

End the debt trap

Cancel Zambia's debt

July 2021

Covid-19 exacerbated an already growing sovereign debt crisis across much of the global south. The pandemic is predicted to push over a hundred and fifty million people into extreme poverty by the end of this year ¹. At this time, when managing and recovering from Covid-19 should be the focus of every country, governments need to be able to prioritise funding for vital healthcare, vaccines for their citizens, and for tackling climate change. Instead, many governments in the global south are having to prioritise the servicing of crippling debts to some of the largest financial corporations in the world. Right now, African governments are spending three times more on debt repayments to private

banks than it would cost to vaccinate the entire continent against Covid-19 ².

This briefing highlights the debt owed to private creditors by African governments at a time when freeing up public spending for the health and wellbeing of citizens is paramount. In particular, it looks at Zambia – one of the Scottish government's international development fund partner countries that is currently facing a debt crisis. The briefing explains the role that private banks, many with a significant presence in Edinburgh and other Scottish cities, are playing to exacerbate this situation. Finally, it outlines the steps the Scottish government should take to put pressure on private banks to cancel the debt.



A van displays spoof HSBC advert outside a HSBC branch (photo: Jess Hurd)

The role of private banks in exacerbating debt bondage during Covid-19

Even before Covid-19, the debt burden of poorer countries was increasing, with 64 poorer countries spending more money on debt repayments than healthcare in early 2020³. Since 2010, average debt repayments by global south governments have increased by 85 per cent⁴. Over many years, debt campaigners in all parts of the world have called on rich governments and multilateral institutions like the International Monetary Fund (IMF) and World Bank to drop the debt that is owed by countries in the global south in order to tackle poverty and inequality. In response to the call from debt campaigners, some debt relief has been granted intermittently by governments and institutions. And as the pandemic wreaked economic havoc across the world, the G20 governments and the World Bank have once again agreed to some postponement and restructuring of debt repayments.

However, private banks have largely failed to take part in this debt relief. This lack of cooperation was remarked upon by World Bank President David Malpass last October when he expressed his frustration saying: 'these investors are not doing enough and I am disappointed with them'⁵. He also complained of 'free riding' by the private banks. Debt repayments to private banks that governments in the global south would have struggled to pay without the G20's emergency suspension of public debt repayments, can now be prioritised. So effectively, rich country taxpayers are bailing out the private banks because our governments have agreed to debt relief.

African sovereign debt to private lenders offers some of the highest profits to investors globally, and are normally in the 'high risk, high yield' portfolios of investment funds. The rates of interest private banks charge tend to be much higher than the low interest loans provided by multilateral creditors such as the IMF or the World Bank⁶. As countries in the global south have been forced to continue paying these high cost debts to private creditors during the pandemic, it's left them with even less money to spend on public infrastructure including essential healthcare.

The private banks and asset managers that Zambia and other African countries continue to pay out to during this pandemic include Blackrock, JP Morgan, HSBC, UBS and Aberdeen Standard

Investments⁷. These banks have large offices and branches in Scotland's largest cities, employing thousands of staff - JP Morgan alone has 1000 staff⁸ and Aberdeen Standard Investments has its main headquarters in Edinburgh. As far as we can tell from the data available to us, the firm controlling the largest African debt is Blackrock - one of the largest asset managers in the world. It holds close to US\$1 billion across thirty-one Eurobonds (a type of foreign currency bond) in Ghana, Kenya, Nigeria, Senegal and Zambia. It manages US\$9 trillion of assets - more than three times the GDP of the entire African continent⁹.

Case study: Zambia

One of the countries that is suffocating because of sovereign debt is Zambia. It currently has \$3 billion outstanding in Eurobonds to private creditors and owes approximately \$2 billion more in other forms of external loans to private lenders¹⁰. Half of Zambia's sovereign debt is owed to private banks. In November, unable to afford the next debt repayments, the country had to default on its debt, and now risks being sued for its failure to pay.

Even before the coronavirus crisis, Zambia's public spending per person fell by nearly a fifth between 2015 and 2019¹¹. Crucial public services like health, water and sanitation have consistently received less than a quarter of the resources allocated to debt payments by the Zambian government.

Meanwhile, private creditors are set to make huge profits from Zambia's debt. A trader who bought Zambia's 2022 bonds in August 2018 will make around 75 per cent profit if they receive all interest and principal payments in full. A trader who bought the same bond in March 2020 will make 250 per cent profit¹². Surely we must be speaking out about such profiteering during a pandemic, and its impact on ordinary people.

Scottish government aid

Zambia is one of four partners that the Scottish government gives project funding to as part of its international development fund. The Scottish government gave £10 million to Zambia between 2017 and 2021 for projects helping healthcare, education and small-scale farming¹³. Yet this is dwarfed by Zambia's annual debt repayments which this year will be £1.34 billion, with £756 million going to private creditors¹⁴.



Debt campaigners protest in London at the time of HSBC's AGM (photo: Jess Hurd)

In her recent review of the International Development Fund work in light of the coronavirus situation, the Scottish Minister for International Development Jenny Gilruth MSP wrote:

*'Internationalism, and international solidarity, has arguably never been more important than it is now, whether that is in relation to the immediate needs and equitable access to vaccines, or in the medium to longer term as we build back fairer and stronger from COVID-19.'*¹⁵

In her foreword to the report, Jenny Gilruth also argues that we need to learn from the Black Lives Matter movement by being willing to have open conversations about 'how we play our part in tackling systematic racism and inequality and shifting power to partner countries'¹⁶.

Considering the crippling impact of sovereign debt on Zambia's economy and public infrastructure, that is hindering the country's effective response to the coronavirus emergency, the Scottish government should understand debt justice as a crucial part of Zambia's recovery from this pandemic. Cancelling the debt owed to Zambia will undoubtedly help the country deal quicker with coronavirus and enable the country to build back stronger and fairer after the immediate health risks of the virus have been managed.

Kenyan debt campaigner Njoki Njehu, who spoke at a recent webinar explaining the debt crisis in

Africa said: 'Many countries cannot breathe. Debt is a knee on their neck.'¹⁷ The Scottish government must take this call for international debt justice seriously, and call for change.

What we are calling for

We are calling on the Scottish government to participate in international work to tackle debt injustice.

In Scotland:

The Scottish government must speak out about the injustice of debt bondage and the impact it is having on its international development partner country Zambia. This includes publicly calling on banks with strong roots in Scotland - particularly Blackrock, JP Morgan, HSBC and Aberdeen Standard Investments - to drop Zambia's debt.

In the UK:

The Scottish government must call on the UK government to ensure the compulsory participation of private creditors in the G20's Common Framework and to protect Zambia and other deeply indebted countries from being sued in court when they are forced to default on their debts. Ideally this would involve passing legislation to make it illegal for private banks to sue governments for this reason.

References

- 1 See for example: <https://www.theguardian.com/global-development/2021/feb/03/decades-of-progress-on-extreme-poverty-now-in-reverse-due-to-covid>
- 2 Calculated by Jubilee Debt Campaign. The cost of purchasing required vaccines for African countries is based on an average price from vaccine deals that African countries and institutions have already made (estimated at about \$9.63 per person) and based on the population of Africa who will require a vaccine of 776 million, which excludes children aged 0-14 and those expected to be vaccinated under the COVAX scheme.
- 3 <https://jubileedebt.org.uk/press-release/sixty-four-countries-spend-more-on-debt-payments-than-health>
- 4 https://www.christianaid.org.uk/sites/default/files/2019-05/The-new-global-debt-crisis-report-May2019_1.pdf - see the foreword on page 4.
- 5 <https://www.aljazeera.com/economy/2020/10/5/world-bank-chief-reiterates-call-to-forgive-poor-countries-debts>
- 6 See 'Under the Radar' October 2020 briefing by Christian Aid, Cafod, Oxfam, Jubilee Debt Campaign and Global Justice Now https://www.globaljustice.org.uk/wp-content/uploads/2020/10/under_the_radar_081020_1851.pdf
- 7 Ibid
- 8 <https://careers.jpmorgan.com/us/en/about-us/locations/glasgow#:~:text=Being%20one%20of%20the%20largest,over%201%2C200%20employees%20in%20Glasgow>
- 9 Blackrock CEO pay rise of 18% in 2021: <https://www.pionline.com/money-management/blackrock-ceo-larry-fink-sees-18-pay-rise> Makes him the highest paid CEO in asset management: <https://www.ft.com/content/4345d095-62d8-4980-aa7d-80479f2ed21e>
- 10 Op. Cit 'Under the Radar'
- 11 <https://jubileedebt.org.uk/press-release/zambias-lenders-should-accept-large-debt-write-down>
- 12 <https://jubileedebt.org.uk/blog/zambia-edges-towards-debt-default-but-bondholders-could-make-millions>
- 13 <https://www.gov.scot/news/expanding-healthcare-in-zambia/>
- 14 Calculated by Jubilee Debt Campaign: Zambia is due to spend \$1.9 billion on external debt payments in 2021. Of that, \$1.072 billion – 57% – is to private lenders.
- 15 Ministerial foreword to the international development fund review in light of Covid-19 p.3 file:///C:/Users/User/Downloads/summary-report-review-scottish-governments-international-development-programme-light-covid-19.pdf
- 16 Ibid p.3
- 17 Watch the webinar on youtube here: <https://www.youtube.com/watch?v=YL6hM-zMxig&t=4s>