries by now. However, they still did not consider reforms that could help with this.¹²

G20 and IMF efforts centre on preventing over-indebtedness.

For instance, at their meeting in Fukuoka in Japan in June 2019, the G20 Ministers of Finance as well as the central IMF bodies – the Development Committee and the International Monetary and Financial Committee (IMFC)¹³ – at their meeting in Washington in October 2019, insisted on the implementation of the so-called “multi-pronged approach for addressing emerging debt vulnerabilities”¹⁴: This approach centres on preventing debt defaults, for example through better debt management in debtor countries, more efficient early-warning systems based on improved debt sustainability analyses and measures enhancing transparency in borrowing and lending.

Of course, these preventative measures do not offer any solution to crises that have already set in. Approached about this, representatives of the German government play down the extent of the crisis, maintaining that there is no systemic problem (which would require a systemic answer), but that that there is merely a need to deal with the debt problems of some low-income countries.¹⁵ The recent suspension of payments by medium-income country and G20 member Argentina is conveniently overlooked on such occasions.

Regarding creditor coordination, too, the problem is not so much that a small number of bilateral creditors do not wish to participate in multilateral debt restructurings¹⁶, as the members of the Paris Clubs maintain especially with reference to China.¹⁷ Rather, the principal difficulty is to coordinate all creditors in order to achieve a fair distribution of burdens between creditors and debtor. In this context, a renown academic suggested in April 2019 that those individual elements of a timely and efficient sovereign debt workout mechanism be adopted that respond to central problems in the current global financial architecture. This includes finding creative approaches towards a negotiating format that is inclusive for all creditors, in order to improve creditor coordination.¹⁸ So far, however, this proposal has not met with acceptance e.g. among the G20 or the international financial institutions. Regarding better creditor coordination, the IMFC communiqué continued to point to existing procedures¹⁹, which implies the extension of the Paris Club, in which the rich industrialised countries coordinate vis-à-vis indebted countries. However, in Argentina's 2001 debt crisis, it was the Paris Club which, unlike most of Argentina's private creditors, refused to make any substantial concessions and was ultimately paid off – at the expense of those creditors participating in a sustainable solution via granting debt relief.

erlassjahr.de has urged both the IMF staff who has produced the recent document from February 2020 mentioned above and the German government as an influential voice in the institution to build on the document's language and create a true reform dynamic. However, responses have been rather timid or outright negative: the German Paris Club delegation members insisted that a "review of the architecture for sovereign debt resolution"²⁰ by no means meant that a reform was imminent. And the IMF staff pointed out that the institution would not question the legitimacy and existence of an outlived institution like the Paris Club but would rather maintain the policy that the institution has upheld through the last years, namely focusing on crisis prevention, and where necessary improve instruments to exclusively resolve problems with private creditors.

The debt-servicing capacity of countries in crisis is being maintained artificially through public financing.



Extremely high petrol prices as a result of fuel subsidies being scrapped – just one of the consequences that the austerity measures called for in Ecuador by the IMF have had.

From crisis management to bread riots

Instead of at last submitting serious proposals regarding how to improve debt restructuring mechanisms, the realistic threat of sovereign defaults and the possible need for debt relief is concealed at all costs by artificially maintaining the debt servicing capability of countries in crisis through refinancing with public money.

For instance, in 2018, Argentina was granted an IMF credit with a record volume in order to avoid default. However, the cash injection to the tune of 57 billion dollars merely postponed the default by some months, up to August 2019. Independent experts maintain that Argentina's debt sustainability cannot be restored on a long-term basis without a substantial debt reduction.²¹ Even the IMF in its most recent – and quite realistic – 2020 assessment of Argentina's unsustainable debt situation, states the need for debt relief. However, the institution remains silent on any burden sharing between official and private creditors when it comes to finding a solution to Argentina's present insolvency.

Argentina is not an isolated case: Since mechanisms to effi-

Argentina is not an isolated case: Since mechanisms to effi-

ciently cope with debt crises are lacking, the external financing of debt servicing in countries that in fact require a debt restructuring continues to be common practice. This is the conclusion of a study by the Jubilee Debt Campaign²², which identified 18 countries that received rescue loans from the IMF despite their high level of debt, without these loans being conditional on an obligatory debt restructuring. However, the IMF's own rules dictate that it may only provide critically indebted countries with fresh money if a debt restructuring has been carried out previously.

In addition to Argentina, Ecuador is also among these 18 countries. Owing to its rapidly rising debt indicators, this Latin American country had to apply for IMF support in 2019. This support was made conditional on austerity measures in order to restore debt sustainability. But instead of a fair distribution of the costs between creditor and debtor or the cancellation of claims, the citizens of Ecuador are bearing the lion's share of the burden, through the cutting of subsidies, e.g. for petrol. The IMF credit conditions resulted in violent protest and had to be partly withdrawn.²³ In other countries too, the effects of extreme austerity adaptations triggered unrest, such as in Haiti²⁴ or in Egypt²⁵. They are reminiscent of the IMF riots in the 1980s, also dubbed the "bread riots". These protests were the result of the living conditions of many people having drastically deteriorated owing to structural adjustment programmes in indebted countries.

Overcoming the crisis of multilateralism

According to an analysis by the World Economic Outlook 2019, the global challenges can only be tackled by intensive multilateral cooperation, the revival of which therefore must be a priority.²⁶ Given the rising risk of a global debt crisis and a so

Countries affected are calling for multilateral cooperation.

far idle international community, states affected are now vehemently calling for greater multilateral collaborative efforts to cope with the debt crisis. For example, on behalf of the group of Least Developed Countries, Malawi, at the United Na-

tions General Assembly in New York in October 2019, insisted on the international community taking political steps towards a debt relief initiative and towards the creation of a sovereign insolvency mechanism.²⁷ The Caribbean Community and Common Market CARICOM supported the demand and called for a renewed discussion in the United Nations as a follow-up to the failed 2014 Initiative of the G77, the group of developing countries and emerging economies in the United Nations.²⁸ However, the political recommendations of the international financial institutions as well as public and private creditors remain confined to crisis prevention. Observers view the sticking to the fainthearted prevention discourse and the lack of readiness to seriously discuss a debt restructuring mechanism as symptomatic of the crisis of multilateralism.²⁹

In the discussion over a sovereign debt restructuring mechanism, European governments have in the past readily argued that the US government would veto any reform in any case. But it is precisely the USA which no longer enjoys the same level of trust when the leading role in solving multilateral problems

The lack of progress in handling debt crises reflects the crisis of multilateralism.

is concerned. Instead of filling the newly created political vacuum and promoting multilateral cooperation with bold reform steps, the European governments are also continuing to contribute to weakening multilateralism, as was the case when the European Union recently announced a boycott of topics concerning the global financial architecture in the Economic and Financial Committee at the UN General Assembly.³⁰

And yet effective reforms aiming at a just and more efficient handling of debt crises do not necessarily require a global consensus and globally implementable new rules. The article "When climate change becomes a debt trap" (p. 25) shows that new procedures specially designed for a small group of countries particularly at risk of debt distress can have an immediately positive effect on the living conditions of the people affected and simultaneously trigger discussions on global reforms.

- ¹ See IMF (2019a): “World Economic Outlook, October 2019 – Global Manufacturing Downturn, Rising Trade Barriers”, www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019.
- ² See Atienza, J. (2019): “Is Africa facing its second debt crisis? What are the solutions?”, Guest presentation at Oxfam Intermon, 16.07.2019, oxfamblogs.org/fp2p/is-africa-facing-its-second-debt-crisis-what-are-the-solutions/.
- ³ See Steiner, A. (2019): “Statement at the 100th Meeting of the Development Committee, United Nations Development Programme”, 19.10.2019, www.undp.org/content/undp/en/home/news-centre/speeches/2019/100th-meeting-of-the-development-committee.html.
- ⁴ See statement by Mark Sobel, Center for Strategic and International Studies, in a panel discussion at the spring meetings of the IMF and the World Bank on the 17.10.2019, IMF (2019b): “Sovereign Debt: A Guide for Economists and Practitioners”, meetings.imf.org/en/2019/Annual/Videos?videoid=6097042143001, ca. Minute 24:36.
- ⁵ See Rehbein, K. (2019): “Action not obstruction – On the disappointing treatment of the new debt crisis in the Global South”, *erlassjahr.de Focus Paper 1*, <https://erlassjahr.de/wordpress/wp-content/uploads/2019/10/Focus-Paper-01.pdf>.
- ⁶ See Elliott, L. (2019): “World economy is sleepwalking into a new financial crisis, warns Mervyn King”, in: *The Guardian*, 20.10.2019, www.theguardian.com/business/2019/oct/20/world-sleepwalking-to-another-financial-crisis-says-mervyn-king.
- ⁷ See IMF (2020): “The Evolution of Public Debt Vulnerabilities in Lower Income Economies”, Policy Paper No. 20/003.
- ⁸ See Kose, M. A.; P. Nagle; F. Ohnsorge and N. Sugawara (2019): “Global Waves of Debt. Causes and Consequences”, *The World Bank*.
- ⁹ IMF (2020).
- ¹⁰ See statement in a panel discussion at the spring meetings of the IMF and the World Bank on the 10.04.2019, IMF (2019c): “Tackling the Next Wave of Sovereign Debt Crises”, meetings.imf.org/en/2019/Spring/Schedule/2019/04/10/imf-seminar-cso-debt-crisis, approx. minute 6:40. For a more detailed analysis of the more complex creditor landscape, see Rehbein, K. (2019).
- ¹¹ See IMF (2019d): “List of LIC DSAs for PRGT-Eligible Countries”, <https://www.imf.org/external/Pubs/ft/dsa/DSAList.pdf>. Also see Kaiser, J. (2019): “Indebted countries worldwide” in this, pp. 8-17.
- ¹² Statements by representatives of EU institutions at the event “Seminar on EU action to address the harmful effects of ‘vulture funds’” in Brussels on the 25.10.2019 regarding the readiness of European governments to discuss the problematic situation, but without any openness towards regulatory changes; furthermore statements by IMF Representative David Lipton and debt expert Lee Buchheit in a panel discussion at the spring meetings of the IMF and the World Bank on the 10.04.2019, IMF (2019c).
- ¹³ See Japanese Ministry of Finance (2019a): “Communiqué, G20 Finance Ministers and Central bank Governors Meeting, Fukuoka. (June 8-9, 2019)”, www.mof.go.jp/english/international_policy/convention/g20/communique.htm; World Bank (2019): “World Bank/IMF Annual Meetings 2019: Development Committee Communiqué”, www.worldbank.org/en/news/press-release/2019/10/19/world-bankimf-annual-meetings-2019-development-committee-communique; IMF (2019e): “Communiqué of the Fortieth Meeting of the IMFC”, www.imf.org/en/News/Articles/2019/10/19/communique-of-the-fortieth-meeting-of-the-imfc.
- ¹⁴ See Japanese Ministry of Finance (2019b): “The joint IMF-WB multi-pronged approach for addressing emerging debt vulnerabilities”, www.mof.go.jp/english/international_policy/convention/g20/annex5_1.pdf.
- ¹⁵ A. o. statements at the event “Seminar on EU action to address the harmful effects of ‘vulture funds’” in Brussels on the 25.10.2019.
- ¹⁶ Statement by former IMF staff member Reza Baqir in a panel discussion at the spring meetings of the IMF and the World Bank on the 10.04.2019, IMF (2019c).
- ¹⁷ See a. o. Morris, S. (2019): “HIPC with Chinese Characteristics: Why Yesterday’s Debt Relief Is the Wrong Point of Reference for Today’s Crises”, *Center for Global Development*, www.cgdev.org/blog/hipc-chinese-characteristics-why-yesterdays-debt-relief-wrong-point-reference-todays-crisis.
- ¹⁸ See statements by Professor Odette Lienau in a panel discussion at the spring meetings of the IMF and the World Bank on the 10.04.2019, IMF (2019c), Minute 40:28.
- ¹⁹ See IMF (2019e).
- ²⁰ IMF (2020).
- ²¹ Reuters (2019): “Fitch says Argentina’s debt challenges go beyond liquidity”, 24.10.2019, www.reuters.com/article/argentina-economy-fitch/fitch-says-argentinas-debt-challenges-go-beyond-liquidity-idUSL3N2794EX.
- ²² Jubilee Debt Campaign (2019): “The IMF is spending \$93 billion bailing out reckless lenders”, jubileedebt.org.uk/press-release/the-imf-is-spending-93-billion-bailing-out-reckless-lenders.
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- ²⁶ See IMF (2019a), p. xvi.
- ²⁷ Statement by the Malawi Ambassador, see United Nations (2019): “Second Committee, 6th meeting – General Assembly, 74th session”, webtv.un.org/search/second-committee-6th-meeting-general-assembly-74th-session/6093806513001/?term=&lan=english&cat=2nd%20Committee&page=1, Minute 1:31.
- ²⁸ Statement by the Jamaican Ambassador, see United Nations (2019), Minute 1:39. For more information on the G77 Process of 2014, see Kaiser, J. (2014): “Hoffnung für verschuldete Staaten – Gelingt den Vereinten Nationen die Schaffung eines Staateninsolvenzverfahrens?”, *Friedrich-Ebert-Stiftung, Dialogue on Globalization*, library.fes.de/pdf-files/iez/global/11107.pdf.
- ²⁹ See statement by the moderator of a panel discussion at the IMF and World Bank Annual meetings on the 17.10.2019, IMF (2019b), Minute 01:05.
- ³⁰ See Delegation of the European Union to the United Nations (2019): “EU Statement – United Nations 2nd Committee: General Debate”, 08.10.2019, eeas.europa.eu/delegations/un-new-york/68522/eu-statement-%E2%80%93-united-nations-2nd-committee-general-debate_en.

When climate change turns into a debt trap

Debt relief to cope with loss and damage

Jürgen Kaiser

Weather extremes like droughts, cyclones or floods have been increasing significantly for years, both in terms of frequency and intensity: impacts of climate change that sometimes have devastating consequences for people. For example, several small Pacific and Caribbean nations and the Sahel countries are particularly hard hit – countries that are also highly indebted. Debt relief is a sensible step towards coping with natural disasters caused by climate change.

In anthropogenic climate change, the perpetrators and those harmed are mostly not the same person or nation. For example, in the Global North, whose countries have been responsible for the major share of historic greenhouse gas emissions, climate change only has a moderate impact on people's lives – or it may even be profitable economically, as the case of increasingly ice-free shipping routes north of the Asian continent demonstrates. In contrast, economically weaker countries, such as the Sahel states as well as small island

impacts of climate change on the tropical and subtropical countries are almost exclusively negative: from hardly bearable day temperature levels and drought in the Sahel to increasingly violent cyclones in the Caribbean. It is in particular the poor and most vulnerable in a society that suffer most from the impact of climate change. In this situation, how can debt relief contribute to a fair burden sharing between perpetrators and victims of climate change?

The North's ecological debts

It is not inappropriate to point to the ecological debts of the North, as Pope Francis did in this context, and call for them to be paid, among others, through debt relief for the South.¹ Social movements in the South have done this again and again²; with a high degree of plausibility and high moral authority – and almost without any political success.

However, in addition to the stubborn rejection of such considerations by the Western governments and societies, which regard the unfettered consumption of the common good "climate" as some sort of human right, objective difficulties in defining appropriate debt relief to compensate for the responsibility for climate change are also among the reasons for the lack of success so far. The two main strands in the international debate over appropriate climate financing centre on the two terms of mitigation and adaptation. They refer respectively to preventing, as far as possible, progressing climate change and providing further

Developing island nations in the Pacific and the Caribbean as well as the countries in the Sahel Zone are especially hard hit by the impacts of climate change.

nations in the Pacific or the Caribbean, only contribute minimally to global greenhouse gas emissions. Nevertheless, they are most strongly affected worldwide by the consequences of higher greenhouse gas concentration in the atmosphere. The



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finance to enable those affected to adapt to more difficult living conditions. In both cases, long-term financing is at issue to which debt relief theoretically could contribute. De facto, however, it is very difficult to define which debts need to be cancelled for which project in one of these two areas – and which countries should benefit from such debt relief. In any case, the price to be paid for resorting to creditor claims to cope with the climate crisis is a disruption of the normal relationships between the government and its external financiers, who are fully entitled to expect the repayment of their outstanding claims. Such an intervention into an existing business relationship may be necessary and justified in individual cases – and it has occurred again and again in history. However, a one-off

political intervention cannot secure the long-term financing that adaptation and mitigation require. Even apart from this imbalance between a one-off cancellation and a continuous need for financing, any meaningful and mutually accepted debt restructuring requires that all, or at least the large majority, of the creditors involved consider it to be a fair solution based on a mutual balance of interests in a crisis situation. After all, the relationships between the debtor and his creditors should return to normal as soon as possible.

Turning debt servicing into a means of coping with damage and losses

A different context is given if debt relief is not considered in order to cope with a long-term

stress situation but, instead, finance is needed to cope with an external shock, e.g. a drought or a flood. This is precisely what the international community is discussing in the third strand of the UN debate on climate financing which is focussed on “loss and damage” – i.e. permanent losses and temporary damages as consequences of climate change.³ The United Nations Framework Convention on Climate Change (UNFCCC) has even created a work stream in its own right for this aspect, the Warsaw International Mechanism (WIM), named after the 2014 climate conference.⁴

Its role as a platform is to enhance knowledge and understanding, strengthening dialogue, coordination, coherence and synergies among relevant stakeholders and facilitate the mobilization and securing of expertise, and enhancement of support, including finance, technology and capacity-building, to strengthen existing approaches and, where necessary, facilitate the development and implementation of additional approaches to address loss and damage associated with climate change impacts, including extreme weather events and slow onset events. It is precisely here that granting debt relief can also make a meaningful and tangible contribution.

This is how it could work: a debt relief initiative for small island nations

The Caribbean debt relief network Jubilee Caribbean has already submitted a proposal to this end in 2018 and discussed it in the context of the UN Financing for Development process⁵ with governments within and outside its region. At the core of the Jubilee Caribbean proposal is the creation of a debt relief initiative for highly indebted Caribbean island nations. After a disaster linked to climate change, it would turn existing sovereign debt, i.e. amounts earmarked for repayment and interest in the public budget, into an instrument of emergency relief and reconstruction.

Such a debt relief measure would mobilise resources that are already in the hands of the authorities and therefore do not have to be mobilised in tedious procedures among supportive donors will. This would be foreign exchange that has been budgeted for the regular debt service to foreign creditors. According to the proposal, it would instead

Under the heading “Loss and Damage”, the UN Climate Conference is discussing coping with lasting loss and temporary damage.

be used to finance disaster relief and early reconstruction measures. Thus, in a crisis, the budgeted debt servicing would perform precisely what international financial institutions like to recommend to vulnerable states, i.e. to store foreign currency for “emergencies”.

Such a debt relief initiative be implemented in two steps:

- an **interest-free moratorium** that would make the entire budgeted debt service to all creditors available for the financing of emergency relief measures⁶, and
- a **debt restructuring** that would reduce the entire amount of external debt to a sustainable volume. The latter is calculated at such a low level that, taking its ecological and economic vulnerability into account, with a high probability, the country will not once again slip into over-indebtedness in the short term.

Such a debt relief process would commence immediately after a disaster caused by climate change and would be implemented with the following steps:

1. The country affected by the disaster applies for the granting of a debt moratorium by a previously identified international institution.
2. The institution discusses the application based on the information on hand and, if appropriate, grants the moratorium within a maximum of seven days.
3. The moratorium is limited to a certain period in the range of six months. During this period, all the debtor’s financial obligations are on hold, and any legal action to enforce debt servicing is blocked.⁷

4. Within the period granted for suspension of payments, a creditor committee representing all claimants is organised which enters into negotiations with the debtor country.
5. The negotiations involve representatives of all creditors and are held under neutral chairmanship. They end – should this prove necessary – with the restructuring of all the debtor country's obligations.

Impartial institutions support debt relief

One key element of the debt relief process is a neutral and competent institution which assumes chairmanship of the negotiations and is authorised to assess the debt sustainability of the country affected. There are at least two options for this:

- bestowing an already existing institution with the authority to assess the damage caused by a natural disaster resulting from climate change and/or estimate long-term consequences regarding debt sustainability.
- an institution is newly created specially for this purpose.

At the beginning of implementing such a debt relief initiative, a binding decision ought to be taken on whether the requirements for a moratorium are fulfilled, for example by exceeding a damage threshold already defined in the framework of the WIM. If this is the case, the moratorium will be granted, and the subsequent debt restructuring process can be triggered. Its result, i.e. the volume of the debt relief granted, should it be justified, depends on the result of the independent debt sustainability analysis. Such analyses are regularly compiled by the International Monetary Fund (IMF) for its member countries. Since, in this case, the analysis immediately results in creditor claims, possibly also including those of the IMF itself, being reduced, an impartial institution has to be entrusted with this task that itself would be neither negatively nor positively affected by any decision taken.

One option for this could be the Debt Workout Institution proposed in the Roadmap and Guide

for Sovereign Debt Workout of the UNCTAD, which shall generally act as an organiser and supporter of debt restructuring processes.⁸ As long as this does not exist, or if creditors and debtors happen to agree to this, another competent institution can also produce the analysis. This could also be a regional institution, for example, in the case of the Caribbean, the United Nations Economic Commission for Latin America and the Caribbean (CEPAL) – provided that it also enjoys the confidence of the creditors outside the region.

Insurances as an alternative risk cover?

Debt relief as proposed above is certainly not the only option to finance losses and damages through climate change. The international community is discussing further options all of which, just like the Jubilee Caribbean proposal, bear their strengths and weaknesses. *erlassjahr.de* has analysed these alternatives in detail elsewhere.⁹ Germany's Federal Government is campaigning for one of these options, also in the context of its engagement in the network Finance Ministers for Climate Action¹⁰.



While wide stretches of Kenya are affected by drought, flooding is increasingly occurring in other parts of the country, both resulting from climate change. In 2017, Marsabit was suffering from severe famine.

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There, it seeks to promote an insurance solution for affected individuals, enterprises and governments. In this regard, at the World Climate Summit in Bonn in 2017, the German Government initiated the setting up of the InsuResilience Partnership, in which governments, international organisations and the insurance industry seek to support the proliferation of private and public insurance coverage.¹¹

Just like debt relief, insurance cover comes into effect in the case of a natural disaster, but not when slow changes are in progress. In times in which “private before public” is the order of the day, it seems to suggest itself to examine the potential of private insurance solutions in coping with natural disasters and make use of it where appropriate. Here, however, it quickly becomes apparent that the combination of a low economic potential on the part of the insurance holder, high, isolated damage and a high probability of damage makes a private sector solution very expensive.¹² As a pioneer in this business area, the Swiss Re com-

pany recently attempted to offer a corresponding insurance product. Hopes of wide acceptance of the product are already dashed for the company because the increasing frequency of disasters owing to climate change is making viable conditions fairly un-attractive.

Since, as a rule, those affected are not in a position to afford purely private coverage, subsidised models suggest themselves. For example, in response to the difficulties with purely private sector solutions, the World Bank, with the support of some donor countries, created the Caribbean Catastrophe Risk Insurance Facility (CCRIF). As a publicly subsidised insurance, it was in a position in the past to make swift payments in the event of a disaster. However, the amounts paid remained very modest. For example, following the devastating destruction wrought by tropical cyclone Maria in 2017, the Caribbean island nation of Dominica received payments to the tune of 19.3 million US dollars. Given the amount of destruction suffered, put at more than 900 million US dollars, this was



Kenya



Above all in the arid and semiarid regions of Kenya, the nomadic pastoralists are suffering from temperature rise through climate change. Their living conditions have worsened dramatically. Again and again, they lose animals. In some of the country's regions, livestock numbers fell by a quarter between 1977 and 2016. Smallholders are also struggling for survival in the areas threatened with drought. At the same time, other parts of Kenya are experiencing more and more frequent flooding. Food supply is generally problematic in Kenya, not only in the areas directly affected by drought and flood disasters.

Climate change is aggravating the problem of hunger. Women are affected in particular, for they manage more than 40 per cent of smallholder production and provide over 80 per cent of the labour force in cultivation. All in all, there is a lack of measures to cope with crises. While the national government has earmarked finance for this in its budget, it appears to be overstrained with allocating the money. And instead of investing in projects mitigating the impacts of climate change, the Kenyan government continues to emphasise major infrastructure projects for power generation. Ever larger loans are taken out to finance these projects, which further aggravates the country's debt crisis.

Risk factors for insolvency

-  Extractivist economic model
-  Political and social fragility
-  Debt structure
-  Climate change / natural disasters

see pp. 13f.

little more than the proverbial drop in the ocean. All in all, in the wake of the devastating hurricane season of 2017 CCRIF paid 54.4 million US dollars to Antigua and Barbuda, Anguilla, St. Kitts and Nevis as well as Dominica.¹³

The undoubted strength of CCRIF is that it can make payments available very quickly, as a rule within two weeks after a disaster. However, given its relatively weak capital base of less than 100 million US dollars, its aid potential in the event of larger disasters remains limited. Despite the considerable amount of destruction in 2015 and 2017, since its inception, CCRIF has so far taken in more in contributions from the region than it has distributed.¹⁴ Avinash Persaud, Advisor to the Government of Barbados, sums up the weakness of the approach as follows:

“Climate change cannot be addressed by private insurance. Insurance works best when risk is uncorrelated, diversified and random and you can spread the risks over time and across disasters.

But what does climate change tell us? That disasters are of increasing intensity [and] of rising correlation. By definition, you cannot privately insure against that.”¹⁵

But even beyond such more pragmatic considerations, the principle of private insurance against risks remains dubious in this context: The private insurance industry, seated in the Global North, which is responsible for the overwhelming share of greenhouse gases, sells a commercial insurance to the victims of climate change in the Global South and expects this operation to yield a profit. Since the countries concerned are too poor and the risk is temporally and regionally too concentrated for appropriate risk spreading, the insurance on offer has to be subsidised with public finance in order to make it affordable in the first place.

Insurances are not an appropriate means of handling loss and damage. They are expensive and morally questionable.



Sri Lanka

Sri Lanka currently suffers severely from the impacts of climate change. Ever heavier monsoons that set in ever earlier, an increasing number of landslides, rising average temperatures and failed harvests owing to drought affect the rural population particularly severely. Farmers are increasingly suffering from income losses, while fishers complain of the stronger storms that make fishing impossible. Poor people are under particular threat. They often live in informal settlements that are not linked to any infrastructure. Frequently, these poor districts are situated in areas prone to flooding and drought, along river courses or on slopes that are not a match for the storms.

The population is fully aware of the impact that climate change is having. However, the topic is receiving hardly any attention from politicians. Environmental protection and possible measures to check the impacts of climate change only play a marginal role among a multitude of election campaign promises. The government has neither the budgetary policy nor the staff capacities that are needed, which is why the consequences of disasters such as landslides are often not adequately addressed. The country's debt crisis leaves hardly any scope for the government to establish disaster preparedness. Changes therefore only occur on a small scale. For example, two years ago, the government banned plastic bags.

Risk factors for insolvency

see pp. 13f.



Pakistan



The dangerous impacts of climate change are particularly conspicuous in Pakistan: The monsoon seasons are shifting, and rainfalls are becoming heavier and heavier. The water masses cover entire swathes of land, robbing the local population of their livelihoods. Livestock, houses, fertile topsoil, crops and seed are simply washed away by the water masses. Harvests go mouldy because the water no longer runs off. Each year, people are killed by landslides caused by heavy rainfall. Many of them have to flee. The country, which borders on the Hindu Kush, is also being increasingly affected by droughts owing to the climate changes. This is a worrying trend, for Pakistan already belongs to Asia's poorest countries.

The Pakistani government could lower the risk of disaster by launching special programmes to reduce poverty and invest in preventive measures addressing climate change and environmental protection. However, there are few signs of such socio-ecological change and a preventive sustainability policy. On the contrary, the country's economic strategy points in the wrong direction, focusing on gigantic infrastructure projects and the expansion of coal mining, only adding to CO₂ emissions. Urgently needed social and environmental programmes cannot be financed because the government faces insolvency. Pakistan's debts amount to approx. 200 billion euros, while its budget deficit totals 10 per cent of its gross national income. Nearly a third of public revenue is spent on debt repayment. With the large-scale infrastructure projects, the risk of over-indebtedness continues to increase, driving Pakistan into spiralling debt.

Risk factors for insolvency

see pp. 13f.

Debt relief after disasters: realistic and feasible?

A debt relief initiative like the one described above is not a re-invention of the wheel. Rather, most of its elements have already been part and parcel of debt relief processes in one way or another:

In individual cases, hurricanes have already been agreed as triggers for debt restructurings. In the recent past, both private and public creditors have already adopted so-called hurricane clauses in their debt restructuring agreements with individual debtors. For instance, this was done by private bondholders and the Government of Taiwan in their respective debt restructuring agreement with Grenada in 2015. At the time, Taiwan was Grenada's most important bilateral creditor. Both clauses provide for moratoria and further debt restructuring in the event of new damage caused by another hurricane.¹⁶ Barbados achieved the same clause in late October 2019 in its last debt restructuring with its bondholders.¹⁷

Financial markets are quite capable of handling undefinable credit risks.

Bonds whose repayment conditions are not fixed but are tied to the economic success of the debtor have already been accepted by the market before, for example in the case of Argentina's debt restructuring in 2007. Even though such GDP-indexed bonds still bear a very small market share, they do show that investors do not view sharing risks as a fundamental criterion for exclusion.

In several cases, debt moratoria did already facilitate immediate disaster relief and the financing of initial reconstruction measures.

Following the 2004 tsunami in the Indian Ocean, the Paris Club unilaterally declared a moratorium for the countries of Sri Lanka and Indonesia, in the latter case even against the tangible reluctance of the debtor. However, restrictions feared by the Indonesian government in access to the equity market after the moratorium did not materialise.

Debt relief programs for groups of countries in particularly critical situations have already been successful in the past. The Heavily Indebted Poor Countries (HIPC) Initiative¹⁸ of the World Bank and the IMF has demonstrated that it is even possible to reduce the entire debt stock of countries in particularly difficult situations to a sustainable level. Even considering that the HIPC Initiative with its various extensions has given rise to criticism in terms of its concept and its implementation, it has nevertheless facilitated a fresh start for a large number of countries that would not have been possible without it. In the discussion on debt relief, to cope with loss and damage, the most important lesson learnt in the HIPC Initiative is that it was quite possible to define a clearly circumscribed debt relief programme for a limited number of countries without this requiring an internationally agreed debt relief mechanism for all countries.

Conclusion and recommendation

Changes in addressing global debt crises have hardly ever been based on carefully considered international political processes. Rather, the rules and criteria for the handling of a debt crisis and the granting of debt relief changed through the responses which creditors and international financial institutions have given to economic and fiscal policy emergencies of individual countries or entire groups of countries. The international set of rules is correspondingly unsystematic and calls for overall reform.

This applies for example to international debt relief initiatives such as the HIPC Initiative, which at the time really did result in a paradigm shift in debt policy but at the same time reflected the political interests of powerful creditor countries when it came to judging whether or not countries qualified for support. For example were the initiative's access criteria formulated in a way to ensure that the desired balance between francophone and anglophone African countries among the beneficiaries came about. Furthermore, outside the global HIPC Initiative, debt relief was granted in the form of smaller or larger ad-hoc arrangements for individual countries.

In order to make the international lending system and the debt restructuring it involves more calcu-



Hurricanes and extreme weather are increasing: the residents of many parts of the Philippines will not forget November 8, 2013. Typhoon Haiyan swept across the country with incredible force, leaving a trail of devastation.

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lable both for creditors and for debtors, such decisions in individual cases ought to be turned into a permanent, internatio-

nally recognised debt relief option for insolvent governments. In addition to immediate disaster relief, the current discussion over debt relief for those countries that are particularly vulnerable to the impacts of progressive climate change, especially through ever more severe storms or floods, also aims at such reliable and international regulation, which ought to prevent natural disasters from leading to continuing over-indebtedness.

The HIPC Initiative was created in the mid-nineties, after many of the countries that subsequently were relieved of their debt burden had already suffered a “lost decade on development”. It would be tragic if it took another disastrous hurricane season before the creditors and the international financial institutions were prepared to create an effective debt relief option for the victims of climate change.

Case-for-case decisions ought to be replaced by a permanent, internationally recognised debt relief option for insolvent governments.

- ¹ “Enzyklika Laudato si’ von Pope Francis von Papst Franziskus über die Sorge für das gemeinsame Haus“, Libreria Editrice Vaticana, Eds.: Sekretariat der Deutschen Bischofskonferenz, 4th revised edition, Bonn 2018, p. 171.
- ² See e.g. Christian Aid (1999): “Who owes who?” or Centro Humboldt (2000): “El Reclamo de la Deuda Ecológica: Un Paso hacia la Justicia Global”.
- ³ Brot für die Welt (2016): “Making Paris work for Vulnerable Countries”; pp. 19-21.
- ⁴ UNFCCC (2019): “Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts (WIM)”, unfccc.int/topics/adaptation-and-resilience/workstreams/loss-and-damage-ld/warsaw-international-mechanism-for-loss-and-damage-associated-with-climate-change-impacts-wim.
- ⁵ The Financing for Development process goes back to the United Nations conference of the same name held in Monterrey, Mexico, in 2002. At annual Financing for Development forums, various aspects of development financing are discussed by government representatives and UN Ambassadors. Debt is one of these topics.
- ⁶ In connection with the moratorium, it has to be borne in mind that in extreme crisis situations or in de facto insolvency, moratoria are frequently issued one-sidedly, ad-hoc and often also without being declared as such. In contrast with such an “unregulated” suspension of payments, a moratorium applied for by the debtor and explicitly approved by an impartial institution offers the advantage of a state of affairs conforming with the law on the basis of which all participants can negotiate an arrangement that is sustainable in the medium term.
- ⁷ During the last few years, legal regulations on the creation of legal security in the case of undeniably necessary debt relief have been created in Belgium, France and the United Kingdom in order to keep “vulture funds” from collecting claims from a debtor after partial debt relief has been granted at the expense of cooperative creditors. The extension of such legal regulations across the entire European Union is currently being discussed.
- ⁸ UNCTAD (2015): “Roadmap and Guide for a Sovereign Debt Workout”, Section III.2.2.
- ⁹ erlassjahr.de (2018): “Vor dem nächsten Sturm– Schuldenerlass als Krisenreaktion in der Karibik”, erlassjahr.de-Fachinformation 59.
- ¹⁰ The network was set up at the 2018 Annual Congress of the IMF and the World Bank and is discussing climate financing options with a current 50 Ministries of Finance from the North and the South. Germany is a member of the network. See Climate Action Peer Exchange (2019): “The Coalition of Finance Ministers for Climate Action”, www.cape4financeministry.org/coalition_of_finance_ministers.
- ¹¹ See Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) (2019): “InsuResilience Global Partnership”, www.insuresilience.org.
- ¹² In addition, there is the circumstance that in developing countries, enormously large areas with a poor data base have to be covered, resulting in weather indices having to be used that hardly allow fair payments for the budget level.
- ¹³ See Action Aid (2019): “Market solutions to help climate victims fail human rights test”, Seite 26.
- ¹⁴ Jubilee Debt Campaign (2019): “The CCRIF-SPC”, jubileedebt.org.uk/?s=CCRIF.
- ¹⁵ Quoted from: Jubilee Debt Campaign (2018): “Don't owe - shouldn't pay”. jubileedebt.org.uk/report/dont-owe-shouldnt-pay-the-impact-of-climate-change-on-debt-in-vulnerable-countries.
- ¹⁶ Grenada's parallel agreement with the Paris Club also contains a “Hurricane Clause”. However, this is without any effect, since it only proposes further negotiations that Grenada could just as well apply for without such a clause.
- ¹⁷ Bases, D. (2019): “Barbados reaches Debt Restructuring Deal with creditors”, LatinFinance, 18.10.2019, <https://www.latinfinance.com/daily-briefs/2019/10/21/barbados-reaches-debt-restructuring-deal-with-creditors>.
- ¹⁸ With its numerous modifications and extensions, since 1996, the HIPC Initiative has so far resulted in far-reaching debt relief for 36 highly indebted countries among all their creditors.

Table 1 - Countries at risk of over-indebtedness worldwide (as of 2018)

indicator countries according to region	public debt / gross domestic product		public debt / annual government revenue		external debt / gross domestic product		external debt / annual export earnings		debt service / annual export earnings		risk of debt distress according to IMF ²
		trend ¹		trend ¹		trend ¹		trend ¹		trend ¹	
South Asia, Southeast Asia, Pacific											
Afghanistan	7.1	▼	25.3	▼	13.4	—	209.8	▲	4.9	▲	
Bangladesh	34.8	—	343.9	—	18.2	—	117.7	▲	6.3	—	
Bhutan	102.6	—	330.3	▲	109.2	▲	313.1	▲	10.7	▼	
Cambodia	29.4	—	132.4	▼	66.9	▲	80.7	▲	4.5	▼	
China	50.5	▲	172.9	▲	14.5	▼	68.0	—	8.2	▲	
India	69.8	—	338.8	—	19.3	▼	93.1	—	11.4	▼	
Indonesia	29.2	▲	196.1	▲	36.6	—	169.6	▲	10.9	▼	
Kiribati	21.9	▲	17.7	▲	22.0	▲	26.3	▲	3.0	▲	
Laos	63.0	▲	358.8	▲	90.2	▲	245.4	—	14.6	▲	
Malaysia	56.2	—	290.7	▲	62.5	—	111.7	—	21.3	▲	
Maldives	61.5	▲	225.7	—	48.0	▲	63.0	▲	9.2	▲	
Marshall Islands	25.2	▼	37.8	▼	35.2	▼	119.4	—	11.2	▲	
Micronesia	20.2	▼	23.1	▼	20.3	▼	66.7	▼	5.7	▼	
Mongolia	73.3	▲	233.4	▲	253.9	▲	370.1	—	101.6	▲	
Myanmar	38.2	—	214.8	▲	21.5	—	87.3	▼	4.9	—	
Nauru	61.5	▼	52.8	▼	NDA		NDA		NDA		
Pakistan	72.1	▲	471.2	▲	27.6	▲	295.3	▲	19.9	▲	
Papua New Guinea	36.9	▲	206.0	▲	78.4	▼	166.5	▼	26.1	▲	
Samoa	50.2	—	146.4	—	51.3	▼	137.2	▼	9.8	▲	
Singapore	108.3	▲	504.9	▲	NDA		NDA		NDA		
Sri Lanka	84.1	▲	624.3	—	60.8	▲	256.4	—	36.0	—	
Taiwan	35.0	—	221.7	—	31.2		52.0		NDA		
Tonga	49.2	—	91.9	▼	41.3	—	122.5	▼	7.2	—	
Tuvalu	27.6	▼	17.1	▼	28.0	▼	231.2	▼	54.0	—	
Vanuatu	50.5	▲	144.2	▲	45.9	▲	102.2	▲	5.1	▲	
Viet Nam	57.5	—	243.7	—	46.7	▲	41.6	—	7.1	▲	
Sub-Saharan Africa											
Angola	88.1	▲	399.2	▲	54.0	▲	130.4	▲	21.9	▲	
Benin	54.6	▲	293.6	▲	35.9	▲	133.8	▲	7.8	▲	
Burkina Faso	43.0	▲	188.4	▲	23.4	—	128.1	▲	0.8	▼	
Burundi	58.4	▲	426.1	▲	19.2	▼	245.8	▼	14.0	—	
Cameroon	37.7	▲	239.2	▲	28.7	▲	215.7	▲	10.4	▲	
Cabo Verde	127.7	—	452.2	▼	89.3	—	173.6	—	5.6	▲	
Central African Republic	48.5	▼	276.6	▼	32.7	—	219.5		3.8		
Chad	46.6	▲	291.9	▲	29.3	—	74.0	—	1.5	—	
Comoros	31.2	▲	110.1	▲	16.5	▲	143.2	▼	3.2	▲	
Congo, Democratic Republic	15.7	—	128.2	▲	10.9	▼	30.8	▼	2.4	▼	
Congo, Republic	98.5	▲	323.7	▲	51.1	▲	75.5	▲	8.6	▲	
Côte d'Ivoire	52.2	▲	264.9	▲	37.9	▲	133.1	▲	8.4	▼	
Djibouti	67.4	▲	223.4	▲	157.6	▲	552.3	▲	57.8	▲	
Eritrea	129.4	—	855.7	—	13.6		126.9		NDA		
Ethiopia	61.1	▲	467.9	▲	33.4	—	396.5	▲	20.8	▲	
Gabon	58.2	▲	319.7	▲	43.0	▲	NDA		NDA		
Gambia	83.2	▲	563.2	▲	42.7	—	220.1	▲	26.2	▲	
Ghana	59.6	▲	409.3	—	36.3	—	105.5	—	21.2	▲	

Table 1 continued - Countries at risk of over-indebtedness worldwide (as of 2018)

countries according to region	indicator		public debt / gross domestic product		public debt / annual government revenue		external debt / gross domestic product		external debt / annual export earnings		debt service / annual export earnings		risk of debt distress according to IMF ²
	public debt / gross domestic product	trend ¹	public debt / annual government revenue	trend ¹	external debt / gross domestic product	trend ¹	external debt / annual export earnings	trend ¹	debt service / annual export earnings	trend ¹			
Guinea	38.7	—	251.0	▲	16.4	—	40.9	▼	1.3	▼			
Guinea-Bissau	56.1	—	335.0	▲	28.9	▲	81.5	▲	1.9	▲			
Kenya	57.2	▲	312.4	▲	36.1	▲	256.1	▲	22.6	▲			
Liberia	40.5	▲	148.7	▲	44.7	▲	123.1	▲	2.8	▲			
Madagascar	39.7	▲	265.8	—	31.8	▲	84.5	—	2.7	—			
Malawi	61.3	▲	260.5	▲	32.2	▲	174.8	▲	5.7	▲			
Mali	36.6	▲	237.2	▲	29.5	▲	104.2	—	4.2	▲			
Mauritania	83.9	▲	289.7	▲	93.4	—	NDA		NDA				
Mauritius	65.2	—	289.4	—	71.8	▼	81.1	—	23.3	▼			
Mozambique	100.4	▲	385.6	▲	107.6	▲	244.3	▼	13.1	—			
Namibia	47.1	▲	155.4	▲	58.4	▲	290.5	▲	NDA				
Niger	55.1	▲	258.2	▲	36.1	▲	NDA		NDA				
Nigeria	28.4	▲	355.4	▲	12.2	▲	66.1	▲	8.3	▲			
Rwanda	40.7	▲	168.6	▲	59.0	▲	266.7	▲	12.5	—			
Sao Tome and Principe	81.3	▲	358.7	▲	58.8	—	242.9	—	4.5	▼			
Senegal	64.4	▲	344.8	▲	53.3	▲	NDA		NDA				
Seychelles	58.2	▼	154.2	▼	110.5	—	110.5	▼	NDA				
Sierra Leone	71.3	▲	422.7	▲	46.1	▲	177.3	▲	11.0	▲			
South Africa	56.7	▲	194.8	▲	50.6	▲	152.8	▲	19.9	▲			
South Sudan	43.8	▲	99.7	▼	38.0	▲	57.2	▲	8.8	▲			
Sudan	163.2	▲	2,362.6	▲	56.9	▲	421.6	▲	4.2	—			
Tanzania	36.0	—	238.7	—	33.1	▲	207.3	▲	8.4	▲			
Togo	74.6	▲	306.8	—	33.3	▲	65.4	▲	4.9	▲			
Uganda	42.2	▲	269.9	▲	46.3	▲	218.2	▲	12.2	▲			
Zambia	72.4	▲	393.4	▲	73.7	▲	191.0	▲	14.6	▲			
Zimbabwe	29.8	▼	288.8	▲	39.8	▼	238.6	▲	11.7	—			
Latin America, Caribbean													
Antigua and Barbuda	88.1	▼	442.2	▼	NDA		NDA		NDA				
Argentina	86.3	▲	255.0	▲	56.1	▲	339.5	▲	45.0	▲			
Bahamas	61.0	▲	373.1	—	25.5	▲	74.1	▲	9.1	▲			
Barbados	124.5	▼	420.7	▼	32.7	—	79.5	—	6.6	—			
Belize	94.8	▲	316.6	▲	76.8	—	127.0	—	10.1	▲			
Bolivia	53.9	▲	173.1	▲	33.8	▲	126.2	▲	9.6	▲			
Brazil	87.9	▲	280.7	▲	30.3	▲	185.6	—	31.7	▲			
Colombia	50.5	▲	200.5	▲	42.3	▲	224.9	▲	40.8	▲			
Costa Rica	53.5	▲	392.2	▲	49.0	▲	131.6	▲	18.3	—			
Dominica	83.1	—	189.5	▼	55.3	—	161.8	▲	16.5	▲			
Dominican Republic	41.6	—	276.6	—	43.8	—	163.8	—	15.1	▼			
Ecuador	46.1	▲	127.2	▲	42.6	▲	180.8	▲	36.7	▲			
El Salvador	67.1	—	311.0	—	71.1	—	225.4	—	45.8	▲			
Grenada	63.1	▼	240.2	▼	58.8	▼	97.4	▼	8.4	▲			
Guatemala	24.5	—	233.2	—	29.0	▼	150.9	▲	26.7	▲			
Guyana	57.0	—	184.1	—	44.6	▼	86.7	▼	5.1	▼			
Haiti	33.0	▲	191.6	▲	22.8	—	119.7	—	1.2	▼			
Honduras	40.3	—	149.8	—	43.0	—	128.0	▲	27.5	▲			
Jamaica	99.4	▼	327.4	▼	108.0	—	268.2	▼	20.4	▼			

Table 1 continued - Countries at risk of over-indebtedness worldwide (as of 2018)

countries according to region	indicator		public debt / gross domestic product		public debt / annual government revenue		external debt / gross domestic product		external debt / annual export earnings		debt service / annual export earnings		risk of debt distress according to IMF ²
	public debt / gross domestic product	trend ¹	public debt / annual government revenue	trend ¹	external debt / gross domestic product	trend ¹	external debt / annual export earnings	trend ¹	debt service / annual export earnings	trend ¹			
Mexico	53.6	—	228.5	—	38.0	—	92.0	▼	11.9	—			
Nicaragua	37.2	▲	154.3	▲	90.7	—	207.4	—	19.0	▲			
Panama	39.4	—	200.4	▲	150.7	—	348.3	▲	NDA				
Paraguay	21.6	▲	119.4	▲	39.9	—	108.2	—	15.7	▼			
Peru	26.8	▲	137.4	▲	31.3	▼	114.7	▼	12.2	—			
Saint Kitts and Nevis	62.0	▼	169.0	▼	20.9	—	351.5	▲	NDA				
Saint Lucia	66.8	—	283.5	—	35.1	—	49.1	—	3.9	—			
Saint Vincent and the Grenadines	73.1	—	263.5	—	37.6	▼	101.6	▼	12.3	—			
Suriname	69.6	▲	305.3	▲	96.0	▲	139.0	▲	NDA				
Uruguay	70.0	▲	225.6	—	67.8	—	248.5	▲	20.5	▲			
Venezuela	175.6	▲	2,278.1	▲	149.0		NDA		NDA				
Northern Africa, Middle East													
Bahrain	93.4	▲	431.2	▲	62.5		143.5		NDA				
Egypt	92.6	—	448.7	▲	40.4	▲	187.9	▲	15.0	▲			
Iran	33.2	▲	234.3	▲	1.5	▲	5.3	—	0.8	▲			
Jordan	94.2	—	362.2	▲	76.1	▲	199.1	▲	14.1	▲			
Lebanon	150.9	—	731.4	▲	145.1	—	348.5	▲	72.1	▲			
Morocco	65.2	—	249.8	▲	42.2	—	112.0	—	8.9	▼			
Oman	50.9	▲	144.5	▲	24.3		44.8		NDA				
Tunisia	77.0	▲	294.8	▲	90.0	▲	173.8	▲	14.0	▲			
Yemen	63.2	▲	1,650.1	▲	26.1	▲	NDA		NDA				
Europe, GUS													
Albania	68.6	—	251.8	—	67.2	—	193.0	—	20.7	▲			
Armenia	48.5	▲	226.9	▲	87.5	▲	196.4	—	29.9	—			
Belarus	47.8	▲	119.8	▲	67.7	▲	90.4	—	13.5	▲			
Bosnia and Herzegovina	37.0	▼	86.1	▼	80.4	—	180.9	—	10.8	▼			
Georgia	44.5	▲	156.7	▲	110.6	▲	168.2	—	23.7	—			
Kazakhstan	21.9	▲	107.4	▲	105.7	▲	225.7	▲	48.3	▲			
Kyrgyzstan	56.0	—	170.8	▲	103.0	—	307.3	▲	31.3	▲			
Moldova	27.1	—	89.6	▲	61.3	—	164.7	▲	12.9	—			
Montenegro	72.1	▲	172.7	▲	142.4	—	290.5	—	63.6	▲			
North Macedonia	39.5	—	138.4	—	72.0	▲	112.5	▼	16.6	—			
Serbia	54.3	▼	131.0	▼	71.7	—	133.5	▼	22.3	▼			
Tajikistan	47.9	▲	177.7	▲	67.7	▲	224.6	▲	22.0	▲			
Turkey	29.1	—	93.1	—	59.0	▲	193.9	—	36.7	▲			
Turkmenistan	29.3	▲	207.7	▲	2.3	▲	7.2		NDA				
Ukraine	63.9	—	153.6	▼	89.6	—	161.3	—	20.7	▼			

¹ ▲ increase by more than 10 per cent; ▼ decrease by more than 10 per cent; — stagnation (change of less than 10 per cent)

² □ low risk of debt distress; ■ medium risk of debt distress; ■ high risk of debt distress; ■ debt distress; □ no risk assessment by IMF and World Bank

Sources: Weltbank: "International Debt Statistics 2020", data.worldbank.org/products/ids?cid=EXT_WBPubsAlerts_P_EXT; IWF: "World Economic Outlook 2018", www.imf.org/en/Publications/WEO; Artikel-IV-Berichte des IWF, www.imf.org/en/search#q=article%20IV%20Reports&sort=relevancy; and CIA: "World Factbook", www.cia.gov/library/publications/the-world-factbook."



MISEREOR is the Catholic relief organisation for development cooperation in Germany. Together with local partners, MISEREOR supports people of every faith and culture.

MISEREOR encourages self-initiative

MISEREOR projects support help towards self-help, so that people do not have to depend permanently on assistance. Therefore, MISEREOR offers small-holders advice and supports them, campaigns for human rights, trains youth in forward-looking professions and helps small-scale enterprises with microcredits.

MISEREOR opts for partnerships

In its project activities, MISEREOR relies fully on its local partners. These organisations, communities or self-help groups are most familiar with local conditions and enjoy local people's trust. Together with them, they develop activities at local level and are provided with advice and financially supported by MISEREOR. This ensures that the projects are adapted to the needs and ways of life of the local people.

MISEREOR reminds those in power of their moral obligations

Not only does MISEREOR combat poverty, hunger and injustice, but it also tackles their root causes. As the political lobby of those at a disadvantage, MISEREOR is critical of the prevailing global economic system regarding its effects on poverty and human rights, insists on more determined steps to address climate change and denounces unjust social structures in the countries of the South.

MISEREOR depends on the engagement of many people

MISEREOR stands for actively practising solidarity with those living in poverty. Committed individuals and groups, parishes and institutions organise solidarity marches, Lenten Campaigns and pilgrimages, support smallholders by buying fairly traded products and back development projects by donations, endowments or inheritances.



The German jubilee network "erlassjahr.de – Entwicklung braucht Entschuldung e. V." (Jubilee Germany) wants to achieve that more importance is attached to the living conditions of people in indebted countries than to the servicing of sovereign debt.

At present, erlassjahr.de is supported by over 600 organisations out of church, politics and civil society throughout Germany and is involved in a worldwide network of national and regional jubilee initiatives.

erlassjahr.de wants to achieve that

- in future debt crises, poor countries can restructure their debt timely and orderly in a fair, sustainable and comprehensive way – instead of continuing to be at the mercy and goodwill of their creditors;
- odious debt, which is foreign debt that was created in disrespect of international law standards and jeopardises the achievement of internationally agreed development goals, is being cancelled;
- standards for responsible borrowing and lending are being developed and implemented to establish the shared responsibility of creditor and debtor.

Common action

Campaigning for fair debt relief would not be conceivable without the support of the co-sponsoring organisations and the large number of committed individuals.

Together, we are contributing to achieving a fair solution for sovereign debt crises.

GLOBAL SOVEREIGN DEBT MONITOR 2020

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