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Before the House Committee on Financial Services

Subcommittee on National Security, International Development, and Monetary Policy

Hearing on

"Examining Belt and Road: The Lending Practices of the People's Republic of China and Impact on the International Debt Architecture"

10:00 a.m., Tuesday, May 18, 2021

My name is Jaime Atienza, and I come to this Committee as the global debt policy lead of the Oxfam Confederation. Oxfam is a non-profit composed of 20 national level organizations that works to fight inequality and poverty through humanitarian and development actions, as well as research, knowledge and policy work. It is an honor to testify in front of this Committee and alongside globally recognized experts.

Debt Situation Prior to the Pandemic

The timing of this session is critical, as we have seen the debt situation, especially of the poorest countries, worsen significantly in recent years. In February 2020, the IMF stated¹ that over half of low income countries in Africa were either in debt distress or at high risk of being so. The region was in serious trouble with debt repayments growing and eating up social investments from the countries' budgets.

The human impact of a debt crisis is often overlooked. Higher spending on debt means lower spending on public services—which means fewer teachers, health workers, and hospital beds for hundreds of millions of citizens in need. It also means further entrenching the cycle of poverty for many, the impacts of which fall particularly hard on women, as unpaid care work often must fill the gaps.

According to a report by JDC and Action Aid International published in April of 2020, debt service as a share of Government revenues grew by 85% between 2010 and 2018, from 6.6% to 12.2% of such revenues.² They examined 60 low and middle income countries that exceeded the mid-point of what the IMF would call a 'moderate' debt risk (countries that spend more than 13% of their revenue on debt servicing). 21 countries were already spending over 20% of their government revenue on debt service in 2019; with Angola and Ghana both spending over 55%. In the 30 countries (half the total) with the highest debt

¹ International Monetary Fund, "The Evolution of Public Debt Vulnerabilities In Lower Income Economies," February 10, 2020, <https://www.imf.org/en/Publications/Policy-Papers/Issues/2020/02/05/The-Evolution-of-Public-Debt-Vulnerabilities-In-Lower-Income-Economies-49018>.

² Actionaid, "Who Cares for the Future: Finance Gender REsponsive Public Services!", April 2020, <https://actionaid.org/sites/default/files/publications/Who%20Cares%20for%20the%20future%20Summary.pdf>

payments (over 13% of government revenue) — real public spending per person (taking inflation into account) fell by 6% between 2015 and 2018. In the 30 countries with debt payments under 13% of government revenue, public spending per person grew by 14%.

Kenya's debt servicing costs skyrocketed between 2015 and 2019, after a steep growth in both Chinese and private debt, while its government spending fell by nearly four percentage points of GDP, and both trends are expected to continue.³ Congo-Brazzaville's debt servicing rose even faster than Kenya's between 2015 and 2019 and its spending plummeted by 32 percentage points in the same period. Sudan, that is now awaiting to benefit from late HIPC debt relief, has the highest debt servicing to government revenues of all countries surveyed, with a projection that it would hit 165.78% in 2022, unless action led by France allows for a heavy debt restructuring. Its government spending levels, already by far the lowest of any country surveyed at 7.39% in 2019, could fall to 3.89% in 2022.

Despite having market access and a relatively stable and growing economy, Ghana is also undergoing very serious challenges.⁴ With a population of 29 million, Ghana spent in 2019 almost four times more on servicing its external debt than it is on public healthcare for its people: 39.1% of its government revenue is spent on debt servicing, 10.8% is spent on healthcare. The Central African Republic had 3 ventilators in a country of almost 5 million people, yet it was due to spend \$25 million on external debt payments in 2020 (10% of the government revenue, according to the IMF's Debt Sustainability Analysis).⁵

Impacts of COVID-19

The impact of COVID-19 in Africa has been profound —with a ten years setback in poverty, a steep rise in hunger according to the World Food Program, and desperation leading to more migration.⁶ The financial stress for the region is falling on the backs of ordinary people, especially women, as well as on businesses, and it is weakening the capacity of Governments to provide support to people and companies.

The pandemic made the debt situation in many countries even worse, with African countries losing over 3% of GDP, and Small Island States experiencing decreases of over 13% of their GDP on average—levels that approach war time numbers.⁷

³ Id.

⁴ Oxfam, "G20 must cancel debt to stop coronavirus "third wave" devastating developing countries", April 2020, <https://oi-files-d8-prod.s3.eu-west-2.amazonaws.com/s3fs-public/2020-04/Debt%20media%20briefing%20ahead%20of%20G20.pdf>.

⁵ Oxfam, "G20 must cancel debt to stop coronavirus "third wave" devastating developing countries", April 2020, <https://oi-files-d8-prod.s3.eu-west-2.amazonaws.com/s3fs-public/2020-04/Debt%20media%20briefing%20ahead%20of%20G20.pdf>.

⁶ United Nations, "UN report finds COVID-19 is reversing decades of progress on poverty, healthcare and education," July 2020, <https://www.un.org/development/desa/en/news/sustainable/sustainable-development-goals-report-2020.html>

⁷ International Monetary Fund, "World Economic Outlook, October 2020: A Long and Difficult Ascent," <https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020>

The impact in Latin America has been even more profound than that in Africa, with a 7% drop in GDP, and with Caribbean and weak Central American countries suffering the worse consequences as a result of the combined effect of climate related events (with a terrible 2020 hurricane season) and tourism restrictions, when they are highly dependent on that sector.⁸

COVID-19 has also resulted in a heavy impact on countries' revenues. Low income countries experienced losses over 20% in revenue collection, as well as a steep drop in Foreign Direct Investment and remittances. At the same time, the investment and the resources needed to protect families and millions of people have grown. A perfect storm had been set, with hundreds of millions of jobs being lost, trade routes interrupted and an uncertain calendar for recovery.

Meanwhile, the World Bank reported that extreme and relative poverty numbers would grow in the hundreds of millions, with women and girls especially affected. In addition, progress toward vaccinating the populations is slow in most developing countries, and new uncertainties are everywhere for developing countries' recovery. The move towards an IP waiver of COVID vaccines and treatments should *be followed by actions* that promote broader production capacity and help change this dramatic trend, but more is needed.

Before the pandemic hit, there was already a shortage of 17.4 million health workers worldwide, mostly in low- and lower-middle income countries, according to the WHO. Oxfam analysis has shown that debt cancellation for a full year could provide three years' worth of salaries for: (a) The 14,000 extra nurses needed in Malawi, currently with only a quarter of the nurses it requires, (b) The 24,500 extra doctors needed in Ghana, currently with less than one fifth of the doctors it require, and (c) The 47,468 extra nurses needed in the DRC, currently with less than half the number of nurses it requires.⁹

In large part because of their debt burdens, poor countries are unable to redeploy their resources to the most urgent needs, or are having to cut their own public spending. In advanced economies such as the United States, the use of expansive monetary policies or large debt purchasing programs allowed a wide range of policy actions to cope with the crisis, protect those worse off, and prepare for the future stage of recovery. On the contrary, in the poorest countries the situation is dire and options are very scarce. For that reason, very soon into the COVID-19 crisis, providing debt relief and allowing developing countries flexibility in their debt repayments was considered a critically important way to increase liquidity and response capacity.

⁸ Id.

⁹ Oxfam, "G20 must cancel debt to stop coronavirus 'third wave' devastating developing countries," April 2020, <https://oi-files-d8-prod.s3.eu-west-2.amazonaws.com/s3fs-public/2020-04/Debt%20media%20briefing%20ahead%20of%20G20.pdf>

Multilateral Efforts to Address the Looming Crisis

In April 2020, just one month after the WHO declared the pandemic, a global initiative called the [DSSI](#) (Debt Suspension Initiative) was launched by the G20 with strong endorsement from the IMF. It allowed for 73 countries to receive, upon request, a temporary suspension of their bilateral debt repayments. But the DSSI left to voluntary mechanisms any debt relief from private creditors –which has not materialized—and simply invited IFIs to find ways of contributing more, which remain to be seen for the World Bank (which is not providing any debt relief, rather more loans). Most Sub-Saharan African countries were included under the initiative, as well as some Small island States included in the IDA-only list.

Only 46 out of the 73 eligible countries requested the debt suspension for several reasons. The assessment of the [World Bank in its April 2021 debt report](#) is spot on: it states that, of the 27 countries that did not request debt suspension, “some fear participation may convey the wrong signal to bondholders and other private creditors while others note the amount of eligible bilateral debt service is negligible, and savings do not justify the administrative expenses incurred by deferral. Because the DSSI only defers payment to a later date, some policymakers worry longer term debt sustainability may be sacrificed for short-term financial flexibility”.¹⁰

The fact is that up to the end 2020, only \$5.7bn of debt repayments were suspended for 46 countries. That just 10% of all the debt repayments owed by the group of 73 countries. Meanwhile, over \$30bn were still being repaid by that same group of countries to global institutions, private banks and investment funds, emptying their coffers, limiting their response capacity to the crisis, and putting additional pressure on the lives of millions of citizens and on the public accounts and reserves of developing countries. The moratorium was extremely weak and limited and did not allow for enough breathing or fiscal space for the poorest nations to face the crisis, as was its supposed intention.

On a more positive note, we must recognize that for the first time in history we are seeing a coordinating effort of all major economies to deal with a debt crisis: from advanced Western economies, to emerging economies with China, Saudi Arabia or India as part of the G20 Common Framework for debt restructuring, agreed and launched in November 2020. However, the Common Framework’s effectiveness is yet to be tested, and the kind of debt relief it will deliver is unclear. It excludes Middle Income Countries with debt problems, and the prospects for the “comparability of treatment clause” to deliver debt relief by private creditors remains uncertain at its best.

¹⁰ World Bank, “Debt Report 2021,” <https://pubdocs.worldbank.org/en/247471617652072581/Debt-Report-2021-Edition-II.pdf>.

The evolution of new debt and debt repayments in 2020 is an essential piece to get right. We have seen that for the most part, financial markets have continued to finance low and middle income countries through new debt issuances. Those issuances have grown in Latin America and the Caribbean during 2020, increasing by 9%.¹¹ Meanwhile, for Sub Saharan Africa, private finance has almost frozen after the declaration of the pandemic, with a 70% reduction as compared to 2019. With debt relief being very limited, and new resources from private creditors decreasing, the need for multilateral funding has grown. The need for additional ODA is also worth noting, as for countries most in need it should pay directly for the social investments to protect the most vulnerable.

A more concerning trend is exposed in a recent report by Eurodad that shows how most regions entered in 2020 in what is known as “net negative transfers” – paying back more than they are receiving in their debt balance.¹² Only Sub Saharan Africa is still on positive terms, but those have reduced dramatically.

Comparing Previous Debt Crises

There are two main reasons that this debt crisis cycle is different from the previous that was resolved through the HIPC initiative.

The first one is that China is now the most important bilateral lender to developing countries, and specifically to African countries. China is the #1 lender and #1 bilateral creditor, dwarfing the Paris Club as a whole. After the previous debt ended with HIPC implementation, the U.S. and most Western lenders retreated from large lending operations, shifting their international support to developing countries to grant form (a trend that is now again shifting), so their exposure has progressively been decreasing. As a result, the fact is today that there is no option of reaching any successful agreement on bilateral debt relief treatments without China leading part of it. While China can be seen as part of the problem, it needs to be part of any possible solution. Thus the relevance of the new “common framework”.

A second element equally relevant as the first is the size and role of private lending through sovereign bond issuances in African economies. These operations grew to unprecedented levels in a region that had traditionally been excluded from market attention and financing, except that associated to extractive projects.

While for Africa, China is the largest bilateral creditor by far, Eurobonds (a majority of which have been issued in U.S. dollars and under UK legislation) absorb the largest amount of

¹¹ World Bank, “Debt Report 2021,” <https://pubdocs.worldbank.org/en/247471617652072581/Debt-Report-2021-Edition-II.pdf>.

¹² Eurodad, “A debt pandemic: Dynamics and implications of the debt crisis of 2020,” https://www.eurodad.org/2020_debt_crisis

short and middle term repayments for Low Income Economies with market access, like Ghana, Kenya, Senegal or Côte D'Ivoire.

It is critical to understand that if we look at the debt tensions from the perspective of developing countries, and specifically, African countries, they need solutions that bring both China and the private creditors and bond holders on board. In that sense, the focus only on bilateral debt of the DSSI needs to be considered an outdated approach. Without relief from private creditors, countries with such debt exposure are merely postponing a debt sustainability crisis. New financing in grant or concessional terms, alongside debt relief, including explicit haircuts and debt cancellation are needed to find a real solution.

Several drivers of this new cycle must be taken into account to understand both the constraints and responsibilities of all actors involved, from sovereign states, to creditors or international institutions. The new bond issuances opened up new financing opportunities, but had a very high financial cost, on average 7% and as high as 10.75% interest rates.¹³ In an economic rationale, if the interest rates are higher than your rate of growth you are running towards unsustainable debt no matter what use you are making of those resources. If you factor in that these debts are incurred in hard currencies, namely U.S. dollars, then currency devaluation makes those financial costs even heavier.

A closer analysis shows the inverse relation between Domestic Revenue Mobilization and tax collection increases and the use of debt. Throughout the decade of 2010, tax collection has remained stable under the 18% of GDP threshold for Africa (35% is the average for OECD countries), and in the meantime, an annual 10% increase in debt intake has happened. What does this tell us? That when increasing tax collection is a very difficult task, and there is an international environment that enables tax dodging, governments will seek easier ways to fund their needs or what they consider to be relevant for the near future. So debt has been used in many cases as a substitute for taxes, that were falling short to cover the needs of economic progress in developing economies.

The focus on large infrastructure projects has been an important ingredient of the debt crisis that was already unfolding before COVID-19, with all actors involved contributing to feed that trend –China as well as different multilaterals and to a lesser extent, other government agencies and development finance institutions (DFIs).

It is worth mentioning the important role the IMF has played in response to the pandemic. The overall narrative has shifted from the direct call for austerity after the 2008-2009 crisis, to an explicit call for public spending and investment to protect billions of people in the planet from the spillover effects of voluntarily freezing the economy. This has been very important, as has been the tide of emergency funding, that came forward at a very fast

¹³ ODI, "Private lending and debt risks of low-income developing countries," June 2020, https://cdn.odi.org/media/documents/200615_private_lending_debt_risks.pdf

speed and with no actual conditionalities. The IMF collected resources from its membership to enable the CCRT to cover the debt repayments of 2020 and 2021 of 29 Low Income Countries—something the World Bank hasn't done. However, Oxfam has analyzed most of the post-COVID lending programs by the IMF, and found that 84 percent encourage or require austerity measures.¹⁴

Recommendations

The situation for developing countries, and specifically for low and low-middle income African economies and Small Island States, in particular those in the Caribbean, is very urgent.

Some avenues to tackle the economic and social impacts of debt troubles for low and middle income countries:

- Scale up collaborative efforts under the G20 “common framework” umbrella, including China and the US, private bond holders and banks, in support of developing countries suffering the impact of the COVID19 crisis. Ensure debtors have equal voice and strength in seeking solutions that protect human rights and the SDGs.
- Move from the modest debt relief brought in by the DSSI moves to a next level, allowing for debt cancellation options under the Common Framework for all DSSI countries and Middle-income countries facing severe vulnerabilities.
- Establish a clear path for private creditors’ participation in debt relief operations under or beyond the common framework.
- Seek ways of providing legal protection to debtor countries from the potential risks of debt holdouts under the current crisis.
- Advance towards stable debt restructuring mechanisms that involve all parties, including debtor countries and civil society, to allow for fast and fair sovereign debt resolution.
- Accelerating new grant and concessional financing to the most vulnerable countries, steadily increasing ODA.
- Contribute to enhanced transparency standards and trust inside the G20 among all public and private creditors and sovereign debtors, with clear reporting and disclosure rules that apply to all parts, in collaboration with international bodies such as the OECD and the oversight of civil society actors.
- Agree to sustainable borrowing and lending standards to be applied to new operations, and prioritize economic recovery and protection of people and companies over other macroeconomic considerations.

¹⁴ Oxfam, “IMF paves way for new era of austerity post-COVID-19,” October 2020, <https://www.oxfam.org/en/press-releases/imf-paves-way-new-era-austerity-post-covid-19>.