Cross-Party Group on International Development

Tuesday 25th October 2022 18:00-19:30

Minute

Present

MSPs

Sarah Boyack MSP, Maggie Chapman MSP, Karen Adam MSP, John Mason MSP, Foysol Choudhury MSP

Invited guests

Eugene Kabilika, Former Executive Director, Caritas Zambia; Shona Riach, Executive Director UK, International Monetary Fund; Line Christensen, Executive Director, Jubilee Scotland.

Non-MSP Group Members

Scotland's International Development Alliance, Oxfam Scotland, Scottish Fair Trade Forum, ACTSA, Leprosy Mission Scotland, UN House Scotland, Link Education International, Secure Scotland, Christian Aid Scotland, Clean Water Wave, Comfort International, Corra Foundation, IIED, Jubilee Scotland, SCIAF, Tearfund Scotland, Thrive, Unicef UK, University of Dundee, University of Edinburgh, University of Glasgow, University of Strathclyde, Water Witness International, Catherine Currie Consulting Limited

Apologies

Mark Ruskell MSP, Alasdair Allan MSP, Graham Simpson MSP, Liam Kerr MSP

Agenda item 1 - Welcome

Sarah Boyack opened the meeting and welcomed everyone.

Sarah introduced the theme of the meeting – prospects for debt justice in Zambia. Sarah explained Scotland's historical links with Zambia and that the meeting would also consider what lessons can be learned from Zambia.

The minutes from the last meeting were agreed.

Agenda item 2 – AGM - Election of officials

Louise Davies of Scotland's International Development Alliance chaired the meeting temporarily to call for nominations for convenor of the parliamentary group. Karen Adam nominated Sarah Boyack as convenor. This was seconded by Foysol Choudhury.
Sarah Boyack then chaired the meeting to call for nominations for deputy convenor. Sarah nominated Karen Adam. This was seconded by Foysol Choudhury. Sarah Boyack then proposed that Scotland's International Development Alliance remain as the secretariat to the group. The AGM business was concluded.

Agenda item 3 - Discussion

Sarah introduced Eugene Kabilika who joined the meeting remotely from Zambia.

Eugene Kabilika: Eugene began by explaining the past response to debt crisis in Zambia. In the 1990s the Church in Zambia and other concerned citizens campaigned for the cancellation of $7.2 billion debt. In 2005 Zambia agreed the HIPC initiative which reduced debt to less than $900 million.

The debt reduction, along with good governance and a fight against corruption, resulted in economic growth, and in 2011 Zambia attained low-middle income country status.

In 2011 the new government increased spending on infrastructure. The economy sustained this expansion until 2015 when a collapse in copper prices and drought caused a downturn. As the country was credit worthy it borrowed from private lenders.

In 2019 commercial debt accounted for 50% of Zambia's total debt stock.

In 2021 the government allocated more money for debt servicing than education, health, water and sanitation combined. Debt servicing crowded out productive sectors such as agriculture and manufacturing. High debt servicing meant that Zambia failed to employ new teachers and health workers; provide clean water and sanitation to vulnerable communities; and supply health centres with essential medication. Buildings meant for schools and health services were left unfinished. Inequality and the cost of living increased. Low employment levels mean many have no income of their own.

The previous government attempted to respond to the crisis by hiring advisors and cancelling some project related loans, and also attempted to restructure public debt. Efforts such as a consent with bondholders, an application for a temporary Debt Service Suspension Initiative and an application to the IMF all failed. Zambia defaulted on debt payments.

The new government secured a staff level agreement with the IMF enabling the loan of $1.3billion. This allows conversations with private creditors and an attempt to make Zambia's debt sustainable.

The IMF are encouraging the government to make reforms, including improving debt management, transparency, fighting corruption, safeguarding financial sustainability and improving the productivity of key sectors.

The government has a strategy to dismantle domestic arrears which amounted to K76.4 billion at the end of June 2022. This includes categories such as public utilities and VAT refunds. By 2026 all arrears should be paid.

The government have enacted a Public Debt Management Act to ensure accountability in management of public debt. It has yet to be implemented.

Civil Society organisations are asking that debt is acquired transparently, is used prudently and that current debt levels are reduced to sustainable levels. They are also engaging both multilateral and private lenders for possible debt cancellation.
The Zambia CSO Debt Alliance has had good dialogue with government and contributed recommendations for the Public Debt Management Act.

Eugene concluded by stating that we must learn from the past. When Zambia's debt was cancelled previously and the economy was managed prudently, they saw economic growth from 2003 to 2010. Debt levels must be made sustainable to avoid Zambia returning to a debt crisis.

Sarah Boyack: Sarah thanked Eugene and introduced Shona Riach who was contributing from Washington DC.

Shona Riach: Shona explained that the IMF has a central mission to support the financial stability and health of the international financial system. They do this through economic surveillance - providing advice to countries at global and national level. They also provide technical assistance and capacity development – for example helping build tax collection agencies or debt management offices. And they also provide support through lending.

IMF support provides a sort of kitemark in saying that they think the country is doing the right thing to reform its economic programme.

In August the IMF board approved a 38 month programme for Zambia worth $1.3 billion. This is important because it will provide desperately needed money to help finance Zambia's budget including social spending to help poorest in society, and also because Zambia is the first country to reach this stage under the G20 Common Framework for debt restructuring.

Shona supported Eugene's description of Zambia's recent history, stating that over the past decade there has been unsustainable debt accumulation, unsustainable levels of spending on public sector wages and inefficient food and fuel subsidies. A collapse of copper prices and non-concessional borrowing led to a sharp increase in public debt. IMF figures show that in 2011 Zambia's debt was at $1.4billion and by 2019 it was $14.1 billion. The cost of servicing that debt crowded out social protection. A drought and the Covid pandemic further worsened the situation, leading to a default in November 2020.

IMF rules only allow lending where debt is sustainable or where the country is on a path to sustainability. This presented a stumbling block so debt restructuring was required, which is where the G20 Common Framework comes in.

In July one third of emerging market economies and two thirds of low income countries were either at high risk of debt distress or already in debt distress.
In the past the Paris Club was used to support these situations, but it is very much a G7 based organisation. More and more of the debt held by African countries is held by non G7 members, China and India in particular. Chinese debt is complicated as it's not always clear what is government debt or public service lending.

In Nov 2020 the G20 agreed the Common Framework to provide a process for debt restructuring, bringing in all G20 countries. It committed to coordination of debt relief and was heralded as a hope to provide relief to countries like Zambia, but so far has under-delivered.

Zambia, Chad and Ethiopia have applied but none have actually got to a restructuring agreement. In large part this has been due to reluctance from China.
Progress has now been made in Zambia with bondholders establishing a creditor committee which is the first stage of the Common Framework. China is co-chairing the committee which is enormously significant.

Progress in Zambia continues to be slow but they have a reform minded President and we've seen far reaching reforms to support fiscal responsibility and human development. The IMF funding provides some breathing space.

Sarah Boyack: Sarah thanked Shona and introduced Line Christensen.

Line Christensen: Line started by explaining that Zambia's situation is not unique and the external debt stocks in low and middle income countries (LMIC) total $8.7trillion. External debt payments averaged 14% of government revenue in 2021, compared with 7% in 2010.

According to IMF assessments of LMIC, 9 countries are already in default on some external debt while 30 are at high risk of debt distress. Globally 54 countries are in a situation where debt payments undermine their ability to protect citizens. High levels of debt prevents countries from spending on necessary areas such as health, education and climate adaptation. Lower income countries are spending 5 times more on debt repayments than on climate action, and 1 out of 5 LMIC spent more on debt services than education, health and social protection combined.

The crisis is made worse by the shortcomings of the legal frameworks, and lack of global collective action on debt. There is no formal international mechanism with rules of engagement to deal with sovereign debt resulting in messy, disorderly debt defaults and delays in returning countries to a sustainable position.

This landscape opens the field for lenders to pursue their own geopolitical agendas. 12% of debt payments made by LMIC go to China. These new actors are able to secure exclusive access to resources and to lock them into debt arrangements beyond the reach of traditional debt governance levers.

Another issue is the lack of appropriate mechanisms to deal with debt owed to private creditors. 47% of external debt payments made by LMIC are to private lenders. One of the biggest problems of the DSSI by the G20 is that private lenders are not included – only a quarter of debt payments were suspended by countries that requested it and the fiscal space was then available to private creditors. Private creditors are also not included in the Common Framework.

Line then outlined some solutions, despite the complexities:
Firstly, a multi-lateral debt workout mechanism, ideally under the UN. This could provide timely, just and equal treatment to sovereign debt crises.
Secondly, the IMF need to provide clear guidelines and more realistic assessments. They don't have a clear definition of what sustainable debt should be, and have been historically unrealistic about how much countries can repay.
Thirdly, we need more transparency. Line called for a public register for private to sovereign debt agreements and more oversight for trading of sovereign bonds.
Fourthly, new, additional and better quality climate finance so that countries are not forced into further debt by the climate crisis. 70% of climate finance is provided as loans forcing countries into deeper debt.
Lastly, the UK could pass laws to make collaboration with private creditors easier. Around half of international private debt contracts and 90% of bonds of countries eligible for the Common Framework are governed by English law.

Line concluded her presentation with some suggestions for MSPs and the Scottish Government.
They could:

- Call on the UK government to pass laws to make collaboration with private creditors easier.
- Raise the matter of debt and what the UK's role could be with the UK Minister for Africa.
- Follow up on the House of Commons enquiry into debt relief in LMICs, asking the Scottish Government to call for the UK to act on evidence that has been submitted and to be ambitious.
- Open lines of communication with partner governments and civil society to discuss debt levels.
- Keep pushing Loss and Damage including the First Minister's message that the climate crisis should not put countries into further debt.
- Call for private creditors with groups in Scotland such as BlackRock to offer debt cancellation to countries that need it, and ask them to participate in the Common Framework on comparable terms.

Agenda item 4 – Q&A

Sarah thanked the presenters and opened the discussion to the wider meeting attendees.

John Mason MSP asked if the IMF had a target or limit on what sustainable debt could be, and also extended the question to Eugene in Zambia.

Shona responded to some of Line's points initially. She agreed with the point about debt transparency and said that the IMF were looking at some sort of register of private sector debt held by countries. Shona also challenged the idea of being saddled with debt and stressed the importance of countries being able to borrow and having the sovereign right to do so. She recognised the responsibility that the UK has regarding private debt as so much is held under English law, and said there was some progress in including clauses to ask creditors to reach agreements with other creditors to treat debt in the same way. However, she felt that encouraging creditors was the best option as legislation would mean that the debt would simply be held under another jurisdiction.

In response to John's questions, Shona said there was no single measure for sustainable debt and it would be dependent on a country's circumstance and what the borrowing was being used for (e.g. borrowing for infrastructure/growth).

Eugene commented that in 2022 the budget for external debt servicing was K51.3billion whilst the budget for economic affairs to stimulate growth was K33.7billion. For Zambia they are looking at 12% of budget as a sustainable debt repayment level.

Line responded to Shona's comments around rights to borrow, stating that historically countries have needed to accept the IMF's view on what decisions to make. Line also felt that the threat of debt moving to another jurisdiction didn't warrant the UK not taking action and that we should uphold our principles in the same way we would with human rights law.

Shona said it had always been the IMF's view that countries can decide whether they want to borrow from private creditors. She also said we should encourage lenders to include collective action clauses but thinks it is ineffective to make it mandatory and better to encourage rather than legislate.

Eugene commented that some countries have found the IMF programme too strict. He felt that Zambia's debt payment strategy and the new Act would be a positive step to ensure the programme's terms are met.

Shona acknowledged that there is some truth in historical criticism that the fiscal measures that the IMF ask of countries were too harsh. Putting emphasis on things like tax collection and domestic resource mobilisation with social protection is more the direction of focus now. The fund programme should support reform that addresses underlining problems, otherwise debt could return.

Geoffrey Care from Bressay Outreach asked how Zambia could repay its loan within 38 months. Shona explained that the fund lends over a period of 38 months with targets for reform over 6 month periods. The repayment takes place over a 10 year period.

Maggie Chapman MSP commented that from her experience living in Zimbabwe in the 1980s and 1990s the IMF had not acted with the support of the people, even if it had persuaded the government what to do. She asked Line about the 70% loan figure used for climate finance and whether the loans came from states or private creditors?

Maggie felt that LMIC are likely to be least responsible for the climate crisis and we should be talking about climate reparations and providing grants not loans.

Line offered to share a paper about climate and debt. She agreed that climate reparations should be the approach.

David Kenvyn ACTSA Scotland offered to draft a letter to BlackRock that Sarah and the CPG could send, asking for an explanation of their policy regarding global debt.

Sarah Boyack MSP: Sarah thanked all speakers. She was keen to explore some of the suggested actions and keep momentum within the group. Minutes and actions will be circulated and Sarah encouraged attendees to follow up with their MSPs.

Agenda item 5 – next meeting

The next meeting will be in January, date tbc, and anyone with suggestions of topics or speakers should contact louise@intdevalliance.scot.