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The need for a concerted response to the debt crisis in developing countries during and after COVID-19

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The COVID-19 pandemic and its health, social and economic consequences are posing unprecedented global challenges, in particular to developing countries. A significant challenge that has arisen is financing for development during and after the health crisis, particularly the debt crisis of developing countries. Prior to the pandemic, given weak global economic circumstances and stagnant Official Development Assistance flows,[1] the debt crisis was already a focus of various multilateral financial institutions such as the International Monetary Fund (IMF) and the World Bank, international organisations such as United Nations and the Organisation for Economic Co-operation and Development (OECD), as well as concerned governments and researchers.

According to a study by the United Nations Conference on Trade and Development (UNCTAD 2020) on developing country debt amid COVID-19, based on data from the World Bank and the IMF, developing countries will face a wall of external debt service repayments throughout the 2020s, during deep economic distress.

The G20's International Financial Architecture Working Group, in cooperation with the IMF, the World Bank, the OECD and various regional development banks, has explored ways to enhance global financial stability and resilience. On 15 April 2020 the G20 countries agreed to a time-bound Debt Service Suspension Initiative (DSSI), starting on 1 May 2020 and lasting for 6 months, to support the efforts of the poorest countries to protect lives and alleviate the devastating socio-economic consequences of the pandemic. The DSSI stands to benefit 73 countries, including the least developed countries as defined by the United Nations. As of 16 October 2020, the DSSI had received 44 applications, with potential DSSI savings estimated at USD12 billion (World Bank 2020), representing only about 1 per cent of the estimated USD1.1 trillion debt service repayments of middle- and low-income countries in 2020 and 2021. However, the DSSI does not guarantee the participation of all creditors.

Following an initial high-level dialogue in May at the United Nations that called for a solidary, multilateral response to global crises, six groups were formed to work on developing options to address issues related to: 1) external finance, remittances, jobs and inclusive growth; 2) recovering better for sustainability; 3) global liquidity and financial stability; 4) debt vulnerability; 5) engagement of private-sector creditors; and 6) illicit financial flows.

A high-level meeting of Heads of State and governments was convened by United Nations Secretary-General Antonio Guterres at the United Nations headquarters in New York on 29 September 2020, aimed at assessing the work so far. The 'menu of options'[2] contained a set of key recommendations,[3] including:

- extending debt relief not only to least developed countries but also to all developing, middle-income countries;*
- extensive debt cancellations and multilateral approaches to sovereign debt restructuring under the auspices of the United Nations;
- new allocation of the Special Drawing Rights to meet the growing global need for liquidity;
- engagement with private creditors and credit-rating agencies;*
- paying specific attention to Africa's development financing needs;*
- meeting the existing commitments under the Addis Ababa Action Agenda, particularly those on illicit financial flows, tax evasion and corruption;* and
- organising an International Economic Reconstruction and Systemic Reform Summit, under the auspices of the United Nations, to move towards a new global economic governance architecture.

Given the rising debt burdens in developing countries, it is much more difficult to predict the economic downturn and evolution of the pandemic. The 2020 World Bank Group–IMF Annual Meetings were held on 12–18 October, revealing support programmes limited to providing finance in the form of loans instead of grants. On 14 October the G20 countries agreed to an extension of the DSSI until the end of June 2021. At the World Bank Group–IMF Spring Meetings in April 2021, the G20 will decide if the DSSI should be further extended for an additional 6 months.

It is clear that the pre-existing debt vulnerabilities of developing countries are worsening and that the overall financing gap is widening. Addressing these issues properly is critical for their recovery from the COVID-19 crisis and to ensure progress towards the Sustainable Development Goals.

Moving forwards, high-level political leaderships must strive to translate these recommendations into concerted and urgent actions.

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Notes:

1. More detailed discussions and recommendations on Official Development Assistance are available in Alsayyad (2020).

2. See: <https://www.un.org/sites/un2.un.org/files/part_ii-_detailed_menu_of_options_financing_for_development_covid19.pdf>.

3. Recommendations followed by * were strongly emphasised.

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