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FOCUS PAPER 3

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How, in 2020, debt relief is not helping those who need it most

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Focus Paper 3:
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How, in 2020, debt relief is not helping those who need it most

by Jürgen Kaiser and Celia Sudhoff

1. Introduction: The logic of debt relief and the reality of recent decades

The answer to the question of which states should receive debt relief is actually obvious: debt relief should be granted to those states that need it. A very small number of additional conditions would then have to be added, such as the requirement for the country in question to vigorously combat the causes of debt where it is endogenous in nature, i.e. caused by the country itself, and remediable through internal policies. In addition, the latitude which a country gains through the cancellation of debt-service payments should be used in order to stimulate the economy, or at least in order to ameliorate the position of the poorest in society.

While the further 'subsidiary conditions' have been a key element of the strategy to overcome debt crises in recent years, in fact, the central principle that 'debt relief should be given to those who need it' was indeed a policy driver into the late 1980s. During this period, countries were mainly indebted to private creditors (bond subscribers or banks), and they did not even contemplate relieving countries of part of their debt – unless their insolvency was so evident that a partial debt waiver was actually the only option for restoring halfway-reliable debt servicing.

This did however occur in individual instances, and mostly without any fanfare. Only when, in the aftermath of the Mexico crisis of 1982, an increasing number of countries encountered payment difficulties with the banks, was a formalized mechanism established in the shape of the Brady Plan[1], which organized partial debt waivers more or less reliably in the face of impending crises.

However, what did not play a role in the Brady Plan, nor at any time prior to the Brady Plan, was the question of whether the debtor country in question was big or small, and whether it was richer or poorer.

Such distinctions only entered into the concept of international debt management from 1990 onwards, through innovations in the so-called Paris Club. This is an informal cartel of creditor governments which, since 1956, has organized the restructuring of public-sector debt owed to the governments of the industrialized nations (mostly OECD members). Until 1990, apart from a few explicit exceptions, the Paris Club had exclusively approved debt restructuring under its 'Classic terms', which merely shifted payment obligations into the future, with interest, but did not provide for any genuine debt waivers.

Somewhat later than the private creditors who, through the Brady Plan, had already enabled real and systematic debt relief, the Paris Club was also forced to recognize that some countries, with debts that already made up many times their total annual economic output, would never be able to emerge from this situation as orderly debt payers unless some of their existing liabilities were cancelled. Classic terms did not achieve this.

For this reason, at the G7 Summit in Canada the 'Toronto terms' were introduced as a guideline for future debt restructuring, for the first time providing for actual debt reduction, although not in terms of the level of debt, but merely in relation to ongoing debt service payments and, even here, this was only to the tune of a modest 33%. For the benefit of the discussion at issue here, however, what matters is not the modest extent of debt relief, but

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[1] Within the framework of the Plan, named after US Treasury Secretary Nicholas Brady, at the end of the 1980s, debt instruments of insolvent countries were collateralized using US Treasury bonds and converted into fungible securities. In the process, the banks were forced to accept partial losses, but could rely on the new debt instruments being crisis-proof.

the fact that, under the Toronto terms, not every country with debt problems was offered relief, but only the then so-called Severely Indebted Low Income Countries (SILICs). These were countries whose amount of debt was required to have reached a particular level[2] and which, above all, had to evidence per-capita income of below USD 695 per year. Only then were countries able to benefit from the Toronto terms.

Now it is a fact that, by the very nature of debt, it is not the absolute amount which causes problems for debtors, but rather the potential mismatch between debt and economic productivity. For precisely this reason, in the London Club all debtor countries were treated on an ad-hoc basis, (more or less) commensurate with their debt problems. A key difference between the London Club and the Paris Club however consisted in the fact that, while the London Club was fundamentally nothing other than a forum convened on an ad-hoc basis with the aim of restoring regular debtor-creditor relations on a case-by-case basis, the Paris Club, on the other hand, is an intergovernmental Institution and therefore also considers itself as a global rule setter. Moreover, its conceptual starting point was that public-sector loans consist of taxpayers' money and may for this reason on no account be reduced or, if they were to be reduced, then this should only be on the strict condition of cost minimization.[3] For the purpose of achieving this, at the time, the originators of the Toronto terms considered that limiting debt relief to small, mostly poor and hence 'cheap' countries made sense and, in this context, they perceived the definition of a threshold in terms of per-capita income to be an appropriate technical instrument.

Even back then, a substantial number of countries that, at the time, had preposterously-high levels of debt, managed successfully to benefit from debt relief, in particular those countries where, not long before, East and West had conducted proxy wars. At the same time, however, a large number of countries with comparatively alarming debt indicators, such as Myanmar, Laos, Peru or Argentina, were excluded from the outset.

Subsequently over the years, for some of these countries, but not all, particular solutions were found. At this point, for us, the key noteworthy aspect is this: in the context of all the changes that the specific parameters determining inclusion or exclusion in debt relief have since undergone,[4] the logic of imposing a limit, so as to cover only the poorest and smallest countries, has persisted to this day.

Indeed, *erlassjahr.de* considers such segregation of countries according to whether or not they 'merit' debt cancellation - a policy which has been applied by creditors since 1989 - to be morally questionable. This weighs all the more heavily since the principle of cost minimization potentially seriously damages the most important principle of all debt restructuring, namely the genuine objective of restoring a debtor's economic capacity, which in turn lies not only in the interests of the debtor, but also in the interests of creditors. The history of the most recent debt crises shows that postponing debt reduction in cases where over-indebtedness is beyond dispute will in most cases lead to even bigger debt cancellations in the future – and thus also bigger losses for creditors. What this means is that creditors in general also ultimately pay a high price for speculating on a debtor country managing a miraculous return to solvency, even in the absence of partial debt cancellation.

And yet this is precisely what creditors have speculated on in 2020, despite everything that history has shown. This Focus Paper therefore uses the example of the debt service moratorium, the Debt Service Suspension Initiative (DSSI)[5] adopted by the G20 in April 2020, to examine whether or not the countries selected by creditors include those states which are actually the most in need of relief. By way of example, we examine this in two regions: Central America and the Eastern Caribbean.

[2] 80% cash value of total debt in proportion to economic output, or 220% in proportion to annual export revenues.

[3] Similarly, to this day, the German Budget Act (*Haushaltsgesetz*) has postulated that the German federal government may not in principle waive any debt it is owed, and may only waive debts owed by other states in the exceptional instance of a multilateral arrangement.

[4] Reference may be made here, for instance, to the aforementioned Toronto terms and the multilateral debt relief initiatives HIPC/MDRI in the late 1990s/early 2000s as well as, very recently, the Debt Service Suspension Initiative (DSSI) in response to the Covid-19 pandemic in 2020.

[5] See https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative.

The DSSI was adopted by the finance ministers of the G20 states on 15 April 2020 at a virtual consultation forming part of the Spring Meetings of the International Monetary Fund (IMF) and the World Bank in response to the coronavirus pandemic which, at the time, was still in its early days. The suspension was intended to enable affected countries to have additional fiscal scope for dealing with the pandemic. It initially applied only to debt service payments in 2020, but in October 2020 it was extended, however, by a further six months into 2021.

Under the G20 resolution, the only countries which are eligible to benefit from the DSSI are those which either qualify for 'credits' from the World Bank subsidiary, the International Development Association (IDA), or which have the status of a Least Developed Country (LDC). Since, with one exception, all LDCs are also IDA beneficiaries, the group of DSSI beneficiaries can also be referred to as 'IDA plus Angola'.

In order to benefit from an IDA credit, a country qualifies primarily on the basis of a low per-capita income. If a state is below the specified threshold, totalling USD 1,185 for fiscal year 2021, and if the state additionally fulfils a number of secondary criteria, it will be eligible for access to IDA support.[6] For 2020, 74 countries fulfil these criteria. Of these, 73 were indeed offered participation in the Debt Service Suspension Initiative. Only Zimbabwe was excluded, due to existing payment arrears with the World Bank.

[6] Further terms and the current threshold values as well as a list of qualifying countries may be found at https://ida.worldbank.org/about/borrowing-countries.

2. Close-up on Central America

In this discussion, 'Central America' refers to the original five countries of the Central American Federation – Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica – plus Belize in the north and Panama in the south.

Of these countries, only Honduras and Nicaragua have been offered support under the DSSI. Although so far, neither country has taken up the offer of a moratorium and, for differing reasons, neither country is now likely to do so, from our perspective here, focusing on the characterization and evaluation of creditor decisions, the question of acceptance or non-acceptance is irrelevant. Rather the key question is whether or not, among the seven states, Honduras and Nicaragua are actually the countries most in need of debt relief, or in other words, whether the moratorium reaches those that need it the most urgently, or instead only those which, from a short-sighted creditor's perspective, are the 'cheapest'.

2.1 Debt situation prior to outbreak of the pandemic

In our Global Sovereign Debt Monitor, the annual publication by erlassjahr.de and MISEREOR on the debt situation worldwide, five debt indicators are used to assess the debt level of a country.[7] For each of these five indicators, three risk levels are specified. The levels of debt distress are structured as follows:[8]

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

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

Illustration 1: Levels of debt distress
Source: erlassjahr.de/MISEREOR (2020): Global Soverein Debt Monitor 2020, page 17

On the basis of these indicators, the debt situation is divided into three categories: slightly critical, critical and very critical. The three risk levels for each of the five indicators generate a value for each country of between 0 and 15. Countries with a value between 0 and 4 are categorized as slightly critical, those with a value between 5 and 9 are considered critical, and at between 10 and 15, a country is considered to have a very critical level of debt.

[7] The Global Sovereign Debt Monitors 2009-2020 can be downloaded free of charge here: https://erlassjahr.de/produkt-kategorie/schuldenreporte/ (in German). An English version of the Global Sovereign Debt Monitor 2020 as well as abstracts from 2019 and 2018 can be downloaded here: https://erlassjahr.de/en/publications/.

[8] erlassjahr.de/MISEREOR (2020): Global Sovereign Debt Monitor 2020; GNI = gross national income, GDP = gross domestic product.

As at 31 December 2018, the region under review yielded the following picture:

	Honduras	Nicaragua	Belize	Costa Rica	El Salvador	Guate-mala	Panama
Public-sector debt / GDP	40.3	37.2	94.8	53.5	67.1	24.5	39.4
Public-sector debt / government revenues	149.8	154.3	316.6	392.2	311	233.2	200.4
External debt / GDP	43	90.7	76.8	49	71.1	29	150.7
External debt / annual export earnings	128	207.4	127	131.6	225.4	150.9	348.3
Debt service / annual export earnings	27.5	19	10.1	18.3	45.8	26.7	Not available
Points and risk	3 (slightly critical)	5 (critical)	6 (critical)	5 (critical)	10 (very critical)	4 (slightly critical)	7 (critical)

Table 1: Risk of debt distress for the states of Central America as at 31 December 2018
Source: own representation on the basis of data from Debt Report 2020

Conclusion: Based on existing debt distress, El Salvador is revealed as having the most urgent requirement for debt relief, with a value of 10. This is where the risk is greatest that the additional shock generated by Covid-19 and the recession triggered by the virus leads to sustained paralysis of government and that debt service payments will already be hindering effective measures to combat coronavirus. Panama comes in second, with a value of 7. Honduras, one of the two countries offered support under the DSSI, actually has the least problematical debt situation of all the countries, with a value of 3.

2.2 The impact of Covid-19: an economic slump

As a result of the global recession triggered by the pandemic, the Central-American states are also affected by a major economic slump. Many countries have above-average dependence on the dynamic of the global economy; this is the case in particular with commodity exports and the tourism industry. A number of countries, such as Honduras, Guatemala and El Salvador are moreover dependent on money transfers from abroad, principally from nationals living in the USA and Canada. Since the USA is also impacted by a major economic crisis and growing unemployment figures, transfers of funds from the USA to Central America will decline substantially in 2020 and 2021.

According to the World Economic Outlook[9], the IMF's economic forecast, the economy of Belize is likely to see the biggest slump, with gross domestic product (GDP) declining by 12%, down 14.5 percentage points as compared with the IMF forecast before the onset of the pandemic. Nicaragua and El Salvador will also see a major slump of -6% and -5.4% respectively. Indeed, the forecast for El Salvador has worsened by as much as 7.7 percentage points:

[9] The reports are publicly available here: https://www.imf.org/en/Publications/WEO.

	IMF growth forecast 2020 / Comparison with last pre-Covid-19 forecast[10] *(in %)*	**Resulting downgrade**	**Healthcare expenditure** *(as a percentage of GDP, 2017*[11]*)*	**Healthcare expenditure** *(per capita in USD, 2017)*	**Climate-induced losses per unit of GDP 1998-2018** *(rank in Germanwatch Global Climate Risk Index 2020)*[12]
Honduras	3.5 → -3.3	-6.8	7.9	195.9	42
Nicaragua	-1.2 → -6.0	-4.8	8.6	192.1	44
Belize	2.5 → -12	-14.5	5.6	280.5	7
Costa Rica	2.8 → -3.3	-6.1	7.3	869.1	95
El Salvador	2.3 → -5.4	-7.7	7.2	282.5	27
Guatemala	3.5 → -2	-5.5	5.8	259.9	50
Panama	4.0 → -2.0	-6.0	7.3	1112.3	130

Table 2: Debt distress risk indicators / Vulnerability of economic and healthcare systems
Source: own representation on the basis of data from the IMF, World Bank and Germanwatch

Conclusion: If one were to only take the IMF's internal forecasts as the basis for a decision on offering the DSSI, all of the above countries would have strong arguments for being included, since all are anticipating a substantial fall in GDP. With Belize, however, it is particularly alarming that the country was not offered the DSSI since, even before the dramatic slump, the country found itself in a critical debt situation.

2.3 Capacity of the healthcare system

Table 2 shows two sets of data relating to the healthcare system: expenditure on healthcare as a percentage of GDP, and per-capita expenditure. The two calculations have differing informative content as regards evaluation of a country's healthcare system. If the percentage of GDP is high and constant, then in a context of general economic growth, expenditure on healthcare will also rise. However, a particular percentage of GDP is not necessarily sufficient to ensure a stable healthcare system if economic output overall is too low. For this reason, we additionally consider per-capita expenditure. Here, it becomes clear which countries have the greatest resources available per inhabitant, enabling them to ensure good healthcare provision.

Unfortunately, there is a considerable time lag when it comes to publication of data on healthcare expenditure. The latest statistics of the World Bank and the World Health Organization (WHO) date back to 2017.[13] In terms of per-capita expenditure, Costa Rica and Panama stand out across a regional comparison due to their particularly high levels of expenditure. The other countries of the region spend a sum of between just under USD 200 and just under USD 300 per capita on healthcare. The lowest expenditure is in Honduras and Nicaragua and, here, the difference between the two calculations is particularly striking in that Nicaragua, at 8.6% of GDP, has the highest percentage expenditure, but at the same time the lowest per-capita expenditure (USD 192.1). While Panama records by far the highest expenditure per capita (USD 1,112.3), in percentage terms, at 7.3%, it is only in the middle of the field.

Conclusion: Based only on these data, Honduras and Nicaragua in fact need the greatest assistance in order to be able to strengthen their healthcare systems.

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[10] Sources: In each case, most recent IMF Country Reports.

[11] World Bank: https://databank.worldbank.org/source/world-development-indicators.

[12] Germanwatch (2020): Global Climate Risk Index 2020: https://germanwatch.org/sites/germanwatch.org/files/20-2-01e%20Global%20Climate%20Risk%20Index%202020_14.pdf.

[13] See https://databank.worldbank.org/source/world-development-indicators.

2.4 The impact of Covid-19: spread of the pandemic

Despite their geographical proximity to one another, the impact of the pandemic on each varies widely.

	Honduras	Nicaragua	Belize	Costa Rica	El Salvador	Guatemala	Panama
Number of inhabitants	9,958,901	6,651,854	400,109	5,110,284	6,497,634	18,029,415	4,338,182
Total number of infections	99,347	5,591	3,977	114,367	34,782	109,849	136,567
Infection rate per 100,000 inhabitants	998	84	994	2,238	535	609	3,148
Tests carried out	231,650	-	24,418	326,539	487,782	446,889	694,228
Tests carried out per 100,000 inhabitants	2,326	-	6,103	6,390	7,507	2,479	16,003
Total deaths	2,736	157	66	1,444	1,002	3,766	2,756
Infection fatality ratio	2.75%	2.81%	1.66%	1.26%	2.88%	3.43%	2.02%

Table 3: Impact of Covid-19 in Central America, status as at 06.11.2020
Source: own representation based on data from https://www.worldometers.info/coronavirus/, updated on 06.11.2020

As at 6 November 2020, Panama, with over 100,000 infections, was the most severely impacted by the pandemic in both absolute and relative terms. However, Panama was also the country where the most tests were carried out. Nicaragua's data in terms of test numbers are unclear, since there are no official statistics on tests performed. The official case numbers are correspondingly low, but it is assumed that the number of unreported cases is high. Furthermore, reports by human rights organizations point out that hospital workers are placed under considerable pressure to rewrite causes of death in order to conceal the actual number of Covid-19 fatalities.[14] According to data as at 22 September 2020, Guatemala had seen the highest number of coronavirus victims in the region; with an official total of 3,124 Covid-19 deaths, the case fatality rate lies at 3.68%. In Belize, 21 people had died of Covid-19 by the same reference date.

Conclusion: Across the region, Panama and Guatemala are the most heavily impacted by the pandemic. Most of all, the high case fatality rate in Guatemala signals a significant need for support.

2.5 Risks posed by climate change

Irrespective of the coronavirus pandemic, small states in Central America and the Caribbean are additionally under threat from the consequences of climate change. Column 6 in Table 2 shows how, despite their geographical proximity to one another, the Central-American states are affected to very differing degrees by the consequences of climate change and climate disasters in particular. While in Panama or Costa Rica, natural disasters have barely caused any material damage, the situation in Belize and El Salvador is significantly more critical. The other three countries are situated in the mid range of the Germanwatch Global Climate Risk Index 2020.

Conclusion: Since the DSSI does not take account of the damage caused by climate change and by climate disasters in particular, the states which would have the greatest need for debt relief, in order to enable reconstruction and prevention measures, fall outside the scope of the eligibility review. As a result, these states are left to cope alone with the resulting burdens, at least in terms of the DSSI.

[14] Report by the International Federation for Human Rights (fidh) (04.06.2020): https://www.fidh.org/en/region/americas/nicaragua/nicaragua-fidh-and-cenidh-alarmed-at-presumed-covid-19-deaths-20.

3. Close-up on the Caribbean

The Caribbean is commonly defined as consisting of all island states between the coasts of Florida and Venezuela plus the states of the Central-American isthmus and the independent states of Guyana and Surinam on the South-American mainland. However, we have limited our investigation to the six independent Member States of the Organisation of Eastern Caribbean States (OECS): Antigua & Barbuda, Dominica, Grenada, St Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines and neighbouring Barbados, which is not a member of the OECS. In terms of the size of its members, their economic structure and the specific threat posed by external shocks, this group of countries is relatively homogenous, so that the issue of equal or unequal treatment is particularly relevant here.

As Table 4 below shows, three of these states have been offered and also accepted debt relief under the DSSI; one country has been offered relief and declined. Three countries were excluded from the Initiative because they neither qualify for IDA credits nor do they belong to the group of Least Developed Countries (LDCs).

	DSSI status	**DSSI amount** *(in USD millions)*	**DSSI / GNI**	**Risk of debt distress according to IMF**
Antigua & Barbuda	Not eligible	12.2[15]	0.8	
Barbados	Not eligible	5.1[16]	0.1	
Dominica	**Eligible, accepted**	4.4	0.7	High
Grenada	**Eligible, accepted**	7.0	0.6	In debt distress
St. Kitts & Nevis	Not eligible	0.2[17]	0.0	
St. Lucia	**Eligible, accepted**	4.0	0.2	(Average, 2011)
St. Vincent & the Grenadines	**Eligible, declined**	4.0	0.2	High

Table 4: The DSSI in the Eastern Caribbean
Source: own representation based on World Bank data[18]

The restriction of eligibility in the region to the IDA/LDC group has meant that the 'most costly' country remained excluded. As Table 4 shows, Antigua & Barbuda would have been the country in which inclusion in the DSSI would have achieved the biggest impact in both absolute terms and relative to economic output. Nonetheless, Grenada and Dominica have been included, where their relief would have made up over 0.5% of economic output. By way of comparison, the average across all the countries that have taken up the DSSI is 0.65%.

Which countries should have been given priority consideration in the region, if criteria based on the impact of the various risk factors had driven policy-making?

3.1 Debt situation prior to outbreak of the pandemic

Even before the coronavirus pandemic, the region was among the most heavily-indebted in the world, although with appreciable differences from country to country. Based on the five indicators relating to public-sector debt and external debt, with reference date 31 December 2018, Table 5 shows that debt relief was offered to precisely those countries which had the least critical debt situation in relation to economic output:

15 Estimate based on government debt status information.

16 Estimate based on IMF global statistics.

17 Only Paris Club debts; a full set of data is not available.

18 World Bank (2020): https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative.

	Public-sector debt / GDP	**Public-sector debt / government revenues**	**External debt / GDP**	**External debt / export earnings**	**External debt service / export earnings**
Antigua & Barbuda	88.1	442.2			
Barbados	124.7	420.7	32.7	79.5	6.6
Dominica	83.1	189.5	55.3	161.8	16.5
Grenada	63.1	240.2	58.8	97.4	8.4
St. Kitts & Nevis	62.0	169.0	20.9	351.5	
St. Lucia	66.8	283.5	35.1	49.1	3.9
St. Vincent & the Grenadines	73.1	263.5	37.6	101.6	12.3

Table 5: Debt Indicators in the Eastern Caribbean, end of 2018
Source: own representation based on data from Global Sovereign Debt Monitor 2020

All four countries which were offered the DSSI, while having a slightly-critical level of public debt (both internal and external), had scarcely any critical indicators in terms of overall (private-sector and public-sector) external debt. On the other hand, the states of Antigua & Barbuda, as well as Barbados, had significantly more critical levels of debt, both internal and external, than the four which were offered the DSSI. In addition, Saint Kitts & Nevis, which was excluded, had by far the most critical indicator in terms of overall external debt.

Conclusion: The debt relief has missed those countries which would have needed it the most urgently and favoured those which, over a regional comparison, were the least in need.

3.2 The impact of Covid-19: spread of the pandemic

In terms of percentage of the population, the region as a whole has relatively low infection rates. However if one adopts the logic that those with the most critical values should be the first to benefit from an expansion of fiscal scope as provided by the DSSI, once again, the G20 have done it all wrong, since Antigua & Barbuda are the most severely affected. Saint Vincent & the Grenadines ranks third, and this country was indeed offered support under the DSSI. Overall, the beneficiary countries rank significantly lower:

	Number of infections per 100,000 inhabitants	**Deaths** per 100,000 inhabitants
Antigua & Barbuda	111	3
Barbados	70	2
Dominica	43	0
Grenada	21	0
St. Kitts & Nevis	36	0
St. Lucia	15	0
St. Vincent & the Grenadines	64	0

Table 6: Incidence of coronavirus in the Eastern Caribbean
Source: own representation based on data from the Berliner Morgenpost[19]

Conclusion: The DSSI creates scope for combating coronavirus precisely where it is least needed for this particular purpose, and lets down those countries which are most severely affected by the pandemic.

[19] Source: https://interaktiv.morgenpost.de/corona-virus-karte-infektionen-deutschland-weltweit/ reference date: 6.10.2020.

3.3 The impact of Covid-19: an economic slump

Particularly as a result of the collapse in tourism, there is a considerable need for support in all seven states as a result of the economic slump. Looking at Table 7, in which the IMF identifies in its forecast those countries which will suffer the severest economic downturn, once again, two countries not included in the DSSI rank at the top, namely Barbados and Antigua & Barbuda. And yet, the third and fourth-ranking countries of Grenada and Saint Lucia, which rank just after Antigua, are included.

	Per-capita income *(in USD)*	**Incidence of Covid-19** *(no. of infections per 100,000 inhabitants as at 23.9.2020)*	**IMF growth forecast 2020 / comparison with last pre-Covid-19 forecast**[20] (in %)	**Resulting downgrade**	**Climate-induced losses per unit of GDP 1998 – 2018** *(rank in Germanwatch Global Climate Risk Index 2020)*
Antigua & Barbuda	17,790.3	100	5.3 → -10.0	-15.3	6
Barbados	18,142.2	66	0.8 → -11.4	-12.4	102
Dominica	8,300.4	33	9.2 → -4.7	-13.9	1
Grenada	10,965.5	21	2.7 → -9.2	-11.9	3
St. Kitts & Nevis	19,896.5	36	2.9 → -8.1	-11.0	14
St. Lucia	11,611.4	15	3.2 → -8.5	-11.7	17
St. Vincent & the Grenadines	7,463.5	58	2.4 → -5.1	- 7.5	15

Table 7: Debt distress risk indicators
Source: own representation based on data from IMF debt sustainability analyses (DSAs) 2020 and Germanwatch

If, in addition, the growth forecasts contained in the IMF's World Economic Outlook from June 2020 are compared with the last pre-Covid-19 forecasts, then the slump in all of the countries, except Saint Vincent & the Grenadines, is significantly above 10%.

Conclusion: In terms of the DSSI as a first step towards re-establishing a dynamic economy by reinstating fiscal scope, it is not possible to state, as with other indicators, that the initiative is specifically benefiting the 'wrong' states. Rather it is the case that all the states are more or less equally affected. Unfortunately, this does not mean that they are all receiving the same relief.

3.4 Risks posed by climate change

All of the small island states of the Eastern Caribbean rank among those countries of the world most severely affected by climate change (see column 6 in Table 7). This is evident in particular in the hurricanes occurring in the annual hurricane season between May and October. The only exception is Barbados which, due to its exposed westerly location outside the Caribbean arc, is only affected by somewhat weaker storms. Having regard to this criterion, it is actually right to exclude Barbados. All of the other states are more or less similarly threatened, but are not treated equally by the DSSI.

Conclusion: Unfortunately, the DSSI is not leading to the islands under the greatest threat from climate change in the middle of the 2020 hurricane season securing fiscal latitude enabling them to deal with an impending storm disaster.

[20] Sources: In each case the most recent IMF Country report; for St Kitts & Nevis, Antigua & Barbuda and Dominica, comparison of 2019 and 2020 forecasts from the IMF World Economic Outlook, April 2020.

4. Guidelines for more effective selection of countries to be granted debt relief

Can the DSSI, according to the conclusions of this investigation, therefore be considered as an effective response to the pandemic itself as well as to the recession triggered by the pandemic? And can it perhaps even help those which, in the midst of the recession, are exposed to additional risks due to climate change? Regrettably, the answer to these questions is no.

We have seen that, both in Central America and in the Eastern Caribbean, it is not those countries most in need of relief, but the 'cheap' countries, which have been offered debt relief based on the DSSI.

How could the G20 – and other creditors – do things better?

If we take a look at national insolvency laws, there is no restriction at all on access to creditor protection based on higher or lower income of an insolvent business or individual. Indeed, this would be a breach of a fundamental principle of the rule of law, namely that the application of legal standards may not depend on the repute or indeed the income of an individual.

It would therefore make sense not to define specific groups of countries at all which either have access to or are excluded from debt relief. Instead, in principle all countries should have the possibility of access to a temporary suspension of payments in the event of a serious external shock, via a predefined procedure conducted by a specific competent authority. For its part, the moratorium would then constitute the period in which meaningful debt restructuring could be negotiated with all creditors.[21]

Experience with existing debt-relief options – from the HIPC Initiative to the DSSI – shows that such an option would on no account trigger a 'run' by all states on moratoria and debt-restructuring deals, which is what creditors fear, whether implicitly or explicitly. Indeed, under the due processes based on the rule of law outlined here, restructuring negotiations are not a path to cheap cash. Detailed scrutiny of debt-relief requirements, including an audit of the details of borrowings which have led to a particular state of debt distress, is an arduous task for the governments concerned. In addition, during the negotiations, access to the capital markets would undoubtedly be restricted. However, this would be the price for such access being all the more possible once the negotiations were concluded.

Such an open offer would put the decision on future debt servicing or the renegotiation of external debt in the place where it belongs, namely in the hands of the legitimate governments of the affected countries. For powerful creditor governments and international financial institutions, accustomed to dividing the world up into good and evil, friendly and hostile, useful and unattractive states, such an option would undoubtedly mean a loss of power. However, the winner would be global financial stability if, in future, crises could be overcome quickly, efficiently and based on a high level of intergovernmental consensus.

[21] As for how such a procedure could work in detail, this is described in detail by the United Nations Conference on Trade and Development, UNCTAD (2015): Sovereign Debt Workouts: Going Forward. Roadmap and Guide, https://unctad.org/system/files/official-document/gdsddf2015misc1_en.pdf. More concise and pragmatic, also in terms of the declaration by civil society published by the Jubilee Caribbean Network (2018): Statement from Jubilee Caribbean, https://erlassjahr.de/wordpress/wp-content/uploads/2018/03/180315-Statement-Jubilee-Caribbean.pdf; in German in: erlassjahr.de (2018): *Vor dem nächsten Sturm. Entschuldung als Krisenreaktion in der Karibik* [Before the next storm. Debt relief as a response to crisis in the Caribbean], Focus Paper No. 59, https://erlassjahr.de/produkt/fachinformation-59-vor-dem-naechsten-sturm-entschuldung-als-krisenreaktion-in-der-karibik/