Vaccine Debts

How Africa's debt crisis is slowing COVID-19 vaccination, and how vaccine costs threaten to add to the debt burden

Introduction

Millions around the world have had Covid-19, and 3 million people have died from the virus. Beyond its direct health impacts, the pandemic is having an even wider impact, pushing an estimated 150 million people into extreme poverty, whilst deepening poverty for many more people who were already unable to meet their basic needs.[1] Vaccination against Covid-19 offers an exit route from the pandemic, and is also the key to unlocking social and economic recovery. Yet at the moment, a two-speed vaccination rollout risks a two-speed recovery, with stark warnings of a 'lost decade' for Africa.[2]

So far, Africa has accounted for about 2% of vaccine doses, despite being home to 14% of the world's population.[3] The slow roll-out of vaccines in Africa, and in other poorer regions is due to inadequate global supply and hoarding of doses by rich countries. Supply is artificially limited due to pharmaceutical companies' monopoly on technology and intellectual property protection. Yet a spiralling debt crisis is making an already difficult situation worse, in at least three key ways.

Firstly, an unsustainable debt burden has shrunk the fiscal space countries need to procure vaccines, and made them heavily reliant on the UN's COVAX initiative which, while an important first step, still only promises 20% vaccine coverage by the end of this year.[4] Secondly, rising indebtedness has starved health systems of the resources they need to roll out vaccines efficiently once they're procured. Even before the pandemic struck, globally one in five low- and middle-income countries was spending more on debt servicing than on health, education and social protection *combined*.[5] Finally, there is a risk that vaccine procurement outside of COVAX and corresponding capacity to administer vaccines effectively, including via the African Union, which aims to secure vaccines for another 25% of Africa's population, will add to the debt burden facing the poorest countries.[6]

What needs to change

- **Developing countries need debt cancellation** to help ensure they can rapidly roll out Covid-19 vaccines and build universal health coverage.
- **Private creditors should be mandated** to be part of a comprehensive debt deal agreed by the G20.
- **Vaccines should be provided at cost to low-income countries**.
- **Vaccine patents should be waived,** so developing countries with generic medicine production capacity can boost production, lower prices, and help to save lives.
- **Countries should work together to agree a 'solidarity package'** so all countries have the means to help tackle the common challenges of Covid-19 and the climate crisis.

The economic crisis brought on by the pandemic has badly hit governments' ability to service debts. The share of revenues going on debt repayments has risen from 20% before Covid-19, to 30% now. The IMF estimates that over half of countries in the region are in debt distress, or at high risk of it.[7]

In response, the G20 struck a deal for a debt standstill in May 2020. Yet what's on offer falls far short of what's needed. Almost half of all African government external debt is owed to commercial creditors, who are outside the scope of the deal. And only one third of eligible countries have signed up to the standstill, which delays repayments, rather than cancels unpayable debts. Many of the countries not participating in the standstill have cited fears of damaging their credit rating.

To enable a more rapid and equitable vaccine roll out, G20 governments urgently need to agree comprehensive debt cancellation measures, including by private sector creditors. Combined with steps to boost vaccine production and lower prices, a debt deal should be part of a wider 'solidarity package' that helps the poorest countries to recover from the pandemic swiftly and sustainably, and supports them on a path to ending extreme poverty.

The Covid-19 pandemic: vaccines as a key to recovery

The economic and social costs of the Covid-19 pandemic have hit the poorest countries hardest, triggering a sharp increase in extreme poverty for the first time in a generation, and causing enormous damage to people's health, livelihoods, and wellbeing. The development of effective vaccines for Covid-19 has been a scientific success story and offers a route out of the pandemic and towards recovery. Wealthier countries such as the UK are vaccinating populations rapidly, and as deaths, hospitalisations and infections fall, are looking to ease social and economic restrictions.

But as in other areas touched by the pandemic, the uneven pace of vaccination against Covid-19 reflects already gaping inequalities, and risks deepening them further. A world of the 'have jabs and have nots' is emerging, in which wealthy countries like Canada have pre-ordered 10 vaccine doses for each person, while the African Union has secured only enough for one-in-four people in the region. Within countries, too, there is a risk of heightening inequalities, for example with lower vaccination rates among women who may find it difficult to attend vaccination centres or have less information about vaccine logistics and effectiveness.[8]

'Vaccine apartheid', where wealthy countries corner supplies and private companies generate windfall profits (see box below), while the poorest countries wait to 2023 to achieve comprehensive coverage,[9] threatens many more preventable deaths from the virus. It also risks sinking the poorest countries into a prolonged economic downturn, and increases vulnerability for the world at large, as partly vaccinated populations in poorer countries fail to achieve herd immunity, and become a potential incubator for mutations of the virus that are more difficult to control. As the head of the World Health Organisation has stated, 'none of us are safe until all of us are safe'.[10] In our interconnected world, herd immunity in one country is only safeguarded through *global* herd immunity.

Global Solidarity Package

Christian Aid is calling for a global 'solidarity package' to fund global challenges, not least Covid-19 and climate change. The effectiveness of the response to these challenges is being undermined by many governments taking a narrowly domestic approach, whereas Covid-19 and climate change are complex crises requiring globally coordinated action. Wealthier countries have a responsibility both to support crisis prevention measures (for example Covid-19 vaccines, and climate mitigation and renewable energy) and curative measures (for example health systems or climate adaptation). A solidarity approach is in the self-interest of rich, as well as poor – decisive action and adequate investment now will reduce long-term costs, whilst saving lives and livelihoods.

There is much companies and governments can urgently do to ensure equitable access to vaccines, including prioritising vaccine distribution on the basis of need rather than purchasing power. Governments must also address the fundamental global inadequate production of vaccines. Investing in maximising manufacturing capacity is critical to deliver adequate doses to vaccinate the world including through a fully funded COVAX. Maximising manufacturing capacity requires companies to share vaccine technology via the WHO Covid 19 Technology Access Pool and waiving intellectual property protection via the South Africa/India proposal to WTO which is supported by 100 countries. The African Union and partners are seeking to improve the continent's vaccine manufacturing base.[11].

The People's Vaccine Alliance, of which Christian Aid is a part, sets out an agenda for treating the Covid-19 vaccine as a public good, which is made available at cost for the poorest countries, with barriers lifted to increased production. Donors should also make it simple for governments to procure vaccines.

Africa needs about 1.5 billion doses to achieve the 60% coverage, the minimum to achieve herd immunity against COVID-19 is reached.[12] According to the African Union's vaccine strategy it is estimated that this will cost about $9 billion (about $6 per vaccine including delivery), while the World Bank estimates a total cost of $12 billion. In contrast, African countries that are eligible for the G20 debt standstill face scheduled debt payments of $30.5 billion in 2021[14] – more than twice the estimated cost of vaccinating the continent.[15]

The pandemic profiteers

While the poorest countries struggle to procure vaccines for COVID-19, some pharmaceutical companies are seeing bumper profits, on the back of vaccine scarcity, itself a by-product of monopolies buttressed by intellectual property rules. Moderna is expected to make $18bn of sales this year, and Pfizer between $15-30bn. Research into vaccines was heavily publicly subsidised, yet Pfizer and Biontech are seeing an expected profit rate, over Research and Development and production costs, of 60-80% this year, rising rapidly in 2022 with 'post-pandemic' prices, leading to some estimates of pharmaceutical companies' profits in the range of tens of billions of dollars.

Source: https://www.cityam.com/big-pharma-how-much-will-each-company-make-off-their-Covid-19-vaccines/; https://healthgap.org/pfizer-and-biontech-profiteering-exposed-more-than-enough-is-enough/;

Vaccine procurement and the debt crisis

Whilst most governments are eager to procure vaccines, some are simply struggling to pay for pre-existing public services and other costs such as debt servicing. Faced with a growing gap between rising costs and falling revenue due to lower tax receipts, many rich countries have simply borrowed large amounts at low interest rates. Lower income countries do not have the same room for manoeuvre.[16]

Shrinking fiscal space for the poorest countries is making it difficult to procure vaccines beyond those made available via the donor funded COVAX programme. Among the few developing countries that have placed large orders for Covid-19 vaccines, the patchy information in the public domain suggests they are paying *more* for vaccines than rich countries.[17] For example, Uganda paid around three times the price per dose of the Oxford AstraZeneca vaccine than that paid by the EU.[18]

There is also a growing risk that countries already struggling with debt service obligations will add to this burden as a result of vaccine procurement and delivery costs. The African Union, via its specialised agency, the African Centre for Disease Control, is negotiating 670 million doses, over and above what's provided through COVAX – with participating countries paying back the African Export-Import Bank (Afreximbank), which has guaranteed a $2 billion loan, over a five to seven year period.

Nigeria, the continent's most populous nation, stands to pay roughly $283 million if it takes its full allocation of 42 million doses. Zambia, which is already debt-distressed, would have to find $25 million for its allocation of less than 4 million doses.[19]

The World Bank is meanwhile providing $12 billion[20] to "help poor countries purchase and distribute vaccines, tests, and treatments." While low income countries will receive this funding on IDA terms, for lower-middle income countries IBRD lending, although at concessional rates, could add to their debt burden.[21] It is also unclear whether countries have received any of this support yet, despite many incurring procurement costs. Recent proposals for an IMF vaccine window pose similar risks of indebtedness.[22]

Debt and health systems

Procuring and distributing COVID-19 vaccines can be prohibitively expensive for countries that have weak health systems and low levels of public spending. In the UK, where public health spending per person is about $4,400, doses costing $3-10 are highly affordable, and existing health infrastructure can be used to deliver jabs into people's arms. In low-income countries average government health expenditure per head stands at around $10, with donors providing a similar amount. Out of pocket expenses are roughly $20 per person. In total per capita spending is less than half the WHO's recommended benchmark of $85 per capita spending.[23]

Rising indebtedness, and austerity conditions attached to multilateral loans have further weakened the capacity of many African countries' health systems to distribute the COVID-19 vaccine swiftly and efficiently.

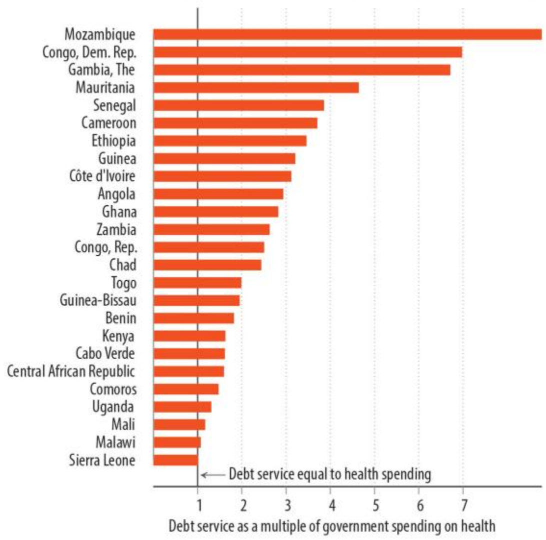

Chart 1

Neither healthy nor wealthy

A number of sub-Saharan African countries spend more on debt servicing than on health.

Source: World Health Organization; and World Bank, International Debt Statistics (https://datatopics.worldbank.org/debt/ids/).

Estimates of the funding gap for universal health coverage in low and lower-middle income countries vary, but some assessments point to around $50 billion of additional annual spending needs in low income countries and $250 billion in lower-middle income countries.[24]

Rising debt payments have put this funding challenge further out of reach. Africa's debt burden has risen roughly threefold in the last decade,[25] and at least 62 developing countries were spending more on debt servicing in 2020 than on health budgets (see chart).[26]

Debt cancellation

The 'triple whammy' facing the poorest countries, of rising needs arising from the pandemic, falling revenues, and a mushrooming debt burden, has led to some tentative steps by lenders to cancel and relieve debts.

The IMF has cancelled $485 million in developing country debt in 29 low-income countries, through the Catastrophe Credit Relief Trust (CCRT) fund, covering the period April 2020–April 2022. Yet this constitutes only 1.1% of all debt obligations from lower income countries.

The G20 group of the world's largest economies came together in May 2020 and agreed to a debt standstill – or 'Debt Service Suspension Initiative' (DSSI) – that has been subsequently extended, to June 2021.

The DSSI has so far involved 46 countries, and delayed payments on $5.7 billion of 2020 debt, representing a little over 12% of debts owed by low-income countries. China is estimated to be the biggest lender affected by the deal, with other bilateral lenders from outside the Paris Club nations also bearing a significant cost.[27]

The DSSI has two obvious shortcomings. The most fundamental problem is that it defers the problem of unsustainable debt to a later date, rather than deals with it decisively. This is doubly problematic, because it's a short-term suspension, when recovery from the pandemic is a long-term prospect. Rising interest rates in rich countries may have negative consequences for lower income countries, including on borrowing costs.[28] The other issue is that it has failed to properly include private sector creditors, who now account for over 40% of external public debt for low- and middle-income countries.

Although the trade group for the financial services industry, the Institute of International Finance, is encouraging private lenders - a mix of banks and sovereign bond holders - to join the DSSI, to date there has been no agreement. Instead, some of the world's biggest private financial actors, including Blackrock, JP Morgan, HSBC and UBS, have been among the most active in pursuing payments from the world's poorest countries.[29] In Zambia, for example, IIF members could have promoted waivers to help prevent a debt default.[30]

The result has been that the DSSI has served partly to release resources for the poorest countries to maintain payments schedules with lenders outside the scope of the deal. During the period while the DSSI has been active, low income countries have paid over $26 billion in debt servicing to bilateral, multilateral, and private creditors – over twice the vaccine funding gap for Africa.[31]

Projected debt service payments from May 2020 to December 2021 by 68 eligible countries (US$ billion)

Total annual debt service by lender type		
	2020	**2021**
Private lenders	11.54	13.56
Official bilateral	17.36	15.93
Official multilateral	13.8	13.52
Total	42.7	43.01

Source: Eurodad from International Debt Statistics, World Bank, October 2020[32]

According to research from the Jubilee Debt Campaign, as much as $11.3 billion[33] of IMF financing issued to support 28 countries heavily impacted by the Covid-19 crisis is being used to bail out private lenders.

A binding international agreement is needed that formalises private sector debt as part of a comprehensive restructuring for the poorest countries and replaces the current self-regulation by the Institute for International Finance. These reforms should be complemented by a wider set of measures to ensure greater transparency around debt contracts and creditor data, and stronger public oversight of government borrowing.

From debt cancellation to a just recovery

For the poorest countries, a comprehensive debt cancellation deal would mean money previously spent on servicing could be channelled to vaccination, and improved health systems. It would also have the potential to help strengthen social protection policies, support education catch-up, and assist in a green economic recovery.

For some lower-middle income countries that have been hit hard by the pandemic and may fall outside the scope of debt cancellation initiatives, other measures should be considered to support post-COVID-19 recovery.

The IMF appears ready to agree and issue a new round of Special Drawing Rights (SDRs) which effectively increases IMF member countries' reserves. High income countries could choose to forego their SDRs allocation – since they can already borrow at very low interest rates if needed – and instead redistribute their allocations to lower income countries, for example by contributing to the Poverty Reduction and Growth Trust (PRGT), which can provide rapid crisis lending to developing countries.

Using tools such as the SDRs could contribute significantly to the quantity and quality of funding needed for poorer countries to deal with the economic and social impacts of Covid-19, and invest in the public services and infrastructure that can accelerate their recovery from the crisis.

The urgency of the vaccine challenge, and the scale and complexity of the social and economic fallout from COVID-19 calls for creativity and solidarity from the wealthiest countries, and the institutions in which they hold a casting vote. So far, this has not been much in evidence. A just recovery from the crisis depends on G20 countries and the International Financial Institutions living up to their global responsibilities and resolving the debt crisis in a decisive and durable way.

End notes

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