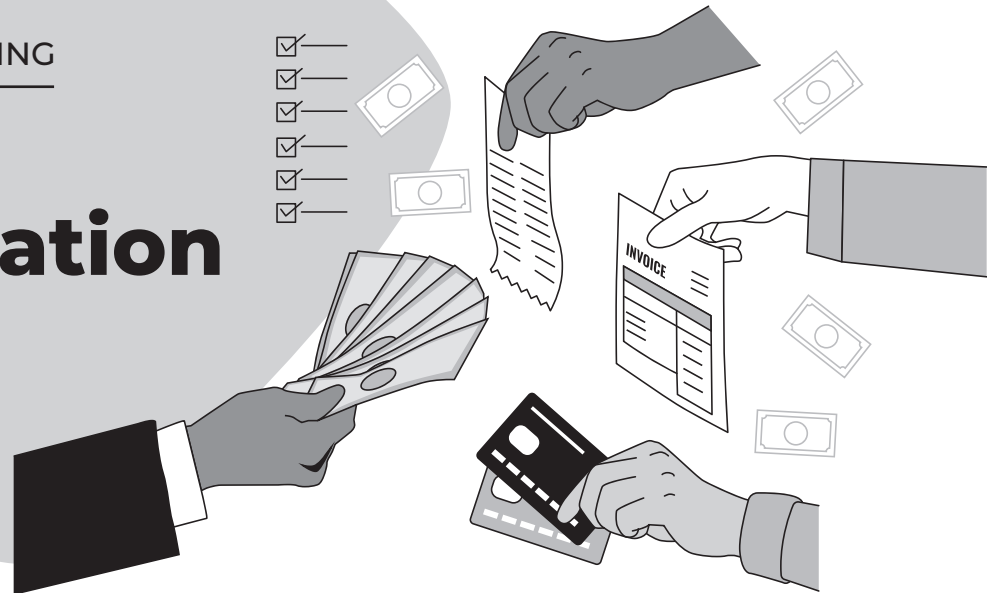


Debt cancellation



BACKGROUND

Many of the world's poorest countries have been plunged into a new debt crisis. Despite facing significant poverty burdens, countries are having to make huge repayments on high-interest loans to wealthy banks, institutions and governments, leaving them unable to properly fund essential services like health and education. This debt burden also leaves them less able to cope with the increasing effects of climate change.

Low-income countries have been facing increasingly unsustainable debt since the 2008 financial crisis, when banks, hedge funds and traders saw an opportunity to make vast sums of money by lending to them at high interest rates. Almost half of the total external debt owed by lower income countries is to these 'private lenders',¹ including BlackRock and HSBC, who often lend recklessly, and with no accountability, and as a result make huge profits.

This is causing more and more countries to fall into debt crisis. Today, there are 54 low-income countries facing unsustainable debt levels, up from 22 in 2015.² 1.5 billion people, a fifth of the world's population, live in countries which are among the 25 at highest risk of debt default.³ The amount that lower income countries spend on debt payments has increased by 150% since 2011.⁴ In many countries, debts are being paid at the expense of hiring doctors and teachers, building schools, hospitals and sewage systems, preparing for floods or coping with droughts.

CAFOD has campaigned against unjust debt for a long time. After decades of debt justice activism in the global south, the late 1990s saw the issue of debt become a mainstream issue with the Jubilee 2000 movement. Between 2000-2015 the global Jubilee campaign won \$130 billion of debt cancellation for 36 lower income countries, which on average reduced their debt by three quarters. In countries that had debts cancelled, children completing primary school increased from 45% in the 1980s/1990s to 66% by 2012 as the money governments saved went into public services.⁵

However, the scheme did not prevent debt crises recurring. No new regulations were introduced to make lenders more responsible or transparent. The same structural causes that led to the crisis remain in place. That is why we need new legislation.

WHAT CAN WE DO?

The UK Government has the power to do something about this. Incredibly, almost 90% of debt contracts of lower-income countries are governed by English law⁶ due to the strength of the City of London in global finance. This means the UK ultimately oversees how these debts are enforced and could introduce legislation to make private lenders take part in debt relief.

Currently, when a country requests debt cancellation because they are unable to meet repayments, other governments, and multilateral institutions like the World Bank and IMF, work with that country to find a way forward. But private lenders have not taken on the same responsibility, often not cooperating in the process and profiting hugely as a result. They insist on repayments, no matter the

human cost, and countries even face the threat of being sued. The G20 group of countries have taken steps to address the debt crisis, but without preventing future debt crises, these measures will never be enough. We need new legislation that would ensure fair and equal treatment for lenders so that private lenders are compelled to participate when debts are restructured, meaning countries' debts are reduced in a more comprehensive and effective way.

As UK citizens, we can play a key role in pushing our government to pass this legislation.

CASE STUDY

In 2022, Ghana spent three times more on external debt payments than it did on health care. CAFOD's partner organisation Debt Justice estimates that restructuring Ghana's debt to a sustainable level could free up enough money to increase spending on health, education and climate by 50%.⁷

"Debt is impacting on the livelihood of many poor Ghanaians. Escalated food prices and the high cost of some basic social services are sending many Ghanaians back into poverty," says Bernard Anaba from the Integrated Social Development Centre in Ghana. "We urgently need debt cancellation from foreign lenders to tackle our economic crisis. The UK has the power to make private lenders take part in debt relief. We urgently need them to do so."⁸

Archbishop Gabriel Justice Yaw Anokye, Archbishop of Kumasi, Ghana and President of Caritas Africa, said, "Budget shortfalls and unpayable debts have reduced the room our countries have to take the needed actions to protect the most vulnerable and restore prosperity."⁹

QUESTIONS FOR YOUR CANDIDATES

1. Given that over 50 of the world's poorest nations are currently struggling with a debt crisis, are you supportive of the idea that the UK should champion debt cancellation for those low-income countries who need it so that they can properly fund their essential public services?
2. Many of the world's poorest countries are in debt crisis meaning money they could spend on health, education or tackling the climate crisis is instead going to big banks and wealthy nations. If you were elected, would you support a new legislation that could prevent private creditors such as Blackrock or HSBC from suing low-income countries in UK courts?

1 41% of lower income country external debt repayments are due to Western private creditors between 2023-9, <https://debtjustice.org.uk/wp-content/uploads/2023/05/DJ-CAFOD-Parliamentary-Briefing-Legislative-Reform-May-23.pdf>

2 <https://debtjustice.org.uk/news/winning-debt-justice-through-people-powered-campaigns-2> Sept 2023

3 <https://www.bloomberg.com/news/articles/2022-07-07/why-developing-countries-are-facing-a-debt-default-crisis>

4 <https://debtjustice.org.uk/press-release/lower-income-country-debt-payments-set-to-hit-highest-level-in-25-years> April 2023

5 <https://debtjustice.org.uk/blog/gleneagles-15-years-on-the-last-debt-cancellation> July 2020

6 <https://debtjustice.org.uk/wp-content/uploads/2023/05/Stop-cowboy-lenders-lobby-guide-v2.pdf> p5, May 2023

7 <https://debtjustice.org.uk/news/bondholders-could-make-30-billion-profit-by-refusing-to-cancel-debts>

8 <https://debtjustice.org.uk/news/bondholders-could-make-30-billion-profit-by-refusing-to-cancel-debts>

9 https://assets.nationbuilder.com/jubileeusa/pages/1626/attachments/original/1692027868/Africa_Faith_Leaders_Statement.pdf?1692027868