GLOBAL CAMPAIGN FOR

EDUCATION

www.campaignforeducation.org

Debt relief and Education Financing:

Background Paper[1]

[1] This paper was drafted by Luis Eduardo Perez Murcia. It has benefited from the ideas shared by a group of specialists on education financing who took part in a webinar on debt relief organised by GCE and from conceptual discussions about debt alleviation and its political and policy implications for education with Vernor Munoz Villalobos and colleagues from the GCE Secretariat. All errors and omissions are the author's responsibility. October 20th 2020.

Executive summary

This paper provides a conceptual background to inform GCE's board political position and campaign on debt relief and education financing.

Based on the analysis of academic and policy research and ongoing debates on international financing for development, the paper explores and explains the connections between government debt and education financing. The paper's overarching argument is that the connections between debt and education financing cannot be taken for granted. In fact, the empirical evidence about the correlation between debt alleviation and education financing stills limited. The relationship is more complex that it is often described in policy briefings and the real impact of debt relief on education budgets seems to be context specific. It depends on a large number of factors including the magnitude of the country's debt crisis, its level of development, and the extent to which the allocation of resources for the provision of free quality public education is considered in the negotiation of debt alleviation mechanisms.

The practical implication of the discussion presented in the paper is that there is not a single recipe to increase education budgets through debt relief mechanisms and thus, rather than opting for a single option such as declaring debt illegitimate or calls for whether debt alleviation, debt swaps or debt cancellation, GCE may adopt a menu of options for setting its political position on debt and develop its campaign. While debt cancelation is an option available for LDCs and LICs in the ongoing UN's call for debt alleviation to mitigate the health and economic crisis, this option seems unlikely for MICs in the short term.

This recommendation is not only in line with the ongoing debates on debt led by the *UN Financing for Development in the Era of COVID-19 and Beyond initiative* but also in line with the fact that the debt alleviation mechanisms available for a specific country are strongly associated with its level of economic performance, social development, and the magnitude of the debt crisis. This recommendation also takes into consideration the complexities of narrowing the options for debt relief in overly complex financial contexts where the middle and long-term impacts of adopting a debt alleviation mechanism on sustainable financing for development, including the right to education, are largely unknown.

Finally, the paper raises the issue that GCE may show awareness that campaigning for debt alleviation and more broadly for financing education in the context of an ongoing health and financial crisis involve additional complexities. Today, understandably, many governments and citizens are claiming for debt alleviation to improve their health systems and improve family's livelihoods.

GCE cannot ignore these dynamics and instead may call into attention the urgent need that governments and the international community adopt social policies that explicitly acknowledge the interdependence of human rights. A campaign without a clear message about the interdependence of human rights may risk lacking support from CSOs which are now calling their governments to provide support to families who are struggling to meet needs. GCE should not simply campaign for education in contexts such as sub-Saharan Africa, notably the Sahel region, where millions of people are at risk of a new famine or in the many contexts where people cannot simply afford clean water to wash their hands and prevent contracting COVID-19.

This is a campaign that should reinforce the interdependence of human rights. The right to education may not be the first priority for people with an empty stomach and in contexts where health systems are so precarious, and their most immediate concerns are feeding a family and keeping alive. This does not mean to develop a campaign that places education on a second place. Instead, this means developing a campaign where the role of education for saving lives becomes central.

I. Introduction

The Covid-19 pandemic and subsequent emergency government responses to mitigate its impacts, notably lockdowns, have suddenly left billions of learners out of school. Their return to the classroom and the enrolment of those who were left behind by education systems before the pandemic, cannot be taken for granted. They depend on a large group of factors including the effective control of the disease and the allocation of financial resources to ensure inclusive and equitable quality education and lifelong learning opportunities for all.

The ongoing health and financial crisis have not only made much more visible the profound structural inequalities that characterise our societies, but also put enormous pressure on the already scarce financial resources for education. To make things considerably worse for the less developed countries and the less disadvantaged members of society, countries already in very stressful financial conditions are struggling to invest in the provision of social services and guaranteeing the rights of their citizens because a significant part of their limited resources are allocated to debt servicing. ***The Global Campaign for Education strongly believes that the allocation of domestic financial resources to pay debt servicing rather than ensuring people's basic human rights, will significantly impact countries' development in the short and long-term if not urgent action to alleviate or cancel debt are taken.*** Recent evidence suggests that the international community's failure to provide upfront debt relief for countries whose financial resources have been allocated to tackle the pandemic, have forced a significant number of countries to cut public budgets. More specifically, Munevar's (2020:1) analysis reveals that 40 out of 80 countries have implemented "off-setting expenditure cuts worth 2.6 per cent GDP in 2020"[2].

Against this background, **the Global Campaign for Education considers of enormous importance to emphasise that financing of quality free public**

[2] The list of countries that have received IMF financial assistance and that have been included in Munevar's (2020) analysis can be found at COVID-19 Financial Assistance and Debt Service Relief: https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker.

education is integral to the human right to education and is one of the central obligations of governments and the international community. In order to promote and defend quality education as a basic human right and to mobilise public pressure on governments and the international community to fulfil their commitments to provide free, quality inclusive, public education for all, the Global Campaign for Education is seeking to launch a campaign to call for debt alleviation for those countries, especially low-and-middle income countries in debt crisis. **GCE strongly believes that if emergency financial measures to support communities and families in countries struggling with the provision of fundamental rights, notably the right to education are not undertaken, billions of children will likely never return to school and their families and their future generations are likely to be trapped in intergenerational poverty**.

Against this backdrop, this paper explores and explains the connections between government debt alleviation and education financing. Based on the analysis of scholarly and policy research and ongoing debates on international financing for development, the paper's overarching argument is that the connections between debt and education financing cannot be taken for granted. They are complex and context specific. Debt alleviation does not necessarily result in more financial resources for education being allocated. A positive impact on education financing is likely to depend on a large number of factors including the magnitude of the country's debt crisis and the extent the allocation of resources for the provision of free quality public education is considered in the negotiation of debt alleviation mechanisms.

Before explaining the structure of the document, it is worth emphasising that the paper aims to provide a conceptual background to inform GCE's board political position and campaign on debt relief and education financing. It is also worth emphasising that debt is considered to be part of a broader education financing campaign and that this work will be addressed in a campaign plan.

Including this introduction, this paper is organised in six sections. Section two conceptualises the notion of government debt and some of its multiple mechanisms. Section three discusses recent empirical evidence related to the potential impact of debt alleviation on social services, especially on education financing. Section four summarises some of the critical debt alleviation-related policies recently adopted at the HLPF 2020 and discusses their implications for the GCE's campaign. Section five identifies some of the critical challenges for a campaign on debt alleviation and provides a set of alternatives to define its scope. The paper ends in section six by summarising some of the critical issues and complexities that a campaign on debt alleviation and education financing involve.

II. The notion of government debt and its mechanisms

Before exploring the relationship between government debt and education financing, a brief conceptualisation of the term 'government debt' and some of its alleviation mechanisms is needed.

To begin with, the term 'government debt', which is also called public, national, or sovereign debt, is any credit owed by a central government to creditors. Creditors can be any national person or institution within or outside the country. The former is called *domestic debt* and the latter *foreign* or *international debt*.

Depending on a wide range of factors such as their levels of development and debt sustainability, governments may lend money from multilateral and bilateral organisms. *Multilateral* debt is owed to institutions owned by several organisations, individuals, or countries; and *bilateral* debt is owed to another government[3]. Either *global* or *regional*, multilateral debt aims for 'mobilising finance, knowledge, and expertise to address the biggest challenges faced by

[3] Private debt may take different forms including bonds, commercial bank loans, and syndicated loans. For those interested in how those forms of debt operate, technical details about interest rates and charges, and amortization mechanisms see Jubilee Debt Campaign (2020: 4-8).

developing countries, including poverty and environmental problems' (Leal & Barreto, 2020: 1).

The International Monetary Fund (IMF) and the World Bank Group (WBG) are perhaps the most well known *global multilateral organisations*. The WBG consists of five organisations: The International Bank for Reconstruction and Development (IBRD), which lends to governments of middle-income and creditworthy LICs (LICs); the International Development Association (IDA), which provides interest-free loans (credits) and grants to governments of the poorest countries; the International Finance Corporation (IFC) which is the largest global development institution focused exclusively on the private sector[4]; the Multilateral Investment Guarantee Agency (MIGA), which promotes foreign direct investment into developing countries to support economic growth, reduce poverty, and improve people's lives; and the International Centre for Settlement of Investment Disputes (ICSID) which provides international facilities for conciliation and arbitration of investment disputes[5].

Regional multilateral organisations include Regional Development Banks (RDBs). There are four RDBS: African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), and Inter-American Development Bank (IDB)[6]. According to Ottenhoff (2011), most of the RDBs have two main funds: hard and soft lending windows. The former refers to financial assistance given on market-based terms. The soft lending windows are often interest-free grants and operated by development funds: African Development Fund, Asian Development Fund and Fund for Special Operations for the Americas. Those funds often provide "grants and highly concessional loans (with low interest rates and long repayment periods) to the region's poorest countries" (Ottenhoff, 2011:2).

[4] IFC promotes sustainable growth by financing investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments. World Bank Group (2020)
[5] Ibid
[6] Details about the aims and operation mechanisms of Regional Development Banks can be found at Ottenhoff (2011).

Although international organisations such as IMF and the WBG generally consider debt in foreign currency as external debt, domestic and external debt can be owed in domestic and foreign currency[7].

There are several indicators to assess *government debt problems*, being the ***total debt as a proportion of a country's global domestic product,*** one of the most widely used. As the Jubilee Debt Campaign (JDC) (2020) stresses, this indicator has significant limitations to accurately assess debt problems. It does not consider issues such as the interest payment of the debt or how much revenue tax a government is collecting to pay the debt. Instead, JDC (2020) suggests the use of the ***government external debt service as a proportion of revenue*** as a more accurate indicator. It measures all government debt payments, including principal debt and interest, which leave the country, as a proportion of government revenue. "While there are exceptions, external debt service higher than 15–20% of revenue tends to indicate a government has a debt problem which could lead to government spending cuts, the imposition of an IMF programme or a default on the debt" (JDC, 2020: 5)[8].

The international financing architecture contemplates several ***debt alleviation mechanisms*** also called 'debt relief' mechanisms. In the context of this paper, the terms debt alleviation and debt relief are used as synonyms. They both refer to the process of cancelling, rescheduling, or refinancing a government debt; often owed to a multilateral or bilateral organisation. Those mechanisms are often used as a last resource for supporting countries facing ***debt crises*** and/or ***debt distress***.

The WBG and IMF use the term 'debt crisis' to denote a situation in which governments cannot repay their debt. JDC (2020) contests this definition and proposes to rather use this term to denote a situation in which debt payments are

[7] See Jubilee Debt Campaign (2020), page 2.

[8] Despite its benefits, the indicator has some significant limitations. To provide a longitudinal analysis of debt government, for example, future debt service needs to be estimated and its value can be affected by a wide range of factors including economic growth, future borrowing, and currency changes. See JDC (2020: 5).

preventing a government from having adequate funds to meet its basic human right commitments in terms of providing essential public services.

IMF (2016) conceptualises 'debt distress' as a situation when a country is already experiencing difficulties in servicing its debt. This can be evidenced, for example, by "the existence of arrears, ongoing or impending debt restructuring, or indications of a high probability of a future debt distress event"[9].

Drawing on the previous definitions and considerations, ***GCE conceptualises the debt crisis as a situation in which the allocation of domestic financial resources to ensure basic human rights, notably the right to education, health, housing, and food, is falling short because rather than investing in their effective protection, countries are servicing debt.***

As suggested earlier, there is a large set of debt alleviation mechanisms in international financing architecture. Amongst others, debt cancellation, debt restructuring, and debt swaps are some of the most frequently used to support LICs to deal with illiquidity and solvency problems.

'*Debt cancellation'* is likely the most straightforward mechanism for debt alleviation. It is considered a last resort mechanism for countries facing significant debt distress situations due for example to war-related financial constraints or financial crises. As discussed in section four of this paper, this option was recently adopted by G20 countries to support LICs to navigate the health and subsequent financial crisis.

'*Debt restructuring'* can be defined as "an exchange of outstanding sovereign debt instruments, such as loans or bonds, for new debt instruments or cash through a legal process' (Das et al, 2012: 8). Two main elements can be distinguished when conceptualising debt restructuring: debt rescheduling and debt reduction. "Debt rescheduling, which can be defined as a lengthening of maturities of the old debt, possibly involving lower interest rates. Debt rescheduling implies

[9] https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/39/Debt-Sustainability-Framework-for-Low-Income-Countries.

debt relief, as they shift contractual payments into the future; and debt reduction, which can be defined as a reduction in the face (nominal) value of the old instruments" (Das et al 2012: 8).

Finally, '*debt swaps'*, also called 'debt swaps for development' (Buckley, 2011) or 'debt conversions' (Hiroshi, et al 2018) are a debt relief mechanism in which the counterparts involved in a loan agree a set of conditions to secure that resources that are no longer allocated for debt servicing being invested in financing development. Debt swaps are likely to improve liquidity indicators, and when the financial resources are used to invest in the provision of social rights, notably the right to education, long-term development and growth impacts can be expected[10]. In fact, as UN (2020b: 104) stresses, "long-term productive investments in the SDGs will likely boost developing countries future growth rates, thereby, also facilitating the repayment of outstanding debt stocks".

Debt swaps mechanisms, however, face considerable challenges to make a positive impact on sustainable development in general, and in education financing, in particular. They do not alleviate the issue of solvency in the short term and are often associated with high set-up costs, which are likely to counterbalance a positive effect on liquidity[11].

III. Debt relief and education financing: how does the connection work?

The ongoing global health and economic crisis have meant that financial resources for education are under significant pressure. According to UN (2020), the world's gross domestic product, foreign direct investment and remittances are estimated to drop in 2020 by 4.9 per cent, 40 per cent, and 20 per cent, respectively, due to the pandemic. In fact, financing specialists suggest that the ongoing debt crisis is even more complex and critical than the one the world experienced in the 1970s.

[10] For an analysis of the potential benefits of debt swaps for financing education see Cassimon et al (2009), UNESCO (2009 & 2013), and Hiroshi (2018).

[11] A detailed analysis of the potential and limitations of this debt mechanism can be found at UN (2020b: 104).

ActionAid (2020: 43), for example, stressed that it is premature to predict "whether developing countries will enter another period of going from one IMF program to another, gradually converting private debt to official status, or what conditions they will have to agree to in the future". A recent analysis by Munevar (2020) suggests that IMF's policies are prioritising debt payments to creditors over the needs of the local population.

In this context, a large number of governments, representatives of the international community, international NGOs, and civil society organisations have started to unite their voices to call for the urgent implementation of debt alleviation policies, especially for countries facing debt crisis and distress; which is the case of most of low-income countries and a significant number of middle-income countries[12]. In Sub-Saharan Africa, for example, the World Bank estimates that over 50% of the countries of the region have doubled their external debt stocks since the global financial crisis of 2008. The cases of Ethiopia (885%), Zambia (521%) and Uganda (437%), are only three of the most critical examples of debt burden[13]. Although the debt crisis is much more significant in the global south, it is also affecting countries in the global north. Spain, Portugal, Greece, and the Republic of Ireland are some critical examples (see Mbaye, 2019).

Whether and how debt alleviation mechanisms provide more funding for public education systems is however an empirical question. It is often taken for granted that debt relief brings more opportunities for education funding, but several case studies suggest that the relationship may not be linear. It depends on several aspects including the type of alleviation mechanism implemented, the period the mechanism is implemented, and whether conditions to invest the resources on education are agreed by the parts involved in debt negotiation/renegotiation.

What do we can expect from debt alleviation mechanisms?

---

[12] See https://data.jubileedebt.org.uk/

[13] It is worth mentioning that despite the magnitude of its debt burden, Uganda is classified by the IMF as a low risk debt distress country. See https://bit.ly/3d0alHx.

Empirical evidence suggests a negative correlation between debt servicing and public expenditure on social services. To begin with, a recent analysis conducted by ActionAid (2020) concludes that higher spending on debt negatively impacts spending on the services that people need[14]. Munevar (2020:2) estimates that following the allocation of public funding to address the pandemic, public expenditure is expected to decline by 2.6 percent of GDP between 2020 and 2023 in about 40 out of 80 countries under analysis.

Although empirical evidence showing a direct correlation between debt relief and education financing is still limited, there are some evidence suggesting that government spending declines when debt rises (Shiroya & Brown, 2019; ActionAid, 2020)[15]. Shiroya & Brown's (2019) analysis of debt burden for Sub-Saharan Africa, Latin America and the Caribbean, and East Asia and the Pacific for the years 2009 and 2017 suggest that regions with less capacity to pay debt tend to invest less in education[16].

A recent country-based analysis suggests that in countries such as Kenya, Senegal, Congo-Brazzaville, and Sudan, for example, debt servicing has consistently increased between 2015 and 2019 while their spending for all social services, including education, has consistently declined. The figures vary significantly within countries. While in Kenya the government spending fell by nearly four percentage points of GDP, in Congo-Brazzaville its spending plummeted by 32 percentage points (ActionAid 2020)[17]. Besides, research in African countries suggests that rather than excessive borrowing, the debt crisis is

[14] The research is based on the analysis of debt for 56 countries, which includes all those defined as low income countries (LICs) by the World Bank, except for Eritrea and North Korea, for which statistics are largely unavailable and a selection of lower-middle income countries (LMICs) and upper-middle income countries (UMICs). See the list of countries in ActionAid (2020: 36)

[15] Munevar's (2020) comprehensive analysis of the negative impacts of IMF programmes on public funding for social services did not even mention education.

[16] When analysing the impact of debt on education financing, Shiroya and Browne (2019) suggest considering both the total volume of debt of a country and its economic capacity to meet its payment. The latter aspect can be measured, for example, by comparing the total amount of debt against the value of exports.

[17] It is worth acknowledging that most of the existing empirical analysis available relies on aggregated data on spending and thus it is implicitly assumed that this relationship is similar in all social sectors.

more related to the fact that governments pay high rate interest (see Mutize, 2020; Roche, 2020).

Table 1: Examples of impact of debt servicing on social expenditure[18]

Country	Evidence
Bangladesh	Debt servicing currently runs at 29% of government revenues. ActionAid and JDC (2020) estimate that this accounts for 86% of the health and education budgets combined and suggest that if the debt servicing drops at 12%, an additional $5.5 billion will be available to spend on public services.
Ghana	Ghana's debt servicing accounts for 59% of GDP. If that is reduced at 12%, the country is estimated to have an extra $5 billion available for spending on public services.
Kenya	Kenya's debt servicing costs at 36% of GDP in 2019. It is estimated that if that figure was reduced to 12% through cancellation, rescheduling, or other methods, Kenya would have had an extra $4.4 billion available for spending on public services.
Senegal	Senegal is spending 18.43% of government revenues on debt servicing. If, through cancellation, rescheduling, or other methods, it was able to reduce its debt servicing to 12% of government revenue, it would have had an additional $310 million available for public services in 2019.

Source: ActionAid and Jubilee Debt Campaign (2020: 47).

The critical question is therefore what is the maximum proportion of revenues that a country can spend on debt servicing without compromising the social rights of its citizens. Research conducted by the UK campaigning and JDC policy group in March 2018 evidenced that developing country external debt payments increased 60% just from 2014 to 2017. Its analysis for the period 2010 and 2018 showed that external debt payments by developing countries grew 85% and that 21 countries were spending over 20% of their government revenue on debt service in 2018 (see JDC (2018 & 2019).

[18] IMF classifies the level of debt distress in these four countries as follows: Bangladesh – low; Kenya and Senegal – moderate; and Ghana – high. See IMF's countries reports at https://bit.ly/3jwppin.

More recently, a study conducted by JDC (2020a) based on data for 60 countries suggests that “in the 30 (half the total) with the highest debt payments — over 13% of government revenue — real public spending per person (taking account of inflation) 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%”.

Based on this evidence, ActionAid (2020: 37) have chosen the median point of 12% as a “threshold marking the maximum acceptable proportion of revenues being spent on debt servicing”. The report stresses: “by suspending debt payments immediately, developing country governments gain access to money already in their treasuries to provide a comprehensive response to COVID-19. This is much quicker than waiting for an international process to provide grants or decide on debt relief” (ActionAid 2020: 31).

Further evidence, specifically related to debt swaps mechanism, suggests the absence of a direct relationship between debts swaps and education financing. As Hiroshi et al (2018: 7) have shown based on the analysis of the debt swaps for education between El Salvador and Spain, Cameroon and France, and Indonesia and Germany, the outcome depends on several factors: “debt-for-development swaps, including education, function only with a number of conditions such that the swap size should be large enough to make impact on macro-economy of the debtor country, and creditor countries should monitor how the funding is spent while respecting the autonomy and ownership of debtor countries in development projects”.

Overall, as UN (2020b: 108) stresses:

> The COVID-19 crisis highlights gaps in the current international sovereign debt restructuring architecture. As the debt landscape has grown in complexity, restructurings have become ever more complicated. No comprehensive mechanism exists to restructure sovereign debt in a timely, efficient and fair manner, as called for in international agreements. Any mechanism should be based on principles spelled out in the Addis Ababa Action Agenda of timely, orderly, effective, and fair resolutions; shared responsibilities, and; restoring public debt sustainability to enhance the ability of countries to achieve the SDGs.

IV. Debt 'crisis' in the context of COVID-19: ongoing developments

In preparation for the HLPF 2020 ministers of finance meetings, the UN has set the Financing for Development in the Era of COVID-19 and Beyond initiative. It aims to identify policy options for financing development in the ongoing health crisis and economic fallout. As part of the initiative, six working groups have been established, being Debt Vulnerability one of them.

This group was set by the prime ministers of Canada and Jamaica and it is currently led by the African Union, the Islamic Republic of Pakistan, and the Kingdom of The Netherlands. UN-DESA, UNCTAD and the Executive Office of the Secretary General facilitate the group's work which aims to provide policy options to find structural solutions for current debt vulnerability challenges[19].

As a point of departure, the Debt Vulnerability Group (2020) stated that current COVID-19 and its economic fallout are exacerbating already high debt risks. Although the international community has already taken action to provide relief – through the G20 debt service suspension initiative (DSSI[20]), and debt relief by the IMF for 25 countries from the Catastrophe Containment and Relief Trust, the group has stressed that additional **debt relief and emergency financing** may be needed to avoid widespread defaults and facilitate investments in recovery and the SDGs.

The group has suggested two complementary policy options to tackle debt vulnerability: the **immediate crisis response**, including standstill on debt service and proposals to expand it; and **near-term debt mechanisms** to achieve debt sustainability while creating fiscal space to invest in the SDGs (Debt Vulnerability Group, 2020). Both types of measures were included in the policy agenda for consideration for ministers of finance and head of states.

[19] "The co-chairs of discussion group IV stress that further measures will also be needed beyond the immediate debt crisis response. The group will therefore continue its work on the full menu of policy options in the fall. In this second phase, the discussion group will focus on longer-term policy options and more structural solutions" (UN, 2020b: 97)

[20] A comprehensive analysis of the debt service suspension initiative can be read at Fresnillo (2020).

In practical terms, the **first policy option** operates as extension and expansion of the G20 and Paris Club Debt Service Suspension Initiative (DSSI)[21]. This option temporarily benefits International Development Assistance (IDA)-eligible and LDC countries to address **liquidity** problems (the country's ability to pay short-term obligations) but does not make any impact on **solvency** constraints (the country's ability to meet long-term obligations). As the UN (2020b: 100) suggests, this option only includes bilateral debt which represents around one third of external debt service of eligible countries through the end of 2020. To increase its impact, it is necessary that private creditors undertake similar measures. Otherwise, there is the risk that rather than investing public funds in providing social services for the country's inhabitants, resources are spent on debt servicing with private lenders. Furthermore, the scheme excludes countries accessing new non-concessional financing, which are often short-term loans, which can therefore limit some countries' ability to respond to the ongoing health and economic crisis. The scheme also excludes countries which have no access to IMF financing.

To address these and other limitations of the scheme, the Debt Vulnerability Group asked the G20 and Paris Club creditors to consider the following complementary options:

- Extending the DSSI term for an additional 1 to 3 years to provide greater fiscal space for countries to address COVID-19 related financing needs
- Broadening the scope of beneficiary countries to make sure that the countries facing debt vulnerability during the ongoing health and economic crisis get the required breathing space
- Providing adequate measures for multilateral debt

[21] "On 15 April 2020, the G20 committed to allow International Development Assistance (IDA)-eligible and LDCs to suspend debt service payments owed to G20 country official creditors. The G20 called on private sector creditors to participate on comparable terms, and on multilateral development banks (MDBs) to explore options to grant suspension of debt service. Beneficiaries must use the fiscal space created to increase social, health or economic spending in response to the Covid-19 crisis and abstain from contracting new non-concessional debt during the suspension period. Countries are expected to disclose all public sector financial commitments. The suspension period started on May 1st 2020 and will end at the end of 2020, although it can be extended. The suspension of payments will be Net Present Value (NPV) neutral through a rescheduling or refinancing over 4 years (including a one-year grace period). By end-August, 43 of the 73 eligible countries had signed up to the initiative, and 11 countries indicated that they would not seek relief". UN (2020b: 100)

- Enhancing private sector participation in the scheme[22].

The **second policy option** suggests the adoption of what is called near-term debt relief measures[23]. The Debt Vulnerability Group suggested to the international community to adopt several debt relief mechanisms, depending on country circumstances. They include:

- Immediate debt cancellations, either bilateral or multilateral, for the most vulnerable highly indebted countries[24]
- Exchange or reprofile debt to reduce debt service and/or write-down debt
- Debt swaps, particularly for countries that are highly indebted but do not have unsustainable debt burdens[25]
- Regional resilience funds[26]
- Debt buybacks for commercial debt (multilateral or regional debt buy-back funds)
- Support market access[27].

Along with the described remedial policy options, the Vulnerability Debt Group is suggesting more structural measures for **debt crisis prevention** and **debt crisis resolution**. The former includes public debt management, strengthening transparency, and amongst other options, the adoption of state-contingent instruments. The second group of measures includes market-based approaches, the

[22] A detailed analysis of the expected impact and limitations of these policy options can be read in UN (2020b: 100-102)

[23] Near-term debt relief measures are solutions designed to avoid problems of liquidity and solvency of vulnerable developing countries in the present and immediate future. However, as the co-chairs of the group have stressed, longer-term structural policy options need to be undertaken to tackle the debt crisis (UN, 2020b: 97).

[24] By September 8th 2020 and through its Catastrophe Containment and Relief Trust (CCRT), the IMF has cancelled debt repayments by the 27 poorest developing countries for the period May-November 2020 (see UN, 2020b). It is worth highlighting that debt cancelation was primarily suggested as a near-term relief measure for vulnerable highly indebted countries.

[25] "Such debt-to-COVID response/SDG/or climate swaps would channel debt service payments into SDG-related investments. Debt swaps could include official debt, where the creditor agrees to swap payments into necessary investments" (UN 2020b: 104).

[26] The Vulnerability Debt Group is encouraging development finance agencies and international development partners to support Regional Resilience Funds. This initiative will likely allow low income countries to invest in debt reduction in making progress towards SDGs.

[27] See details about the potential impacts and limitations of these mechanisms at UN (2020b: 102-106).

coordination of legal strategies, sovereign debt forum, and sovereign based authority[28].

V. Campaigning for debt relief: challenges and ways forward

Although debt alleviation can potentially increase financial resources for education, the relation is not direct[29]. It would much depend on the debt alleviation mechanisms open to a particular country and the local communities and civil society capacity to exert pressure and control over the use of the resources.

Concerning the former aspect, the debt alleviation mechanisms which are open or available for a specific country are strongly associated with both its level of economic and social development, and the magnitude of its debt crisis. While G20 countries can adopt fiscal and monetary policies to alleviate the impacts of the ongoing health and economic crisis on the productive sector and families, most low- and middle-income countries continue servicing their external debts. This means, as UN (2020) stresses, that developing countries are facing a double burden: financing the response to the pandemic and avoiding a major debt crisis[30].

The different levels of income and development, as well as the different magnitude of the debt crisis in each country, aware us of the need to consider different debt alleviation mechanisms. While debt cancelation is an option available for LDCs and LICs in the ongoing UN's call for debt alleviation to mitigate the health and economic crisis, this option seems unlikely for middle-income countries (MICs). This practical fact makes a campaign for debt alleviation more complex. What may work for one country or corner of the world may be inapplicable or ineffective elsewhere. This makes the definition of the scope of a campaign on debt considerably complex. Can GCE, for example, campaign for *debt cancelation* and *debt swaps* at the same time? Is any of these options

[28] See details about these mechanisms at UN (2020b: 99)

[29] Financing specialists at the HLPF 2020 agreed on "the need to identify tailor-made solutions to the specific needs of each country while paying special attention to the most vulnerable, including least developed countries, small island developing states, and landlocked developing countries". UN (2020a: 7).

[30] It is worth noting that prior to the pandemic, UN (2020b: 96) estimates that "almost half of all least developed countries (LDCs) and other LICs (LICs) were at high risk of or in debt distress" and that "many middle-income countries (MICs) and Small Island Development States (SIDS), which are not included in the G20 debt moratorium, are also highly vulnerable".

contradictory with ActionAid's (2020) initiative to advocate for countries reducing debt servicing to a threshold of 12%? What – if any – of these options is more sustainable in the long-term for a specific country? And which of these options have more potential to increase education budgets in the short, middle, and long-term?

All of them are considerably complex questions which require context-specific research to effectively guide policy. The negotiation of one or another debt mechanism is expected to have an impact on the country's access to financial resources for sustainable development. If a country, for example, unilaterally declares its debt illegitimate, it is likely that its credit scores and financial rankings are being affected, as well as its credibility with multilateral, bilateral and private lenders. It would potentially result in compromising the country's possibility to access the international architecture for financing development and the financing of SDGs, including SDG4. As Shiroya and Browne (2019: 5) stressed:

> Countries should not acquire debts that could imply a risk to educational investment. To break the vicious cycle of the debt, it is necessary to advance the integral audits of the debt, evaluating not only the financial impacts, but also the economic, social and environmental ones, in order to determine which parts of it are legitimate and which are not.

Considering the technical impossibility of suggesting a single debt mechanism that works for all countries, it seems that **campaigning for debt alleviation** – without choosing a particular mechanism - is a secure political stance for GCE. **A general call for debt alleviation not only prevents GCE from making recommendations without having thought through the possible financial impacts for education in the long-term, but also acknowledges the diverse contexts in which GCE members work and campaigns for education**. Depending on the member's knowledge of the context in terms of the debt crisis and the financing for the education gap, some GCE members may adopt a specific debt mechanism. Some members may potentially campaign for **debt**

cancelation[31], as it is likely the case in LICs, but other members may campaign for **debt swaps for education**. Besides, some members may consider to campaign for an **international agreement of a debt burden** of no more than 12% as suggested by ActionAid (2020).

‘**Debt restructuring’** could be also an alternative for those countries facing debt distress. It is worth considering however that there is not a single formula for debt restructuring. As Nieminen and Picarelli (2017:5) point out, a restructuring process can be implemented in different ways. The critical factors to consider however can be classified into ‘concerted actions’ and ‘market-based solutions’. Lower interest rates, ‘haircut’ (i.e. reduction in the face value of debt), and grace periods from interest payments are examples of concerted actions. Debt buy-back and debt swaps are examples of the latter.

Whatever the restructuring process countries apply for, a critical issue to bear in mind is the financial sustainability for development. “Debt restructuring actions need to be accompanied with appropriate measures to minimise moral hazard risk. It is also important that a debtor country implements measures through which the long-term sustainability of public finances can be restored, thereby minimising the risk of future restructuring” (Nieminen and Picarelli, 2017:12).

As the two previous paragraphs suggest, debt restructuring can be an overly complex mechanism to implement. As Nieminen and Picarelli (2017:1) argue, “it involves positive and negative aspects, which need to be analysed in order to be able to determine whether it can deliver any added value”. Furthermore, previous experiences of debt restructuring in Germany (following World War II), Russia in 1999 when the country defaulted on the debt it inherited from the Soviet Union, Argentina following the 2001 default, and more recently Greece in 2010, illustrate the many financial complexities of implementing this mechanism[32].

---

[31] Munevar (2020: 17) argues that “Debt sustainability consistent with the SDGs and human rights can be achieved through an ambitious process of debt relief, including extensive debt cancellation. Relief must be granted to all countries in need and assessed with respect to their development financing requirements”.

[32] See details of previous experiences of debt restructuring and their financial implications for the countries involved in Nieminen and Picarelli (2017:11) and Das et al (2012).

Beyond the technical and financial complexities to be considered, these experiences suggest that debt restructuring mechanisms are not always effective. This issue has been recently acknowledged by IMF (2020) in its Debt Sustainability Framework for LICs.

Furthermore, the selection of a debt mechanism or mechanisms should also consider the structural factors causing the debt crisis. While in some countries debt crisis may be associated to protracted conflict, in others it can be associated to factors such as disaster, trade agreements, corruption, and so forth[33]. The corollary of this is that the **campaign may need considering alternative key messages depending on the context it is expected to respond to**. In contexts of ongoing conflict, post-conflict reconstruction, as well as countries affected by protracted displacement crisis, climate change and disaster-related emergencies, the campaign may resort to messages claiming for **debt cancelation to mitigate humanitarian crisis and human suffering**. In countries with significant gender gaps in education provision or structural inequalities against the most vulnerable members of the society, the campaign may consider debt swaps as potential alternatives subject to the country's political commitment to invest the reduction of their debt servicing payments to the education of those particular social groups. These two strategies would strengthen and make visible GCE's commitment with the protection of the right to education of those most affected by crisis and inequality.

Last but not least, GCE may also need to consider to have a clear political position regarding the implications of a global campaign for debt alleviation when it comes to contexts where debt was contracted by anti-democratic or even authoritarian governments and where debt does not serve the best interest of the nation and its citizens. As Adams (1991: 190) stresses, when introducing the notions of '**odious debt**' and '**debt repudiation'**, "if a despotic power incurs a debt not for the needs or in the interest of the State, but to strengthen its despotic

[33] There are already initiatives calling for debt alleviation in contexts of disaster. See Sitefane et al (2019) and Esipisu (2019).

regime, to repress the population that fights against it, etc., this debt is odious for the population of all the State".

A critical implication of this is that GCE may need to anticipate possible tensions between campaigning for debt alleviation in contexts where citizens contest the legitimacy of such a debt and the use of the financial resources. As ActionAid (2020) suggests, massive civil society pressure is needed to make audits of 'odious debt' happen.

Finally, the campaign should be complemented with a call for governments' transparency and accountability about the impacts of old and new debt on the provision of social services, including investments to protect the right to education. In this specific area, GCE may consider developing strategies to work in partnership with the United Nations Special Rapporteur on Foreign Debt and Human Rights and supports the long-term initiative of developing a legal and institutional framework to secure transparency and accountability in loan negotiation and acquisition of new debt[34]. Partnership with Jubilee Debt Campaign could be also vital considering their long-term appeal for debt transparency (Jubilee Debt Campaign, 2019).

VI. Conclusion

The knowledge and awareness of the relationship between debt servicing and social services expenditure is still limited, specifically in the field of education. GCE welcomes recent analysis providing evidence on the negative impacts of debt servicing on social services budgets developed by Munevar (2020), ActionAid and Jubilee Debt Campaign (2020). Based on the evidence those studies provide mainly for the health sector, GCE can anticipate that education budgets will be similarly impacted following the implementation of debt relief mechanisms. **However, GCE cannot take the debt alleviation and financing for education nexus for granted**. This assumption is overly critical in the context of the ongoing

[34] United Nations Human Rights Council. Guiding principles on foreign debt and human rights, A/HRC/20/23, 10 April 2011.

health crisis where, understandably, governments and citizens are claiming for debt alleviation to improve their health systems and family's livelihoods.

GCE's campaign on debt alleviation for education cannot ignore these dynamics and instead may call into attention the **urgent need that governments and the international community adopt social policies that explicitly acknowledge the interdependence of human rights**. A campaign without a clear message about the interdependence of human rights may risk lacking support from CSOs which are now calling their governments to provide support to families who are struggling to meet needs. **GCE should not simply campaign for education in contexts such as sub-Saharan Africa, notably the Sahel region, where millions of people are at risk of a new famine or in the many contexts where people cannot simply afford clean water to wash their hands and prevent contracting COVID-19**. This is a campaign that should reinforce the interdependence of human rights. **The right to education may not be the first priority for people with an empty stomach and in contexts where health systems are so precarious, and their most immediate concerns are feeding a family and keeping alive**[35]. This does not mean to develop a campaign that places education on a second place. Instead, this means **developing a campaign where the role of education for saving lives becomes central**. Although COVID-19 can kill anybody, we must remember that those who belong to ethnic 'minorities', who have pre-existing health conditions, and in general, those who are often excluded from the benefits of development, are often amongst the most affected.

In this regard, **GCE's campaign should be nested in a broader campaign for education financing and explicitly includes a gender- equality approach**. The campaign must show awareness of how debt servicing is disproportionately affecting women's rights. Research recently conducted by ActionAid and Jubilee Debt Campaign (2020: 47) suggests that "when significant percentages of government revenue disappear in paying interest on debts, the scope for investing in services and reducing women's unpaid care and domestic work is greatly

[35] "The World Food Programme projects that 135 million people are facing crisis levels of hunger or worse, while another 130 million are on the edge of starvation". (UN, 2020b:86)

diminished”. Similarly, Munevar (2020: 17) stresses that the “fulfilment of IMF program targets undermines the provision of basic public services, increases income and gender inequality and hampers growth prospects”.

Furthermore, special consideration deserves the potential long-term financial implications for countries when unilaterally declaring debt servicing illegitimate. **A campaign based on the idea that debt servicing is illegitimate and thus a general call for countries in debt crisis of not paying their debt, seems unrealistic and would have considerable negative impacts on countries possibilities to fund present and future development programmes**. Such a declaration may affect their opportunities to access international architecture for financing development. Instead, GCE may consider a call for **making debt service fairer** and putting pressure on the international financial institutions to agree **a debt servicing threshold** that does not compromise the present and future investment for the protection of people’s social rights with special focus on education, health, housing, food and work.

Based on the evidence provided by ActionAid and Jubilee Debt Campaign (2020) GCE can suggest a threshold of 12% spending of government revenues on debt servicing and advocate for any amount above the threshold to be alleviated through different mechanisms. It may include debt cancellation for LDCs and LICs, and alternatives for debt renegotiation, rescheduling, and debt swaps for education for MICs.

Last but not least, the campaign may consider establishing a close partnership with international, regional and national organisations with longstanding experience on financing education, especially those organisations working on the field of debt relief for development in general and education in particular.

References

ActionAid. (2020). Who cares for the future: finance gender responsive public services. Report written and compiled by Soren Ambrose and David Archer. ActionAid International Secretariat, Johannesburg, South Africa. April.

Adams, P. (1991) Odious Debts: Loose Lending, Corruption, and the Third World's

Environmental Legacy. Probe International.

Buckley, R. P. (2011). Debt-for-development exchanges: History and new applications. New York: Cambridge University Press.

Cassimon, D., Essers, D., & Renard, R. (2011). An assessment of debt-for-education swaps. Case studies on swap initiatives between Germany and Indonesia and between Spain and El Salvador. Comparative Education, 47(2), 139–156.

Das, U. S. et al (2012), '*Sovereign Debt Restructurings 1950–2010: Literature Survey, Data, and Stylized Facts*'. IMF Working Paper Monetary and Capital Markets Department. WP/12/203

Debt Vulnerability Group (2020). Follow-up on the High-Level Event on Financing for Development in the Era of COVID-19 and Beyond Discussion Group IV: "Debt and COVID-19". Background Document. 2020.

Esipisu, I. Madrid Talks End Without Agreement on How to Finance Recovery from Climate-Related Atrocities, 17 December 2019. http://www.ipsnews.net/2019/12/madrid-talks-end-without-agreement-finance-climate-related-atrocities/

Fresnillo, I. (2020). The G20 Debt Service Suspension Initiative: Draining out the Titanic with a bucket?. European Network on Debt and Development. July 2020. Brussels, Belgium.

Hiroshi, I., Ryosuke, S., & Toshiyuki, Y., (2018) Debt swaps for financing education: Exploration of new funding resources, Cogent Economics & Finance, 6:1.

IMF (2016). Debt Sustainability Framework for Low Income countries. https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/39/Debt-Sustainability-Framework-for-Low-Income-Countries.

International Commission (2020). International Finance Facility for Education (IFFEd) The Impact on Debt Sustainability in LMICs. https://educationcommission.org/wp-content/uploads/2020/07/IFFEd-and-Debt-Sustainability-in-LMIC-June-2020.pdf

Jubilee Debt Campaign (2018). Developing country debt payments increase by 60% in three years, March 2018. https://jubileedebt.org.uk/press-release/developing-country-debt-payments-increase-by-60-in-three-years

Jubilee Debt Campaign (2019). Crisis deepens as global South debt payments increase by 85%, April 2019. https://jubileedebt.org.uk/press-release/crisis-deepens-as-global-south-debt-payments-increase-by-85.

Jubilee Debt Campaign (2019). Transparency of Loans to Governments: The public's right to know about their debts, April 2019.

Jubilee Debt Campaign (2020). Guide to understanding and accessing debt information.

Jubilee Debt Campaign (2020a). The Increasing Global South Debt Crisis and Cuts in Public Spending.

Jubilee Debt Campaign. The Increasing Global South Debt Crisis and Cuts in Public Spending, 2020.

Leal B, A., and Barretto, A.C. (2020). Multilateral Lenders and Regional Development Banks. Veirano Advogados. Online: https://www.lexology.com/library/detail.aspx?g=010b4cd5-6880-41ad-81f6-f24437c38b34.

Mbaye, S. (2019). New Data on Global Debt, IMF staff blog, January 2019. https://blogs.imf.org/2019/01/02/new-data-on-global-debt/

Munevar, J. (2020). Arrested development. International Monetary Fund lending and austerity post Covid-19. European Network on Debt and Development. October 2020. Brussels, Belgium.

Mutize, M. (2020). African Countries Aren't Borrowing Too Much: They're Paying too much for Debt, 20 February 2020.

Nieminen, R. and Picarelli, M.O. (2017) Sovereign debt restructuring: Main drivers and mechanism. European Parliament Research Service. Briefing February 2017.

Ottenhoff, J. (2011). Regional Development Banks (ABCs of the IFIs Brief). Center for Global Development.

Roche, A (2019). Africa's Eurobonds are a blank cheque, Financial Times, 17 October 2019.

Shiroya, N, & Browne, M. (2019). Risk of external debt and fiscal fraud for educational financing. Japan G20 2019. Education Working Group.

Sitefane, G. &. Belfon, H. (2019). Climate disaster fund needed to stop countries being pushed further into poverty, Thompson Reuters, 2019.

UN (2020). Financing for Development in the Era of COVID-19 and Beyond initiative. https://www.un.org/en/coronavirus/financing-development

UN (2020a). Financing for Development in the Era of COVID-19 and Beyond. Menu of Options for the Considerations of Ministers of Finance. Part I. September 2020.

UN (2020b). Financing for Development in the Era of COVID-19 and Beyond. Menu of Options for the Considerations of Ministers of Finance. Part II. September 2020.

UNESCO. (2009). Debt swaps for education. http://unesdoc.unesco.org/images/0018/001849/184906e.pdf

UNESCO. (2013). Debt swaps for education. http://unesdoc.unesco.org/images/0022/002220/222031E.pdf

United Nations Human Rights Council (2011). Guiding principles on foreign debt and human rights, A/HRC/20/23, 10 April 2011.

World Bank Group. Five Institutions, One Group. https://www.worldbank.org/en/about. Retrieved on September 5th, 2020.