

# Left in the lurch

## Debt and Covid-19 in Ecuador, Kenya, Pakistan, the Philippines and Zambia

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### Ecuador

Ecuador is experiencing a health and humanitarian crisis as a result of Covid-19. Images of **overcrowded hospitals**, **corpses lying in the streets** and **mass graves** in the country have been shared around the world. These are just a small sample of the problems faced by Ecuador in the battle to protect the rights and lives of its citizens.

#### The social and public health consequences of the pandemic

Ecuador, a country with a population of 17 million, has **reported** a total of 180,676 cases and 13,016 deaths caused by Covid-19, as of November 2020. The official figure is likely to underestimate the true toll of the pandemic in the country. A comparison of the mortality rates between 2019 and 2020 shows excess deaths reaching **38,788** in the context of the crisis. This figure places Ecuador as the country with the **highest rate** of excess deaths per capita in the world.

The tragic impact of the pandemic is a direct **result** of a slow and insufficient response by a government burdened with austerity and debt. Authorities delayed the introduction of a strict lockdown until mid-March. The measures were announced nearly **three weeks** after the first reported case of Covid-19 in the country. The government then proceeded to ease the lockdown measures as early as the **beginning of May**, despite the surge in cases and deaths caused by the pandemic. The reduction in the restrictions was not accompanied by any substantial efforts to either strengthen the capacity of the **health sector** or **social safety** nets.

The economic and social consequences of this approach have been devastating. The International Monetary Fund (IMF) projects the economy will shrink by **11 per cent** in 2020. Formal sources of employment are being decimated. Only **one in three** companies are expected to remain profitable in the aftermath of the pandemic. As a result, more than **700,000** people have lost their jobs, while an additional **1,440,983** have been pushed into the informal sector. All the gains in the fight against poverty achieved over the last two decades are threatened **to be reversed** by the pandemic. Going forward, at least **half a million people** will need permanent social assistance.

Ecuadorian women have been disproportionately affected by these dynamics. Women in the country **work fewer hours** for less pay and in worse conditions than their male counterparts. The pandemic has worsened this situation. A survey conducted by the United Nations (UN) in Ecuador shows that **45 per cent** of women had lost their jobs. A further 76 per cent saw their workload increase as a result of care duties and home, with 56 per cent of women being solely in charge of educational responsibilities for their children. Lockdown measures have also had a negative impact on gender-based violence. The number of cases has increased and it is estimated that there is a report of gender-based violence taking place on average **every five minutes** at the national level.

#### A debt crisis in the middle of a pandemic

Before the pandemic, the country was already struggling with an ongoing debt crisis. Public debt had increased from **30.9 to 68.9** per cent of Gross Domestic Product (GDP) between 2015 and 2020. As a result, the country allocated **29 per cent** of government revenues to meet creditor claims in 2019. This figure is equivalent to 2.3 times the public health budget of the country or 1.9 times its education budget.

These mounting debt problems forced the country to request IMF financial assistance in March 2019. The IMF programme provided the country with a loan of US\$ 4.2 billion on the basis of strict conditionality and binding fiscal targets.

**Massive protests** made the government and IMF withdraw their initial intentions to cut petrol subsidies. However, the planned austerity measures and structural reforms were implemented during the state of emergency which restricted mobility for over seven months. As part of this programme, the country was expected to implement expenditure cuts worth **5 per cent of GDP** between 2019 and 2022. Austerity measures included in the programme systemically weakened its public health sector. The public health budget declined from **US\$ 353 to 110 million** between 2017 and 2019. The cuts led to a dismissal of health personnel and a decline in the availability of medical supplies, which left the country woefully unprepared to deal with a pandemic.

As the pandemic struck the country, the initial IMF programme had to be **scrapped** as a result of social protest, data discrepancies and non-compliance with targets. In addition, Ecuador requested a six-month deferral of interest payments from its private creditors in April 2020. This eventually led to a debt restructuring process, which was completed on 1 September 2020. Ecuador exchanged bonds to the value of **US\$ 17.4 billion** with a participation of 98.5 per cent of the bondholders. The IMF explicitly endorsed the outcome of the negotiations with a new programme that provides the country with **US\$ 6.5 billion** in additional financing.

The success of the debt restructuring and IMF programme is premised on the ability of the country to deliver on **austerity measures** worth **5.8 per cent** of GDP over the next three years. This figure is **eight times** the resources the country was able to mobilise to protect the lives of its citizens in 2020. It is questionable whether Ecuador will be able and willing to go through with cuts of this magnitude as social and political tensions rise in the country. The possibility of a new default in the medium term is not negligible.

### **A call for help to the international community from Ecuadorian civil society**

Since the beginning of the pandemic, civil society has remained active, demanding a strong response from authorities in Ecuador to protect its citizens from the dual threat of austerity and the pandemic. Earlier this year, Centro de Derechos Económicos y Sociales (CDES) launched a campaign demanding that austerity measures in the field of public health should be reversed. At CDES, we requested allocation of resources to contain the risks of the pandemic, including the formulation of labour income protection policies and special protection measures for vulnerable groups.

In addition, CDES welcomed recommendations from agencies such as the UN Economic Commission for Latin America and the Caribbean (ECLAC) and the reports from the United Nations High Commissioner on External Debt. CDES has requested that the management of external debt by the national government does not sacrifice resources that should be allocated to contain the pandemic. Given the exceptional nature of the situation, the suspension of external debt payments should be contemplated. This line of action included the filing of a constitutional appeal with the Ecuadorian Constitutional Court, in conjunction with other civil society actors.

However, we can't do this alone. As is the case in other countries around the globe, such as **Kenya** and the **Philippines**, the people of Ecuador are in need of international solidarity to tackle the impact of the social, health and economic crisis we are going through. Measures such as the **G20 DSSI** and the "**Common Framework**" are leaving countries like Ecuador in the lurch. More than anything we need our voices to be heard in international forums and our needs should be acknowledged in the design of policy responses to the crisis. Only through multilateral solutions, such as the implementation of a debt workout mechanism under the auspices of the UN, can we hope to avoid a new lost decade.

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## **Kenya**

The health impact of the pandemic in Kenya has been mild. Despite an increase in the number of new cases over the last month, the situation in Kenya compares favorably to other countries in the region. The country has reported **a total of 49,997 cases and 920 deaths**. This represents a small fraction of the **1.7 million cases and 41 thousand deaths** reported for Africa as a whole since the beginning of the pandemic. A factor that helps to account for this evolution is the imposition of **strict lockdown** measures between March and June of this year. The increase in reported cases of Covid-19 observed since coincides with the relaxation of these measures.

### The impact of the lockdown measures on the living conditions of the population

Lockdown measures have had negative effects on the rights of the population. The [Kenya Human Rights Commission](#) documented 10 cases of loss of life and 87 varied cases of inhuman and degrading treatment by law enforcement officers. From a gender perspective, [23.6 per cent](#) of Kenyans have seen or heard cases of domestic violence since the introduction of containment measures. These measures have also led to the closure of schools, leaving [15.2 million students](#) in the country unable to attend classes. This will have substantial [long-term negative effects](#) on their personal development.

For the economy, the crisis has been a disaster. Nearly [70 thousand jobs](#) have been lost this year. For a country where informal activities account for [83 per cent](#) of employment, this is bound to have substantial negative impacts on livelihoods. Additionally, weak safety nets have prohibited vulnerable families from accessing special government programs. Efforts have been hampered by the lack of a proper physical address system and feeble social safety net systems. Scaling up social assistance programs to provide poor households in rural areas – where poverty rates are over 70 per cent – with basic needs such as food, water and shelter, is paramount.

### Financing a response to Covid-19

The capacity of the Kenyan government to protect its population is hampered by fiscal constraints. The country implemented a Covid-19 response plan worth [0.8 per cent](#) of Gross Domestic Product (GDP) in 2020. However, these resources did not represent additional spending. Given the substantial reduction in government revenues of more than [1.4 per cent of GDP](#) in 2020, the government was forced to implement off-setting expenditure cuts elsewhere. Excluding the Covid-19 emergency response, government expenditures fell by [1 per cent of GDP](#). Taken together these figures show that overall capacity of the government, as measured by public expenditures, has actually decreased during the pandemic.

This dynamic highlights the insufficient nature of the multilateral support provided during the pandemic. In total, Kenya has received US\$ 788 million in loans from the [International Monetary Fund](#) (IMF) and the [World Bank](#). In addition, on November 3, it was announced that Kenya was seeking a [second loan](#) from the IMF. So far the country has [refused](#) to participate in the G20 Debt Service Suspension Initiative (DSSI) over concerns of its impact on access to international financial markets. This is a puzzling decision as official debts represent around a third of the country's total public external debt. Kenya is [paying an interest rate between 6.9 and 8.3](#) per cent on its Eurobonds. A credit risk downgrade could potentially increase these rates and make it impossible to refinance its debts in the near future.

Going forward, the [economic strategy](#) of the government hinges on the expectations of new external financing and a substantial consolidation plan. If any of these elements fails to materialise, the country would find itself in an extremely precarious situation.

Kenya's public debt is projected to reach [69.8 per cent](#) of GDP by 2023. An increase of over 10 percentage points over pre-crisis levels. Public debt service is expected to increase from [9.8 to 12.9 per cent](#) of GDP between 2019 and 2023. Without access to additional support in the form of concessional financing and debt relief, the country will struggle to meet creditor claims in the coming years. This becomes clear in the context of the consolidation plan outlined in the [IMF programme document](#). The IMF debt sustainability assessment for the country establishes the "need for sustained fiscal consolidation... over the medium term". In concrete terms, Kenya is expected to reduce public expenditures from [22.4 to 19.2 per cent](#) of GDP between 2019 and 2023. A reduction of public expenditures to below pre-crisis levels will create massive social and economic tensions within the country.

Fiscal consolidation would leave the country ill-prepared to face the impacts of climate change. [Kenya faces extreme climate events](#). Most recently, the country experienced a [massive locust plague](#), which scientists have linked to climate change. The climate emergency has already had a [devastating impact](#) on communities livelihoods, and will continue to do so. A government with decreasing resources to tackle the consequences of climate change and broader development commitments under the 2030 Agenda, is a guarantee for humanitarian disaster.

Even if an agenda of adjustment and debt could be achieved, it is clearly not desirable. The satisfaction of basic human rights of the Kenyan population cannot be left behind creditors interests. Given the high degree of debt risks faced by the country, it is clear that it is a prime candidate for debt relief. An ambitious debt relief program would alleviate the financial burden of the country, allowing it to increase investments in its own development. Unfortunately, the G20 is set to roll out yet another disappointing and **insufficient initiative** to address debt vulnerabilities in developing countries. The hardships to be faced by the Kenyan population over coming years are a direct result of the incapacity of the G20 to rise up to the defining challenge of our time.

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## Pakistan

The indicators of a severe debt crisis were already present in Pakistan long before the Covid-19 crisis hit. The pandemic has merely served as a detonator of a structural crisis. After years of being under a neo-liberal offensive, Pakistan's debt burden has soared. Although the International Monetary Fund (IMF) classifies Pakistan as a country at low risk of debt distress, the reality is that the country already finds itself in a situation of debt distress, **according to the Jubilee Debt Campaign's Debt Data Portal**.

The G20 Debt Service Suspension Initiative (DSSI) that was announced in April is a positive gesture but can hardly be seen as a step forward. The DSSI simply represents the short-term postponement of payment, instead of the actual cancellation of debt obligations. Furthermore, the DSSI only contemplates the binding involvement of bilateral official debts. Participation of the private sector and multilateral organisations has remained voluntary. In the case of Pakistan, this means that a large share of the external debt owed by the country is effectively excluded.

For Pakistan, the G20 DSSI provides a temporary debt suspension for eight months, involving up to US\$ 1.8 billion in postponed debt payments. This is just a drop in the ocean. During such testing times, nothing is more draconian than forcing a country to contract further loans to finance the emergency response to Covid-19. Pakistan has been forced to do so in significant amounts. The IMF provided the country with a **US\$ 1.4 billion** loan under the Rapid Financing Instrument facility. In addition, a consortium of multilateral institutions, composed of the **World Bank (WB)**, **Asian Development Bank (ADB)** and **Asian Infrastructure Investment Bank (AIIB)** have signed agreements to provide loans to the country of up to US\$ 1.75 billion.

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## Bullying behaviour from IFIs

In response to these challenges, **Pakistan** has adopted an outspoken position on the need for debt relief to poor countries. As a result, it has faced pressure from international financial institutions (IFIs) and Credit Rating Agencies (CRAs). CRAs have threatened Pakistan with credit risk downgrades for addressing the issue of debt justice. The debt problems of the country have also become an issue of global geopolitics. In a contradictory position, the US has simultaneously opposed Pakistan's call for comprehensive debt relief at the United Nations (UN) while it demands that China cancels bilateral loans extended to the country, as they are considered unsustainable and unfair.

In this context, Pakistan is projected to need US\$ 27.8 billion to meet external debt service payments between September 2020 and June 2023. This figure includes payments for US\$ 19.4 billion to the IMF, WB, ADB and China (CPEC loans). The external debt of the country stands at US\$ 111 billion. Of this figure, 48.4 per cent is owed to bilateral official creditors, 38.1 per cent to multilateral creditors and 9.4 per cent and 4.1 per cent to unofficial and private creditors, respectively.

Working classes have been forced to bear the effect of this mounting debt burden through indirect taxation. The economy of Pakistan is currently in intensive care. However, IFIs and CRAs present a rosy picture under the garb of self-serving interpretations of debt sustainability. How can a country like Pakistan – with negative Gross Domestic Product (GDP) growth (for the first time in 70 years), 45 per cent of the population living below the poverty line, 12 per cent inflation rate and a debt-to-GDP ratio of over 80 per cent – have the ability to pay back over US\$ 1 billion per month?

## Pakistan's economy is heading towards crisis

Pakistan is in a perfect debt trap. Its economy is running purely on debt. Obviously, this will not be sustainable for long. Sooner rather than later it will come to the inevitable – default. Without urgent and significant debt relief from all creditors, coupled with local actions such as a public debt audit and a massive reduction in non-development expenditures, it will be hard for Pakistan to avoid a default.

Going forward, all global creditors need to stop dragging their feet and move towards urgent and comprehensive debt cancellation and relief for Pakistan and all other developing countries in need. Support must come free from the type of institutional bullying that has characterised 'help' in the past, including extensive use of policy conditionalities, blackmailing and asset stripping. A comprehensive solution must include at least three basic components:

1. **Fresh loans even to respond to the Covid-19 crisis must be stopped.** All external debt service payments on bilateral, multilateral and private debts owed by Pakistan should be suspended at least until June 2023.
2. **Comprehensive sovereign debt relief must follow the initial debt suspension phase.** Debt relief should follow the structure of the assistance offered by the global community to Germany in 1953.
3. **Independent debt audits must be considered an integral component of comprehensive sovereign debt relief.** Audits should take place at the national level and should be responsible for the assessment of the legality of all the previous loans. The results of the debt audits would then inform the process of cancelling illegitimate and odious debts.

Coordinated efforts by CSOs all round the world are needed to ensure that these measures are adopted and countries like Pakistan are not left alone dealing with the impact of the crisis.

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## The Philippines

The Philippines has been in a vulnerable position since the beginning of the Covid-19 pandemic. This vulnerability can be explained by four factors: firstly, the close social and economic ties and geographical proximity between China and the Philippines. Secondly, the constant flow of outward migration of Filipino contract workers and, with cyclical migration, an increasingly mobile population. Thirdly, a weak public healthcare system that is a legacy of decades of inadequate financing because of prioritisation of debt service. And last but not least, significant social and economic inequalities. As a result of these pre-existing conditions, the crisis has been acutely felt by the population of the country.

In February, the Philippines experienced the **first Covid-19 death** outside China. Since then, the country has reported more than 304,266 active cases and a total of **5,344** deaths caused by Covid-19. In response to the pandemic, the government enforced lockdown measures from **16 March**. The Philippines ended up with one of the **longest and most strict** lockdowns in the region. However, deep inequalities, a lack of adequate safety nets and a strained healthcare system affected the ability of these measures to contain the spread of the pandemic. On July 31, 80 groups representing 80,000 doctors and one million nurses said the country was **losing its fight against Covid-19**. They warned about the potential collapse of the healthcare system unless stricter measures and recalibrated strategies were put in place by the government.

In the meantime, the population of the country has been left to deal with the economic consequences. Before the pandemic, the economy was projected by the International Monetary Fund (IMF) to grow by **6.3 per cent in 2020**. Since then, the Fund has slashed its provisions and the economy is now set to decrease by 3.6 per cent in 2020. As a result of this sharp downturn millions of people have lost their livelihoods. An estimated 7.3 million people have temporarily or permanently lost their jobs. The Department of Labor and Employment (DOLE) estimates that around **10 million workers** may lose their jobs this year. Hunger and poverty are on the rise, and the number of families experiencing hunger increased from 2.1 million in December 2019 to **4.2 million in May 2020**. The government estimates that without any support measures, there will be an additional **5.5 million** people living in poverty.



In addition to this, the pandemic has also had clear consequences for gender equality. These consequences are largely shaped by pre-existing multiple and intersecting discrimination faced by women in the Philippines. They are **over-represented** in the informal economy and in paid and unpaid care work, and under-represented in formal employment, including decision-making structures and processes in the home and public spheres, as well as in ownership of land and other assets. In addition to economic inequality, women in the country are also highly vulnerable to domestic violence. Since the start of the lockdown in March until mid-June, more than **4,200 cases of violence** against women and children have been reported by the Philippine National Police (PNP).

The government of the Philippines has put in place a four-pillar strategy to address the impact of the pandemic. Pillar 1 consists of emergency support for vulnerable groups and individuals amounting to 11 per cent of GDP. Pillar 1 is partly funded from an Asian Development Bank (ADB) grant for rapid emergency supplies. Pillar 2 funds expanded medical services to fight Covid-19 with a budget amounting to 0.3 per cent of GDP and has received World Bank financing. Pillar 3 is composed of programs to finance small businesses for an amount equivalent to 0.6 per cent of GDP. Lastly, Pillar 4 provides social protection for vulnerable workers, including displaced and overseas Filipino workers, totalling 0.3 per cent of GDP. In total, the government has mobilised resources for **3.1 per cent of GDP** (US\$ 12.2 billion).

As well as being insufficient to contain the socio-economic impact of the crisis on the population, the Covid-19 response package has also caused an unprecedented increase in debt. Public debt is expected to increase from **34.1 to 48** per cent of GDP between 2019 and 2020. Before the start of the pandemic, external creditors held claims on the public sector equivalent to **13.9 per cent of GDP**. Their participation in the overall composition of debt is likely to fall further as most of the financing during 2020 has come from domestic sources. In the short term, this has helped the country to avoid requesting emergency financing from the IMF. The large share of domestic debt has allowed the government to finance its operations without external support. Actions of the government have been supported by the central bank of the country, which has reduced its interest rates four times over 2020.

However, the lack of support from the international community for countries like the Philippines has stark costs. As a middle-income country, the Philippines is excluded from participating in the G20 Debt Service Suspension Initiative (DSSI). Before the crisis, the country had an annual debt service requirement equal to **6.6 per cent of GDP**. This figure is about to increase substantially as a result of the pandemic. Without measures to address the debt burden, and few options to increase revenue, the only choice left is to implement harsh austerity measures. The government has already laid out plans for **significant fiscal consolidation** starting in 2021, which is likely to increase the hardships being experienced by the population.

It is imperative that countries such as the Philippines are not left alone to fend for themselves. Lenders need to acknowledge the illegitimate character of a large share of the debts incurred by developing countries. In addition to this, we need to recognise the existence of historical, social and ecological debts tied to the legacy of colonial and post-colonial exploitation of countries in the global south. It is only when those debts have been acknowledged and cancelled that developing countries will have a chance to recover.

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*This blog was authored by Asian Peoples' Movement on Debt and Development (APMDD). This blog was co-authored in collaboration with Eurodad.*

## Zambia

The Covid-19 pandemic has had significant health, social and economic effects in Zambia. As of 15 September, the country had reported a total of 13,819 cases and 324 deaths related to Covid-19. Until now the government has avoided the adoption of draconian policies to contain the pandemic. The official response has been based on a combination of partial lockdown measures mainly aimed at reducing gatherings in public spaces.

The pandemic has had a devastating impact on the living conditions of the population. Before the crisis, **58 per cent of the population** was living below the poverty line (i.e. on an income below US\$ 1.90 per day). This is expected to increase as the crisis is taking a significant toll on jobs. The informal sector accounts for **68 per cent of employment** in the country. With the emergence of the pandemic, most businesses have experienced severe disruptions due to the reduction in the number of person-to-person interactions that characterise the informal sector. The impact is especially severe for **smallholder farmers** in rural areas. Up to **77 per cent of the population** is living in poverty in these regions.

These dynamics affect women disproportionately. As of 2019, less than one **out of four working-age women** in the country had jobs. The informal sector accounts for 76 per cent of total employment for women. In this context, the Covid-19 crisis has had a dual impact on women in the country. On the one hand, job losses in the informal sector are set to see an increase in female unemployment. On the other hand, caregiver burdens largely fall on women in Zambia. As a result of the unequal gender distribution of informal care in the household, women are likely to see their work and life opportunities further constrained in the aftermath of the pandemic.

In this regard, the prospects for a strong recovery are concerning. A central issue is the large debt burden facing the country. Zambia's public debt has increased significantly over the past few years. In 2018, total public debt reached **US\$ 18.3 billion**, which is equivalent to 78.1 per cent of Gross Domestic Product (GDP). From this figure, US\$ 11.2 billion corresponds to external public debt. Nearly half of this figure (US\$ 5.1 billion) are bonds and loans from private creditors. According to the International Monetary Fund (IMF), the country was already at high risk of debt distress before the impact of the Covid-19 pandemic. The ongoing crisis is making the underlying problem more complex to solve, as public finances deteriorate and debt levels continue to rise. This is a major source of concern for the population and civil society.

Expenditure on debt servicing and salaries has been increasing at the expense of investments in key economic sectors such as healthcare, agriculture and mining just to mention a few. Before the pandemic struck, the country was experiencing systemic underinvestment particularly in its healthcare sector. Despite being a party to the Abuja Declaration of 2001, which committed Member States of the African Union to allocate at least 15 per cent of their budgets to the health sector, the country has yet to fulfill its commitment. Over the last five years, public healthcare expenditure has averaged 9.1 per cent of the government's budget. In the meantime, during this same period, debt servicing alone accounted for **70.3 per cent** of government revenues. This ratio is substantially above the IMF risk threshold, which recommends a relation of debt service to revenues no higher than 15 per cent. The pressure of the debt burden over public finances is set to increase further. The domestic currency (Kwacha) has depreciated over **24** per cent in the first quarter of 2020. This has increased the costs of meeting external debt payments severely impacting the country's stock of international reserves.

The World Bank estimates that the G20 Debt Service Suspension Initiative (DSSI) would allow Zambia to suspend debt service payments totalling **US\$ 139.2 million**. This figure is equivalent to 0.6 per cent of GDP and 1.2 per cent of Zambia's total external debt stock. The marginal impact of the DSSI on debt service requirements is explained by the structure of the financing of the country. Most of the public sector borrowing originates from multilateral and private sources. These creditors account for 73.3 per cent of external public debt. This group is only required to participate on a voluntary basis and thus far has not taken any steps to provide additional debt relief to the country.

Failure of the DSSI to engage with private creditors is reflected in the steps taken by the government to address its debt burden. Looming in the horizon is a large principal payment of **US\$ 750 million** to private bondholders in 2022. In May, the government hired Lazard, an investment firm specialized in sovereign debt, to advise the country on a potential restructuring process. On September 22, the government officially approached private bondholders to request a **suspension of payments** for 6 months. It is telling that the request is not within the **DSSI framework**. This is an indication that even in those cases where countries require private creditor participation, the **DSSI is inadequate**. While it is unclear whether private creditors will accept the request for a suspension, this is expected to be the first step of a wider restructuring process.

Against this backdrop, civil society organisations have taken an active role in demanding a public response that minimises the negative impact of the pandemic. Civil society in the region has **advocated** for **measures** aimed at tackling the country's growing debt burden. In this regard, it is increasingly clear that a debt suspension won't be enough to address the pressing problems faced by Zambia. Urgent support is needed from the international community to simultaneously address the recovery and development financing needs of the country and to address Zambia's debt burden. Debt relief with private creditor participation is required now to ensure the country can boost its Covid-19 response and support a sustainable recovery.

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