

Debt Cancellation for the World to Survive: Ethiopian PM Abiy Ahmed

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Ethiopian Prime Minister, Abiy Ahmed, has made an audacious salient call for debt cancellation for low income countries. It was published in the Opinion section of the April 30, New York Times, Why the Global Debt of Poor Nations Must Be Canceled, (printed in full below). PM Abiy is correct, debt cancellation is absolutely necessary to save lives and for developing nations to survive the COVID-19 pandemic. To compel a nation like Ethiopia to spend almost half of its revenue on debt service, while its people are suffering from a perfect storm of Desert Locust swarms, food insufficiency, and a weak healthcare infrastructure, is immoral if not criminal. PM Abiy wrote:

“At the very least, the suspension of debt payments should last not just until the end of 2020 but rather until well after the pandemic is truly over. It should involve not just debt suspension but debt cancellation...”

“These steps need to be taken with a sense of urgency. The resources freed up will save lives and livelihoods in the short term, bring back hope and dynamism to low-income economies in the medium term and enable them to continue as the engines of sustainable global prosperity in the long term.

“In 2019, 64 countries, nearly half of them in sub-Saharan Africa, spent more on servicing external debt than on health. Ethiopia spends twice as much on paying off external debt as on health. We spend 47 percent of our merchandise export revenue on debt servicing...”

“The dilemma Ethiopia faces is stark: Do we continue to pay toward debt or redirect resources to save lives and livelihoods?”

PM Abiy’s analysis of the urgent need for the cancellation of debt service is relevant to the exacerbating effect of COVID-19 in Africa’s rising food insecurity.



Smoked fish produced in Ghana is sold all over the country and in neighboring Togo – as long as transport routes and borders can remain open for the movement of food to markets. Credit Jane Hahn/Oxfam America

COVID-19 Worsens Food Crisis

In the month from March 30 to April 30, COVID-19 cases in Africa rose from 4,760 to 37,296-800% increase, and the total of deaths from 146 to 1,619-1,100% increase. Experts are legitimately concerned, that millions more may die from hunger and poverty as a result of the needed efforts to reduce the spread of the coronavirus. Closing borders, stay at home orders, loss of income, interruption of supply chains, and disruption of traditional animal migration cycles inauspiciously contribute to amplifying food insecurity.

“If the pandemic worsens, as many as 50 million more people could face a food crisis in the [Sahel] region,” according to Coumba Sow, *Food and Agricultural Organization Resilience Coordinator for West Africa* in her interview: [FAO: COVID19: 50 Million in Sahel Could Face Food Crisis](#). Coumba Sow reports that across West Africa, 11 million people need immediate food assistance and that this number could rise to 17 million in the period from June to August. She says that it is “*crucial to anticipate COVID-19’s impacts on agriculture, food security and the lives of vulnerable women and children. Ensuring that food systems and food supply chains are maintained is one of the most important action to take at national and regional levels.*”

The World Food Programme (WFP) projects that the number of people facing acute food insecurity could rise from 135 million to 265 million in 2020 as a result of COVID-19.

According to the WFP, five of the countries that had the worst food crisis in 2019 were located in Africa; Nigeria, Ethiopia, Sudan, South Sudan and the Democratic Republic of the Congo.

Arif Husain, economist for the WFP said:

“COVID-19 is potentially catastrophic for millions who are hanging by a thread. It is a hammer blow for millions more who can only eat if they earn a wage. Lockdowns and global economic recession have already decimated their nest eggs. It only takes one more shock—like COVID-19 to push them over the edge.”



Mauritanian herders (Courtesy of UN-FAO)

A New Financial Architecture Required

While debt cancellation is essential, international and federal mechanisms are required to issue i.e. create new lines of credit to build up nation-wide advanced healthcare infrastructure, which all African nations lack. This endeavor should be part of a much larger undertaking to place African nations on a path to become developed industrialized economies. I discuss the importance of emerging nations to generate *physical economic wealth* in my earlier article: [World Needs New Economic Platform to Fight COVID-19](#). Trillions of dollars of new credit must become accessible for African nations to address the dearth of infrastructure in energy, roads, railroads, and healthcare, that is literally killing Africans, every day. Successful transformation of African nations requires an urgent focus on nurturing combined manufacturing-agricultural processing industries. Speaking at a Johns Hopkins webinar on April 22, Gyude Moore, former Liberian Minister of Public Works (2014-2018) emphasized that creating manufacturing jobs is essential to transitioning to a more developed economy.

What has been glaringly brought to the surface by the combined COVID-19 pandemic and the malnourishment of Africa’s population is; that the global economic-political system of the last five decades has failed. A *new financial architecture* is compulsory to save lives and put civilization on the trajectory of progress. This *new financial architecture* should encompass the following essential missions in Africa:

- Cancellation of debt
- New credit generation for physical economic growth

- Massive investment in hard infrastructure
- Urgent mobilization to establish modern health infrastructure
- Significant upgrading of manufacturing and agricultural sectors

It is unacceptable in the twenty-first century for every nation not to be equipped with advanced modern healthcare infrastructure. One of the most egregious defects of globalization is that nations have become dependent on imported food from thousands of miles away because it is somehow construed to be cheaper than producing food at home.

Nations exist to foster the continuation of a human culture moored to the conception that human life is sacred. There is no equivalency between servicing debt and safeguarding human life. Money really has no intrinsic value. Banks are mere servicing bureaus of an economy. Governments legitimately create credit to generate future physical wealth to benefit their citizens. When borrowing or lending arrangements fail to benefit society then they should be restructured or cancelled. Such financial reorganizations have been achieved many times throughout history.

PM Abiy has brought to the attention of the world, a profound underlying principle that should govern all national and international policy: the promotion of human life is supreme, monetary instruments are not.

Why the Global Debt of Poor Nations Must Be Canceled

Delaying the repayments to the Group of 20 is not enough.

By Abiy Ahmed, Prime Minister of Ethiopia. Nobel Peace Prize Laureate, 2019

April 30, 2020, *New York Times*

ADDIS ABABA, Ethiopia — On April 15, Group of 20 countries offered temporary relief to some of the world's lowest-income countries by suspending debt repayments until the end of the year. It is a step in the right direction and provides an opportunity to redirect financial resources toward dealing with the coronavirus pandemic.

But if the world is to survive the punishing fallout of the pandemic and ensure that the economies of countries like mine bounce back, this initiative needs to be even more ambitious.

At the very least, the suspension of debt payments should last not just until the end of 2020 but rather until well after the pandemic is truly over. It should involve not just debt suspension but debt cancellation. Global creditors need to waive both official bilateral and commercial debt for low-income countries.

These steps need to be taken with a sense of urgency. The resources freed up will save lives and livelihoods in the short term, bring back hope and dynamism to low-income economies in the medium term and enable them to continue as the engines of sustainable global prosperity in the long term.

In 2019, 64 countries, nearly half of them in sub-Saharan Africa, spent more on [servicing external debt](#) than on health. Ethiopia spends twice as much on paying off external debt as

on health. We spend 47 percent of our [merchandise export revenue](#) on debt servicing. The [International Monetary Fund](#) described Ethiopia as being at high risk of external debt distress.

The dilemma Ethiopia faces is stark: Do we continue to pay toward debt or redirect resources to save lives and livelihoods? Lives lost during the pandemic cannot be recovered; imperiled livelihoods cost more and take longer to recover.

Immediate and forceful action on debt will prevent a humanitarian disaster today and shore up our economy for tomorrow. We need to immediately divert resources from servicing debt toward responding adequately to the pandemic. We need to impede a temporary health crisis from turning into a chronic financial meltdown that could last for years, even decades.

Ethiopia must spend an extra \$3 billion by the end of 2020 to address the consequences of the pandemic, while our balance of payments is set to deteriorate. Increasing health care spending is essential, irrespective of debt levels, but we have less money on hand, and much of it is due to creditors.

A moratorium on bilateral and commercial debt payments for the rest of this year will save Ethiopia \$1.7 billion. Extending the moratorium till the end of 2022 would save an additional \$3.5 billion.

Low income countries can use the financial resources freed up by cancellation or further deferment of debt repayments to invest in our battle against the pandemic, from providing necessary medical care to our citizens to ameliorating our financial difficulties.

In October, the [I.M.F. reported](#) that the five fastest-growing economies in the world were in sub-Saharan Africa, which includes Ethiopia. In early April, the World Bank reported that [sub-Saharan Africa](#) would face its first region wide recession in over 25 years and the region's economy could shrink by as much as 5.1 percent.

This is not a result of bad policies, mismanagement or any other ill typically associated with developing economies. The recession will be the product of the coronavirus outbreak.

Preventing or at least minimizing the recession is critical to maintaining years of hard-won economic gains across the continent. The current moratorium in bilateral debt collection until the end of the year will help, but it won't be enough, given the gravity of the challenge we face.

The moratorium must be extended until the coronavirus health emergency is over or canceled altogether. The creditors need to do this unconditionally.

Official bilateral creditors are no longer the principal source of external debt financing for many developing countries. Private-sector creditors, [including investment banks](#) and sovereign funds, are. They should play their part in the effort to rescue African economies from permanent paralysis with a sense of solidarity and shared responsibility. It would help avoid widespread sovereign defaults and chaos in the market.

And it would be morally indefensible if resources freed up from a moratorium in bilateral debt collections were to be used to pay private creditors instead of saving lives.

Most of our countries managed to borrow funds on the back of [solid economic](#)

[performance](#) and highly promising and evidence-based development programs and trajectories. Nobody foresaw this promise being derailed by a once-in-a-century event such as the coronavirus pandemic.

Under these circumstances, there is no room for traditional arguments such as moral hazard. Low-income countries are seeking relief not because we squandered the money but because we need the resources to save lives and livelihoods.

It is in everybody's enlightened self-interest that the borrowers be allowed breathing space to get back to relative health. The benefits of rehabilitation of the economies of the hardest-hit countries will be shared by all of us, just as the consequences of neglect will harm all of us.

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