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COVID-19: DEBT RELIEF AND THE GLOBAL POOREST

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Abstract

Pandemic is not the time to "do something": more than ever, it is the time to "do something coherent." Aid for the poorest countries conditioned on debt service, just announced by the IMF and G-20, utterly fails that imperative. Instead, grants equivalent to the full IMF estimate of the loss in GDP due to COVID for all IDA-eligible (poorest) countries would secure the appropriate amount and distribution of aid. And with the burden shared across major G-20 donors, the cost to them would be a minimal part of their own COVID expenditures. And such aid should only be provided in the form of debt write-offs in the cases where that is the appropriate form of grant.

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COVID-19: Debt Relief and the Global Poorest

Following strident public calls "to do something", the IMF just announced debt service relief in the context of the COVID crisis under its revamped Catastrophe Containment and Relief Trust. Under the program, beneficiaries receive grants to pay debt service due to the IMF, in order to release resources for medical and other emergency efforts.

Oddly, the IMF released few numbers about the program: just that it initially covers 6 months of debt service to the IMF but this may be extended; that it currently has funding of only some US$500 million pending further donor contributions; and that only 25 of the 76 IDA-eligible (poorest) countries would receive debt service relief "today".

A review of pertinent numbers not provided may explain their absence from the formal announcement, and points to significant "anomalies" (to put it charitably) in this program.

Under the assumptions that the program will be extended for a further 6 months to the full year of 2020 and that all debt service (principal and interest) due to the IMF is covered, the total benefit for the 25 is some US$380 million. That is equivalent to 87 US cents per capita on average in those 25 and will buy them one low-end-of-the-range ventilator (US$32,000 each) per 36,300 of their people.

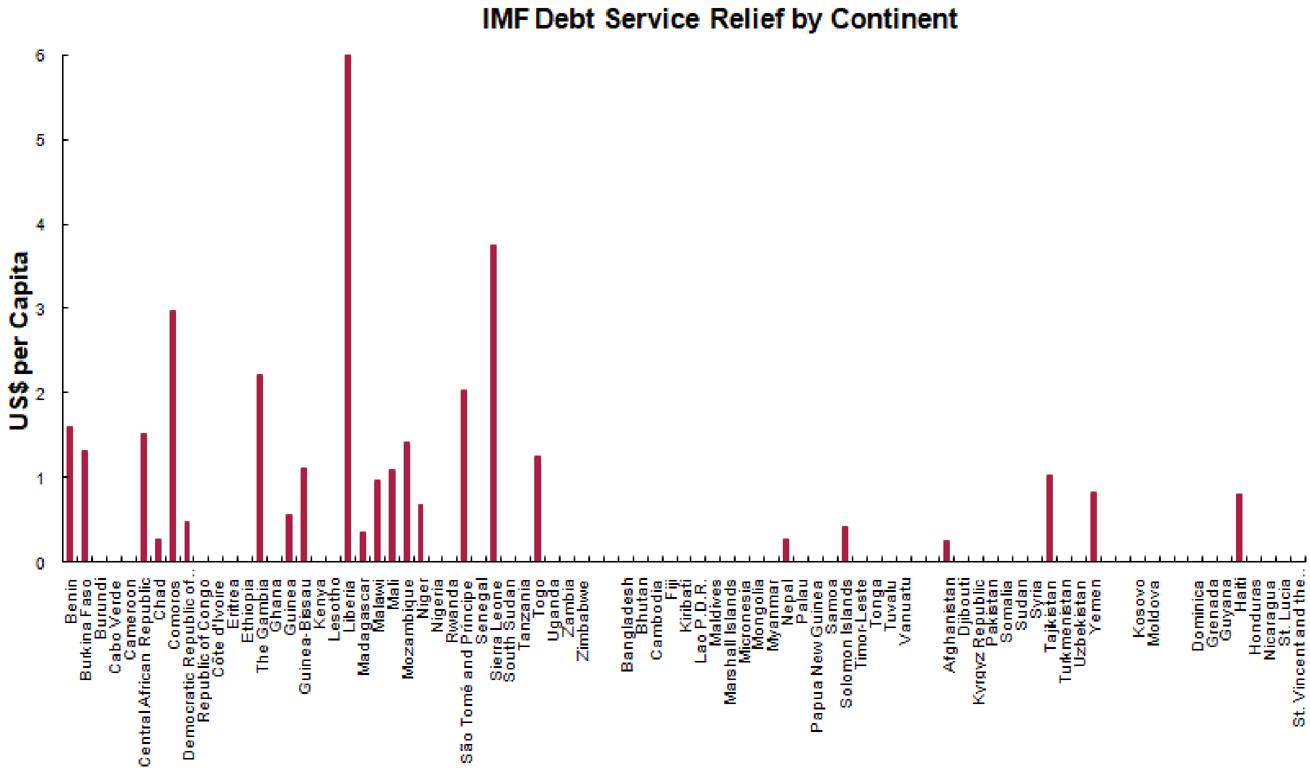
If the scheme is not renewed after 6 months, that per capita dollar benefit roughly halves and the people per ventilator doubles. And the people per ventilator doubles again if one assumes purchase of the quality of ventilator you would expect to find in your advanced country hospital.

The issue I want to highlight at this point is not inadequacy; after all, the hope was that G-20 bilateral donors would follow suit. And indeed, they have since confirmed that intention, albeit in the form of delaying debt service, not IMF-style forgiveness/write-off.

Given that G-20 intention, the key point I want to make here is that the data for the IMF initiative—which I unearthed in just one lockdown evening on my iPad—illustrates the virtually random sum and distribution of the aid which will result from conditioning G-20 bilateral relief on debt service—numbers for which will be far more difficult to unearth.

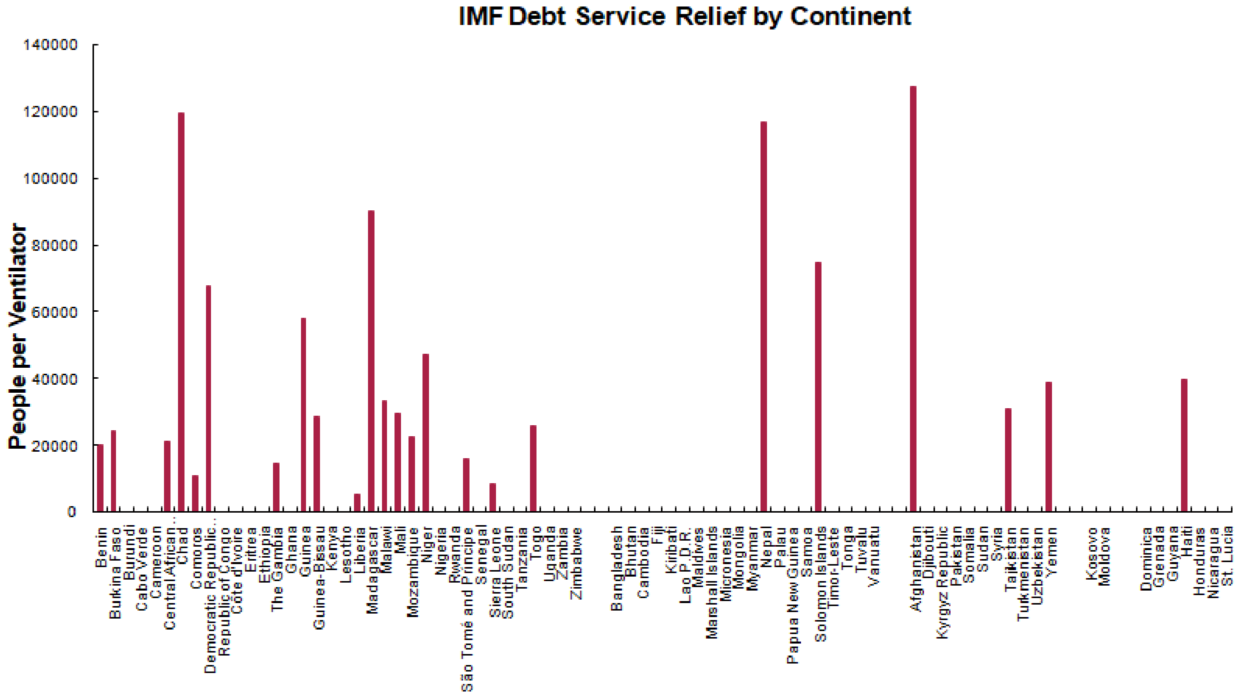
To see this for the IMF program, consider Chart 1, showing the per capita benefit for each IDA-eligible country by Continent. Even excluding the 51 countries obtaining no benefit (largely because they have no/little debt service due), the range is huge, with Liberia the most favored at US$ 6 per capita while Nepal has to make do with just 30 cents. This range reflects the lottery of whatever countries' IMF debt service due in 2020 happens to be.

Chart 1



The same point is underlined in Chart 2 showing the number of people per bottom-of-the-line ventilator which the IMF debt service relief purchases. This can range from around 20,000 to 120,000 among the fortunate 25, even ignoring the totally-excluded 51 poorest countries.

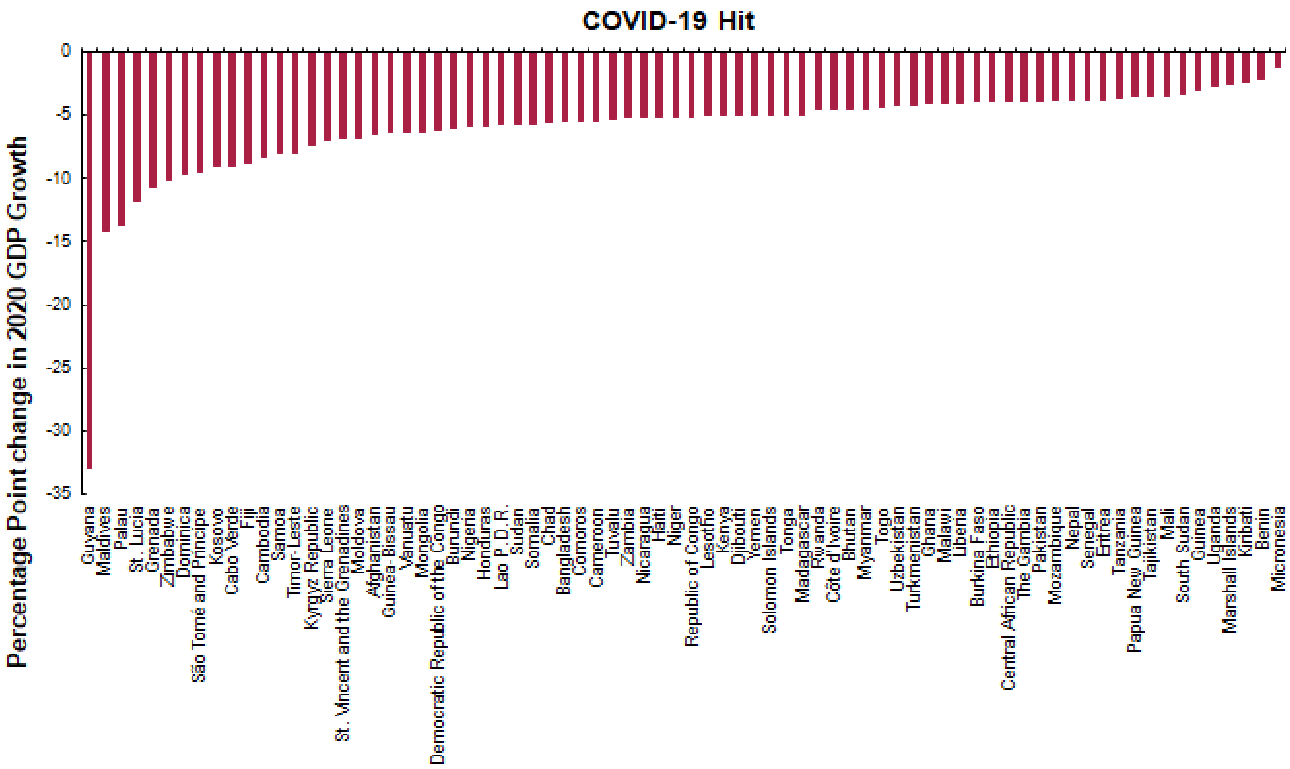
Chart 2



The random allocation of benefit is further illustrated by organizing the 76 IDA-eligible countries not by Continent, but by the IMF's estimate of their "hit" from the COVID-19 shock.

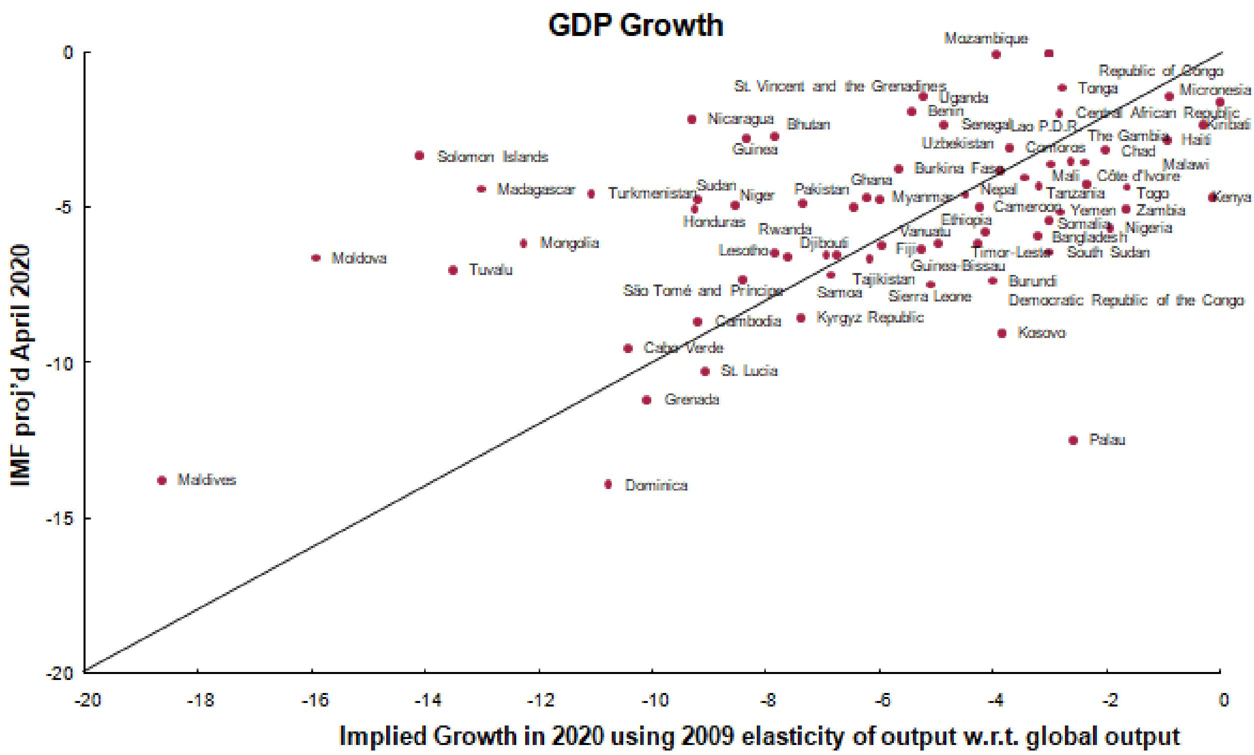
Thus, Chart 3 orders these countries according to the percentage point change in the IMF's projections for GDP growth in 2020 between the Fall 2019 vintage of its World Economic Outlook and the just published April 2020 vintage. This shows Guyana worst hit on the left (due to pandemic interacting with the recent oil discovery there) through to Micronesia on the far right escaping almost unscathed.

Chart 3



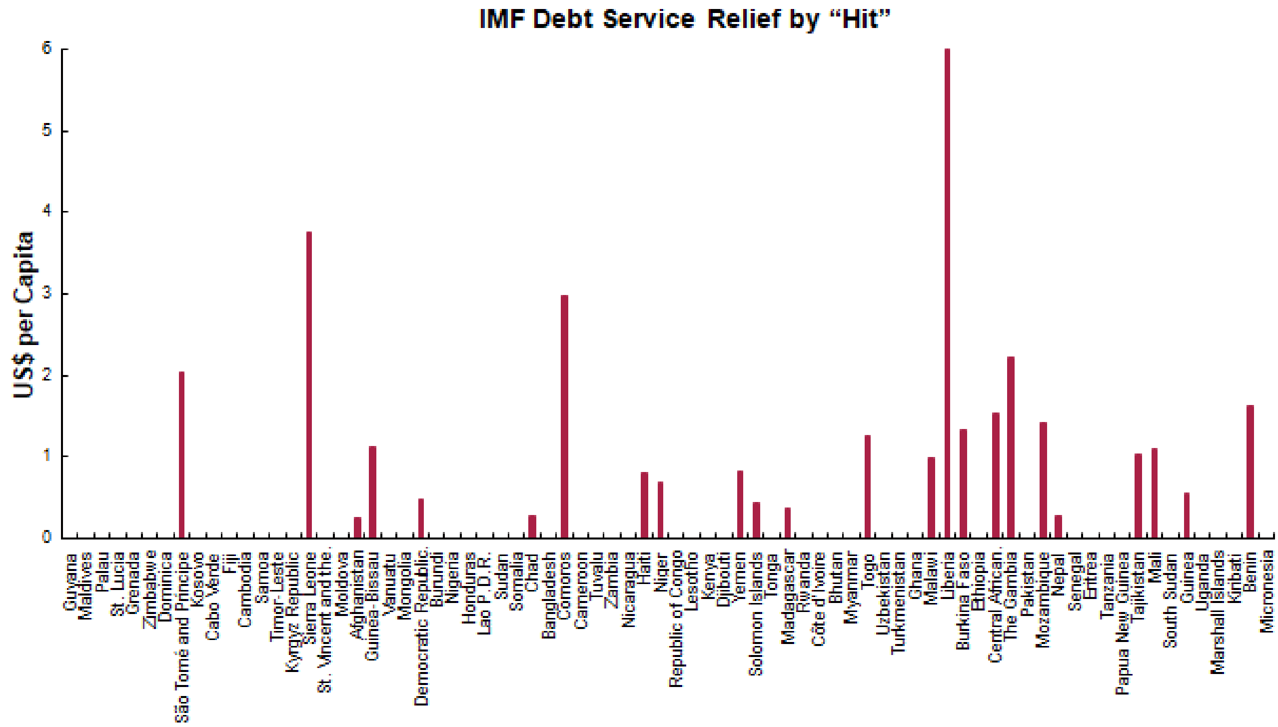
A comparison of the naive elasticities of IDA countries' output with respect to global output observed in 2009 with those implicit in these IMF estimates for 2020 suggests that the country ordering—with some exceptions which the IMF might want to re-check, including Moldova, the Solomon Islands, and Palau—passes this simple plausibility test (Chart 4). And there is some suggestion from this cross-check that the IMF estimates of hit for countries hit hardest may be systematically understated.

Chart 4



But subject to those modest provisos, the US cents per-capita distribution of benefits, with exceptions, disproportionately favors those countries least affected—as is evident when that per capita distribution is shown according countries ordered by "hit" (Chart 5). And similarly for people-per-IMF-ventilator. Relief bears no relation to "need".

Chart 5



"Equal treatment of members" is, rightly, a core IMF principle; indeed, that principle is foundational to the IMF's status as a leading global institution advocate for "global rules". But this debt relief scheme conditioned on debt service is completely capricious.

That should temper any inclination to applaud the IMF for "doing something", even aside from concern that the latest World Economic Outlook, off of which all IMF Country Debt Sustainability Analyses will be based, anticipates almost full 2021 global recovery. Harvard Economics Professor Dani Rodrick dubs that projection "crazy" not least given that the absence of a credible exit strategy for the Developed World, and that Developing World will continue to be ravaged by the virus long after the related 2020 external economic shock passes. The IMF, by overlooking both factors in its April World Economic Outlook numbers for 2021, thus impedes response to COVID-19 by greatly understating the number, depth, and urgency of necessary sovereign-debt write-offs.

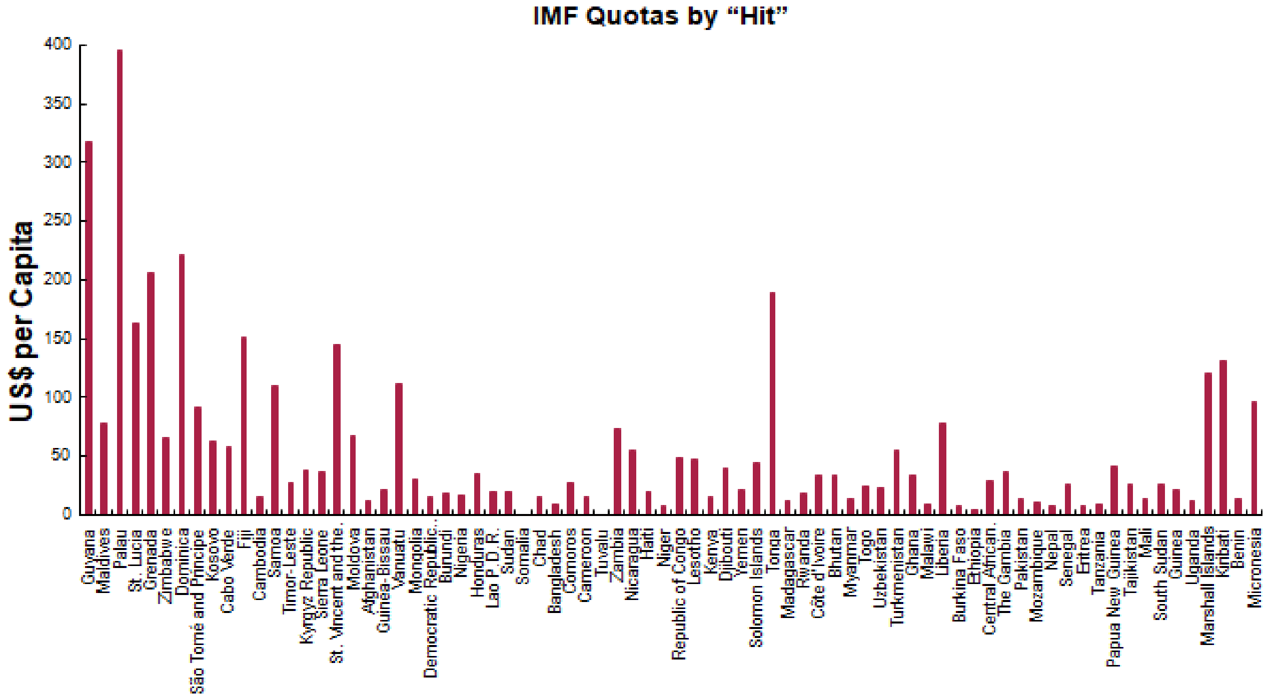
Similarly capricious determination of the sum and distribution of aid is implied by G-20 bilateral creditors' undertaking to apply the same conditioning of relief on debt service due to them.

All that ill serves the G-20 creditors even if their national interest in providing aid is only to contain risk of recession and the virus ricocheting back to themselves from the poorer world. Neither of those goals is well-served by random debt-service conditioned COVID-19 relief, either through the IMF or bilaterally.

And the import of these points will be amplified further if, as seems likely, private creditors have their arms twisted fiercely to extend similarly conditioned debt-service relief.

Far better keys to determine the sum and allocation of aid are readily available. Chart 6, retaining the same country ordering by COVID-19 "hit", illustrates the US$ per capita eligibility for Rapid Relief credits from the IMF, assuming—as has been broadly followed in those loans already announced—access at 100 percent of IMF Quota. That key broadly ties the distribution of aid per capita to "hit", similarly when expressed relative to the number of persons per IMF-funded ventilator, even if the total relief granted remains arbitrary.

Chart 6



One could do better still, simply conditioning both the amount and the distribution of relief directly on these IMF estimates of “hit” (Chart 3). Thus, access relative to IMF quota could be adjusted accordingly in each case, and this setup would be technically simple to replicate for G-20 creditors too. The counter that this hit “won’t be perfectly estimated by the IMF for 2020” has little standing relative to basing aid on debt service due in 2020.

And in contrast to COVID-19 aid for domestic corporates in the Advanced World, the institutional infrastructure to apply appropriate “keys” for the allocation of aid does not have to be invented from scratch. It is already up and running in the form of the IMF, the World Bank, and the Paris Club organizations. There is no institutional impediment to doing something sensible at speed for the poorest countries.

But none of this addresses the simple point that while these countries, on account of poverty, need urgent help with the COVID-19 burden, some may not have need for debt or debt service relief at all. Meanwhile, others, in serious debt difficulties even prior to the virus, may need far more radical debt write-offs than the sums and distribution that IMF, bilateral, and private debt service relief secures or than the April 2020 WEO implies.

So rather than just "do something on debt", "do something coherent on debt" should be the motto, an admonition which crisis makes all the more critical. The appropriate motivation for debt write-offs have been laid out here, and favoured means of securing them in those circumstances have been elaborated here.

But COVID-19 aid should neither be conditioned on debt nor solely (or even primarily) be delivered in the form of debt service relief. Rather, just as the advanced world has implemented for its corporates to cover their wage bills in the pandemic without regard to their debt or debt service, aid should be conditioned on "hit" and provided primarily via grants. This mantra could even have been readily applied to the redistribution of a SDR issue from the advanced world to other IMF members, had—as many including myself advocated—such an issue been approved by the IMF Board last week.

Were the G-20 to provide grant aid equivalent to the full economic loss as estimated by the IMF for 2020 in its April 2020 World Economic Outlook for all 76 IDA-eligible countries, that would total some US$100 billion, with that sum dominated by the larger countries: Nigeria, Pakistan, and Bangladesh. That amount is just 5 percent of the US CARES Act, itself only part of the US COVID response, and it would of course not be born by the US alone but shared among the major G20 creditors. In the total G-20 effort to address COVID, that is a small change, but it would yield seismic benefits to the poorest and to the global effort to contain the virus.

But even absent an initiative on that scale or a SDR issue of which would form part of the effort, grants in mid-pandemic should only be provided in the form of debt write-offs if countries are in circumstances, as noted, where that is the appropriate form of grant. And if the G-20 is simply unwilling to extend grants on any meaningful scale, at least it should extend aid loans conditioned for quantum and distribution on "hit".

All that, not debt-service breadcrumbs scattered in the wind, is how to help the poorest on earth now.