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The Human Cost of Inaction:

Poverty, Social Protection and Debt Servicing, 2020–2023

by Salome Ecker, George Gray Molina, Lars Jensen and Eduardo Ortiz-Juarez¹

Twenty-five developing economies, the highest number since 2000, spent over 20 percent of their government revenues in 2022 on total external debt servicing. As a share of revenue or expenditure, the average low-income country spends between double and triple the ratio on total interest payments, compared to the average high-income country, and about 2.3 times more on interest payments than on social assistance. Due to the economic shocks during 2020-2023, we project that 165 million people fell into poverty using the \$3.65-a-day poverty line—the entirety of those living in low- and lower-middle-income economies. A pause in debt payments would allow developing economies weighed down by debt to mitigate some of the social effects associated with these shocks, using resources earmarked for debt servicing. Our simulations show that the annual cost of mitigating the additional 165 million poor would reach US\$14.24 billion, or 0.009 percent of global GDP and a little less than 4 percent of total public external debt service in 2022 for developing economies. If the income losses among the already poor prior to the shocks are also included, the mitigation cost would reach US\$107.11 billion, or 0.065 percent of the world's GDP and around a fourth of total external public debt service. Moreover, the total public external debt service is twice the amount required to eradicate poverty at \$2.15 a day, and little more than 40 percent of the resources needed to eradicate poverty at \$3.65 a day.

Introduction: The human cost of inaction

The multilateral system has been slow to restructure sovereign debt for economies with debt burdens too large to carry. Only four economies have approached the G20's Common Framework, two have concluded their debt treatments, and none have received a haircut on principal owed.² While much policy attention has focused on the potential risk of debt defaults, in this policy brief, we turn our attention to the ongoing effects of debt servicing over developing economies' ability to mitigate surges in poverty and vulnerability.

The cost of inaction for dozens of economies currently facing high debt service levels is devastating. Debt service payments are displacing investments in important areas such as health, education and social protection and hindering efforts to mitigate income, job and poverty shocks.

Mitigation efforts are important: without policy responses, net poverty increases between 2020 and 2023 would have been higher.

The policy brief is structured in three parts: In the first part, we consider the size of debt servicing and contrast it to social expenditures in low-income, middle-income and high-income economies; in the second part, we show how poverty has evolved between 2020 and 2023, with estimates of projected poverty at various poverty lines and the distributive patterns across and within countries; the third part proposes a 'poverty pause' to accompany 'debt pauses' in developing economies facing shocks. This is a first step towards building a national and multilateral conversation on adaptive social protection in the future.

A focus on debt servicing versus other expenditures

Interest rates have been taking up an increasingly larger share of developing economies' revenue and expenditure over the past decade. Across central versus general government levels and interest versus net interest payments (Tables 1 and 2), the latest data suggest that compared to the average (or median) high-income country (HIC), **the average (or median) low-income country (LIC) today devotes between double and triple the share of revenue or expenditure to servicing interest payments.**

Data from the IMF's government finance statistic (GFS) let us compare a number of developing economies (DEs)³ in terms of interest payments as a share of expenditure and revenue at the central government level. While in 2011, interest payments made up 3.8 percent of revenue and 4.8 percent of

expenditure in the average LIC, they now account for 11.0 percent and 11.3 percent, respectively, based on the latest data (from 2020 and 2021) (cf. Table 1). Even though a few countries are significantly pulling up the average, half of LICs are now believed to have interest payments of more than 7.1 percent of revenue and 8.2 percent of expenditure, compared to a median of 3.1 percent and 4.3 percent in 2011.⁴

Interest payments have also been taking up larger shares in lower-middle-income countries (LMICs) and upper-middle-income countries (UMICs)⁵—albeit not as much as in LICs—but have been falling in HICs, where the average country has interest payments of 4.6 percent of revenue or 3.7 percent of expenditure based on the latest data, compared to 7.0 percent and 6.5 percent a decade ago.

Table 1: Central government interest payments as a percentage of revenue and expenditure*

Percentage of revenue				
	LIC		LMIC	
	2011 (N=10)	2020/21 (N=10)	2011 (N=32)	2020/21 (N=28)
Average	3.8	11.0	8.7	11.3
Median	3.1	7.1	5.2	6.2
	UMIC		HIC	
	2011 (N=36)	2020/21 (N=36)	2011 (N=36)	2020/21 (N=36)
Average	7.6	9.5	7.0	4.6
Median	5.4	7.4	5.7	3.2
Percentage of expenditure				
	LIC		LMIC	
	2011 (N=10)	2020/21 (N=10)	2011 (N=32)	2020/21 (N=28)
Average	4.8	11.1	8.2	8.9
Median	4.3	8.2	5.4	7.2
	UMIC		HIC	
	2011 (N=36)	2020/21 (N=36)	2011 (N=36)	2020/21 (N=36)
Average	7.8	8.4	2069.4	3.7
Median	6.1	6.8	5.9	2.8

Source: Based on data from IMF's GFS. Notes: * The data used covers 'central government incl. social contributions'. The 2020/21 observation covers the latest available country observations for either 2020 or 2021.

Across a group of 52 highly debt-troubled economies, identified by UNDP, with available data, the average (median) interest payments as a percentage of revenue have increased from 7.6 percent (3.4 percent) to 12.3 percent (7.6 percent) over the same period and as a share of expenditure from 7.4 percent (4.3 percent) to 9.8 percent (7.5 percent).⁶

Using available data on net interest payments at the general government level lets us compare

interest payments for a greater number of countries in terms of their share of revenue and expenditure (cf. Table 2). This data tell the same story as in Table 1, with interest payments taking up an increasing share of revenue and expenditure in low- and middle-income countries—and the highest shares in the average LIC—while the average (and median) HIC now has lower shares than a decade ago.

Table 2: General government net interest payments as a percentage of revenue and expenditure

Percentage of revenue				
	LIC		LMIC	
	2011 (N=25)	2023 (N=25)	2011 (N=52)	2023 (N=48)
Average	6.2	11.0	6.9	10.7
Median	5.0	7.5	3.5	7.5
	UMIC		HIC	
	2011 (N=49)	2023 (N=48)	2011 (N=57)	2023 (N=57)
Average	6.3	8.7	4.6	4.1
Median	4.2	7.5	4.3	3.3
Percentage of expenditure				
	LIC		LMIC	
	2011 (N=25)	2023 (N=25)	2011 (N=52)	2023 (N=48)
Average	5.2	8.8	4.6	4.1
Median	4.3	6.6	3.2	6.8
	UMIC		HIC	
	2011 (N=49)	2023 (N=48)	2011 (N=57)	2023 (N=57)
Average	5.5	7.7	3.8	3.6
Median	4.1	6.5	4.0	3.2

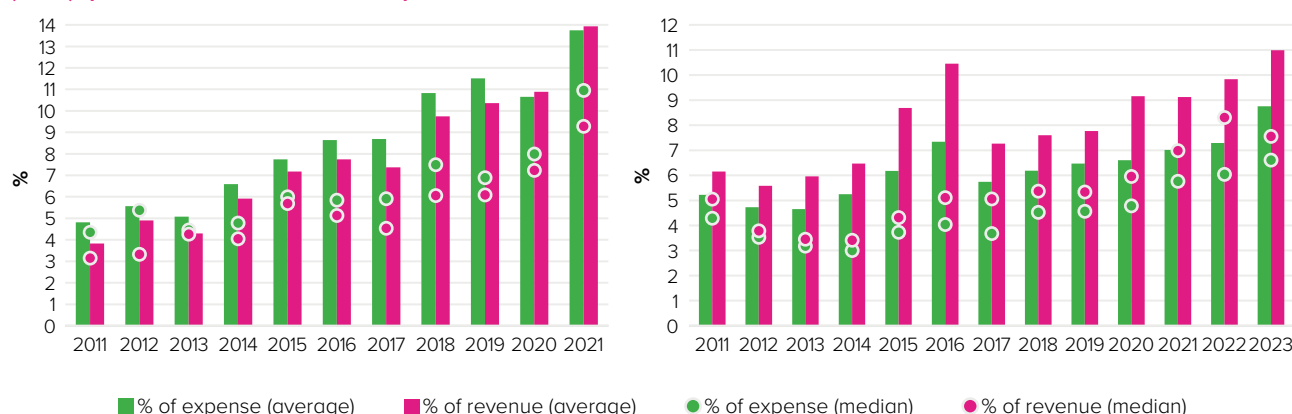
Source: Based on data from IMF WEO April 2023. Notes: Net interest payments are calculated as the difference between the overall and primary fiscal balance. The primary balance is the overall balance minus interest revenue plus interest expenditure.

Across the group of 52 highly debt-troubled economies with available data, the average (median) net interest payments as a percentage of revenue have increased from 6.2 percent (3.4 percent) to 9.4 percent (7.2 percent) over the same period and as a share of expenditure from 5.1 percent (2.8 percent) to 7.7 percent (6.4 percent).

Figure 1 left hand side (LHS) depicts the decade-long development in interest payments as a share

of central government expenditure and revenue for low-income countries from 2011–2021, and right hand side (RHS) depicts net interest payments at the general government level from 2011–2023. As evident, the increase has been steady since before the global pandemic and is likely to continue its upwards trajectory due to already widespread debt distress and higher interest rates.

Figure 1: Central government interest payments (LHS) and general government net interest payments (RHS), percent of revenue and expenditure

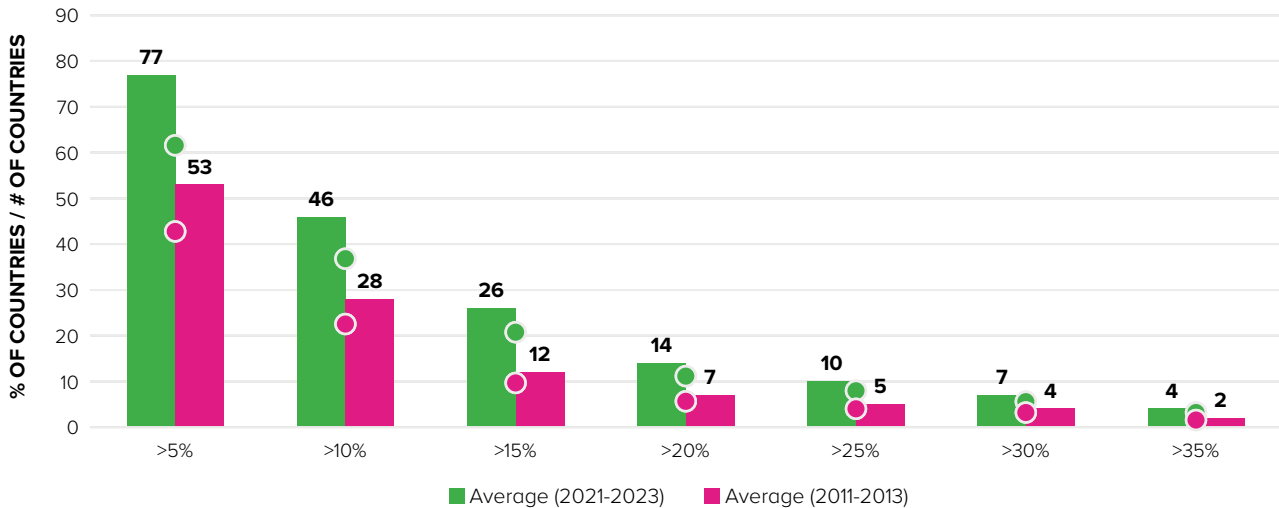


Source: Authors, based on data from IMF GFS and WEO, April 2023. Notes: LHS figure depicts central government-level interest payments and RHS figure general government net interest payments, where net interests are calculated as the difference between the overall and primary balance.

Based on the average value for the three years 2021–2023, Figure 2 below shows how many developing economies have more than 5, 10, 15, 20, 25, 30, and 35 percent of revenue in net interest payments out of a 125-country sample. As an

example, 46 countries (or 37 percent of total) are now paying net interest of more than 10 percent of general government revenue up from 28 countries (23 percent of total) a decade earlier.

Figure 2: Number of low- and middle-income countries with net interest payments higher than 5 to 35 percent of revenue, average 2011-2013 versus average 2020-2023



Source: Based on IMF WEO, April 2023. Notes: The figure shows the number of countries with net interest payments higher than 5, 10, 15, 20, 25, 30, and 35 percent of revenue using the 3-year average ratio for 2011-2013 versus 2021-2023. Round markers show the percentage share of these countries out of all low- and middle-income countries with data (2021-2023 N= 125, 2011-2021 N=124). Net interest is calculated as the difference between overall and primary balance.

Another important factor to consider is principal payments. During normal times, countries can typically roll over maturing debt without any major price changes. But interest rates have risen sharply since the pandemic, which means that even for countries not taking on more debt, rolling over existing debt would likely lead to rising debt service costs—a growing problem as more and more developing economies have increased their dependence on international capital markets over the past decade. For some countries, market interest rates have now become so high that it is not feasible to roll over debt, meaning that principal will also have to be paid out of revenues, leading to a further diversion of already scarce resources from other important expenditures.

Data on public and publicly guaranteed external total (principal plus interest) debt servicing for 2022 suggests that **25 developing economy governments had external debt servicing higher than a fifth of total revenues.⁷ This is the highest number of countries crossing that threshold since 2000**, which also marked the beginning of the

last large-scale debt relief initiative for developing countries, the Heavily Indebted Poor Countries Initiative.⁸

Interest payments in developing economies have been growing faster than public spending on health, education and investments over the last decade, and the UN Global Crisis Response Group (GCRG) estimates that in total, 48 countries are home to 3.3 billion people whose lives are directly affected by underinvestment in education or health due to large interest payments.⁹ Table 3 compares net interest rate payments as a percentage of total general government expenditure to expenditure on health, education and social assistance, using the latest available data (see table note for details). It is likely that today, **the average LIC spends 2.3 times more on servicing net interest payments than on social assistance, 1.4 times more than on domestic health expenditures or 60 percent of what it spends on education.** The average HIC, on the other hand, likely spends almost four times more on health and three times more on education than on servicing net interest payments.¹⁰

Table 3: Percentages of general government expenditure

Health					
	LIC	LMIC	UMIC	HIC	UNDP 52
Average	6.3	8.3	12.1	13.8	8.4
Median	5.9	7.6	11.9	13.4	7.9
Education					
Average	14.4	15.2	14.6	11.7	14.4
Median	12.2	15.7	14.5	12	13.3
Social assistance					
Average	3.81	3.69	6.51	n.a.	4.3
Median	3.06	2.51	5.53	n.a.	3.9
Net interest					
Average	8.75	8.35	7.66	3.61	7.7
Median	6.61	6.76	6.47	3.22	6.4

Source: Based on data from the IMF WEO, April 2023, World Bank WDI database and World Bank Aspire Social Assistance dataset. Notes: Net-interest data is for 2023, Education data for 2021 and health data for 2020. Health data is from WHO and covers 'domestic general government health expenditure'. Education data is based on UNESCO surveys and using IMF WEO data for total general government expenditure. Social assistance data is calculated by the World Bank by aggregating programme-level social assistance data for the most recent available year between 2015 and 2021 and presented as a percentage of GDP. Social assistance figures presented in the table have been converted to 'percentage of expenditure' using 2023 GDP and expenditure values from the IMF WEO, April 2023.

The growing burden of debt has become a major obstacle to development progress in many countries, crowding out fiscal space for much needed investments, and creating a negative feedback loop between debt and development.¹¹ International efforts to help countries resolve their

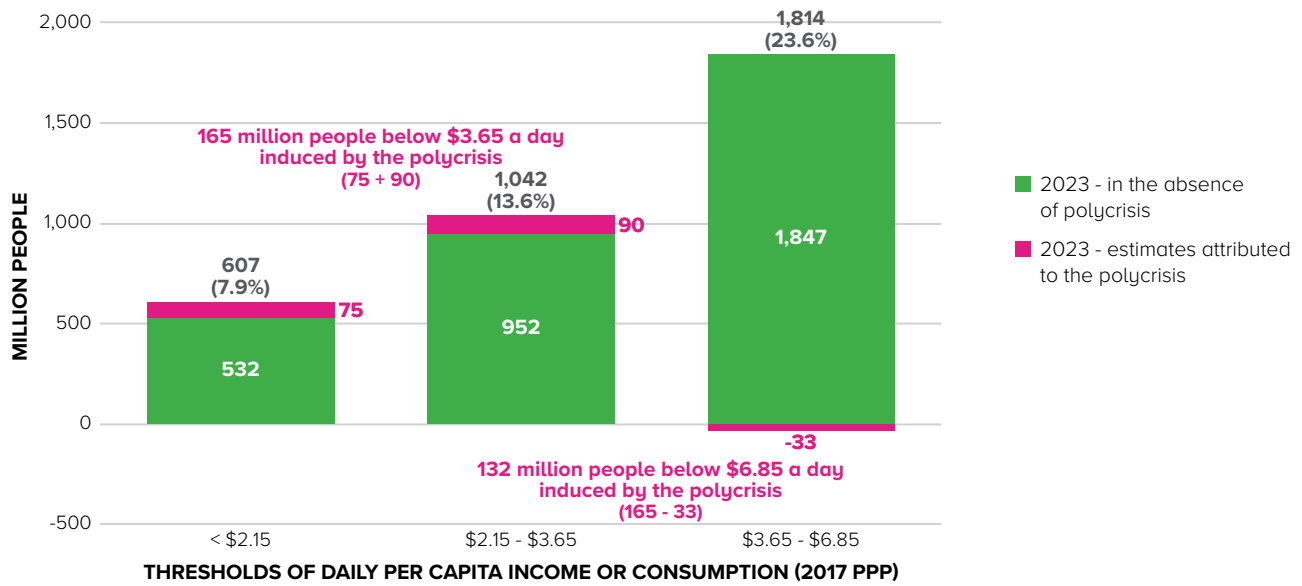
debt problems have been largely ineffective and continue to develop too slowly. Several policy proposals on how to move forward on debt, liquidity and access to long term affordable finance have been put forward by different stakeholders.¹²

The size and distribution of the poverty mitigation challenge

What are the opportunity costs of debt servicing? One crude approach to address this question is to look at the potential mitigation of the increases in poverty that the world has witnessed since the onset of the COVID-19 pandemic, exacerbated by subsequent shocks such as the cost-of-living crisis, the war in Ukraine and ongoing tightening financial conditions. In comparison to a situation where this 'polycrisis' did not occur, the cumulative effects of these shocks during 2020–2023 among the global population translate into 75 million more people

living on less than the international poverty line of \$2.15 a day in 2023 (Figure 3). An additional 90 million people are living on \$2.15–\$3.65 a day, so that **the total number of polycrisis-induced poor reaches 165 million globally if poverty is measured with the \$3.65-a-day poverty line.** Finally, the population living on \$3.65–\$6.85 a day is projected to shrink by 33 million, leaving the total number of poor induced by the polycrisis at 132 million if poverty is measured with a threshold of \$6.85 a day.¹³

Figure 3: Number of people projected to be living in poverty in 2023



Source: Authors' own elaboration based on the sources described in the Annex. Notes: The graph plots projections of the number of people living on less or within the indicated intervals of per capita income or consumption in 2023 (million people and percentages of the global population atop each bar). The figures for each bar's portions correspond to the projections in the absence of the polycrisis and those attributed to it. The coverage is for 161 countries, constituting 96 percent of the global population.

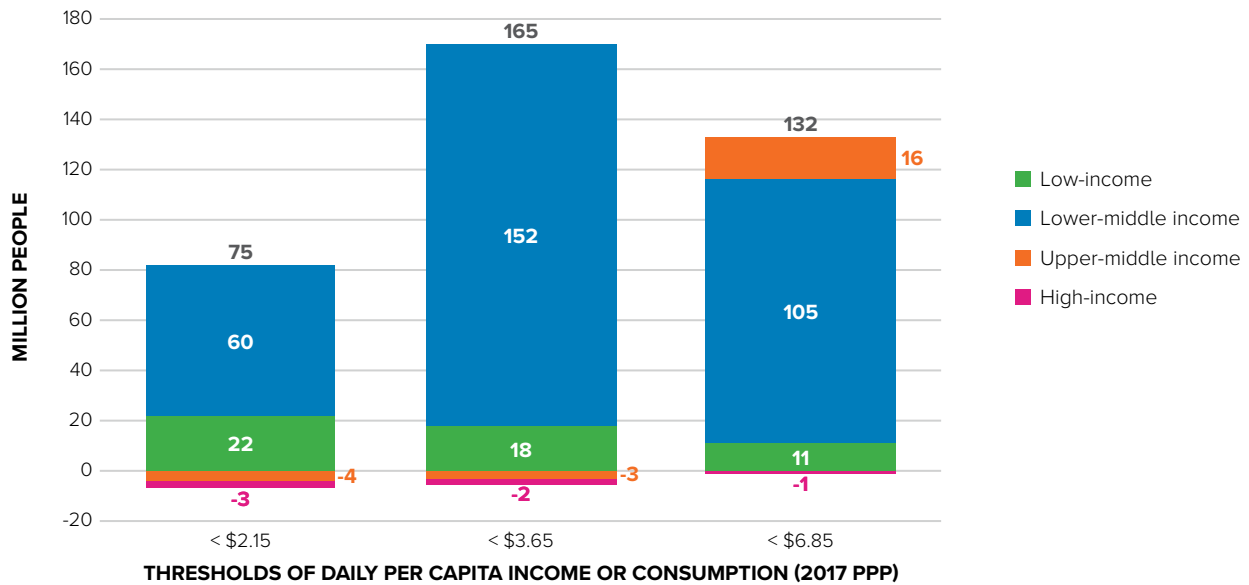
These additional numbers of people around the globe who are living in poverty are depicted in Figure 3, disaggregated by country income groups.

The projected global figure of 165 million more people living on less than \$3.65 a day in 2023 is entirely the result of an upsurge in poverty among poorer countries: 18 million people in low-income countries and 152 million people in lower-middle-income economies, contrasted by a reduction of a combined 5 million people in upper-middle- and high-income countries. The same pattern is observed when global poverty is measured using the poverty line of \$2.15 a day—i.e., an upsurge in poverty among poorer economies and a decline among richer ones. Notice that when global poverty is measured with the threshold of \$6.85 a day, upper-middle-income countries start to

contribute positively to the global figure (16 million people), while in high-income countries, poverty is still projected to decline.

In general, regardless of the poverty line used, **lower-middle-income countries account for the lion's share of the additional number of people in poverty projected globally for 2023 as a result of the polycrisis: above 90 percent of the projected 165 million people living on less than \$3.65 a day and around 80 percent if the estimates are based on the poverty thresholds of \$2.15 or \$6.85 a day (cf. Figure 4).** Notice that when these countries are pooled together with low-income countries, they entirely account for the additional global poverty as measured with the poverty lines of \$2.15 and \$3.65 a day.

Figure 4: Additional people projected to be living in poverty in 2023 due to the polycrisis by country income level

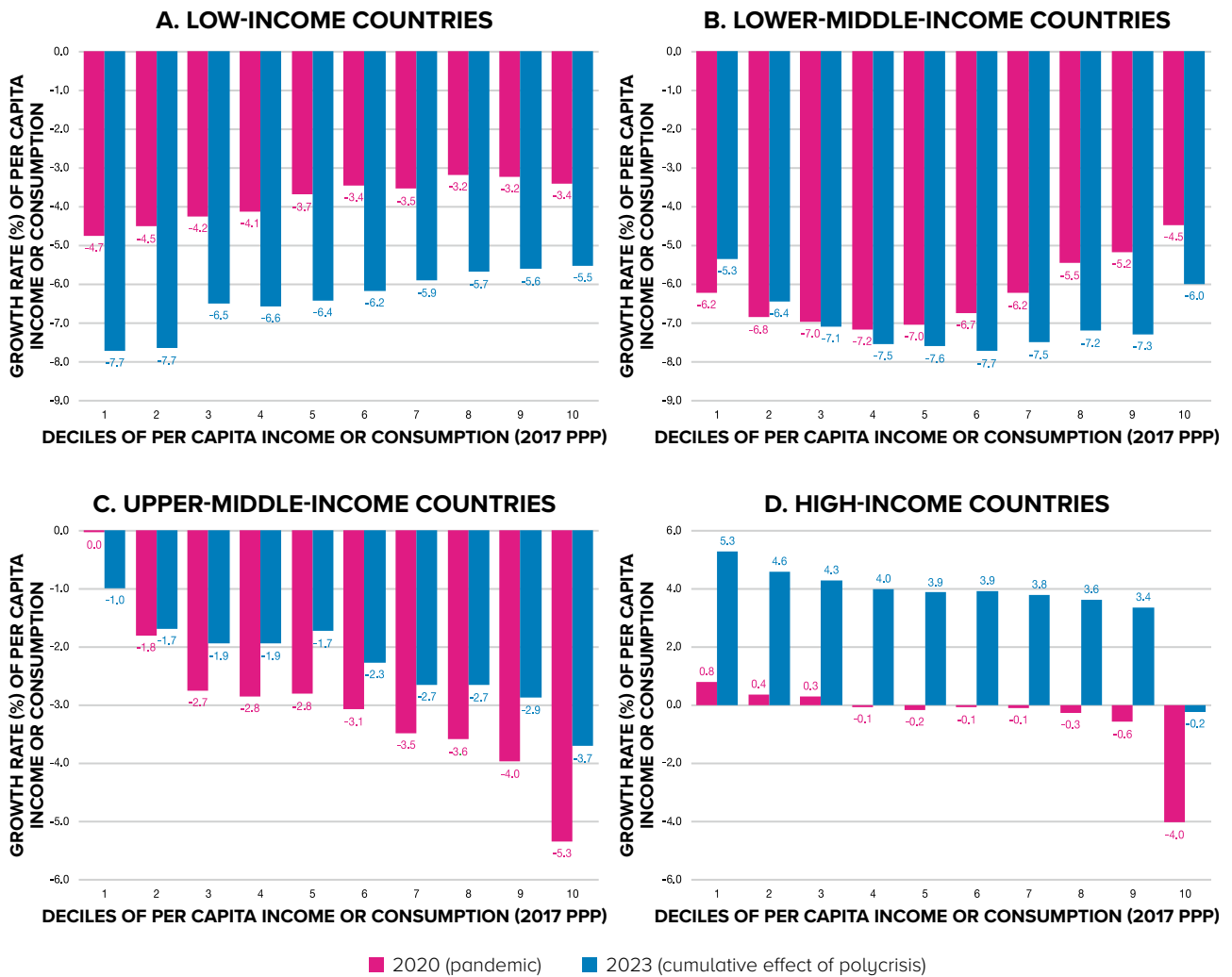


Source: Authors' own elaboration based on the sources described in the Annex. Notes: The graph plots projections of the additional number of people living on less than the indicated thresholds of per capita income or consumption in 2023 (million people globally atop each bar) as a result of the polycrisis. The projections do not account for deepening poverty of people who have been below the poverty thresholds before the polycrisis. The figures for each bar's portions correspond to the projections among countries classified by income level. The coverage is for 161 countries accounting for 96 percent of the global population.

The additional number of people projected to be living in poverty in 2023 is the direct result of a hard and unequal contraction of per capita income (or consumption) that started during the pandemic and was exacerbated in the following years. While this brief focuses on the effects of the polycrisis on monetary poverty, there are also significant negative impacts on non-monetary wellbeing as reflected by the first-ever decline of the Human Development Index (HDI) for two years in a row, which has erased the human development gains of the preceding five years.¹⁴ In general, Figure 5 reveals that **the cumulative effect of the polycrisis is projected to worsen income losses in 2023 among the poorest countries, as compared to a situation free of a polycrisis.** In low-income countries, the income contraction is projected to be generalized across deciles, reaching an average of 5.6 percent, though hitting the poorest half of the population relatively harder (panel a). This generalized contraction across deciles is also observed in lower-middle-income countries, where the average contraction reaches 6.9 percent in 2023 (panel b).

By contrast, the contraction of incomes in upper-middle-income countries since the pandemic, though it still occurs across all deciles, has been relatively lower for poorer individuals and, in general, has gone down in magnitude over time (panel c). In high-income countries, on the other hand, the contraction of incomes during the pandemic was moderate and occurred only among the richest 60 percent of the population (panel d). By 2023, the average incomes across deciles 1 to 9 had increased by 4 percent, on average, whereas the contraction among the richest 10 percent of the population has been virtually mitigated. These more positive results in upper-middle- and high-income countries, in comparison to low- and lower-middle-income countries, are likely influenced by the generous and pro-poor social policy responses that took place in 2020 to mitigate the income effects of the pandemic. Those effects were likely captured in the household surveys collected in 2020 and included in our analysis (see Annex)—almost 90 percent of these surveys correspond to upper-middle- and high-income countries.

Figure 5: Percentage changes in per capita income or consumption by decile, 2020 and 2023, vis-à-vis a situation where the pandemic and subsequent crises did not occur

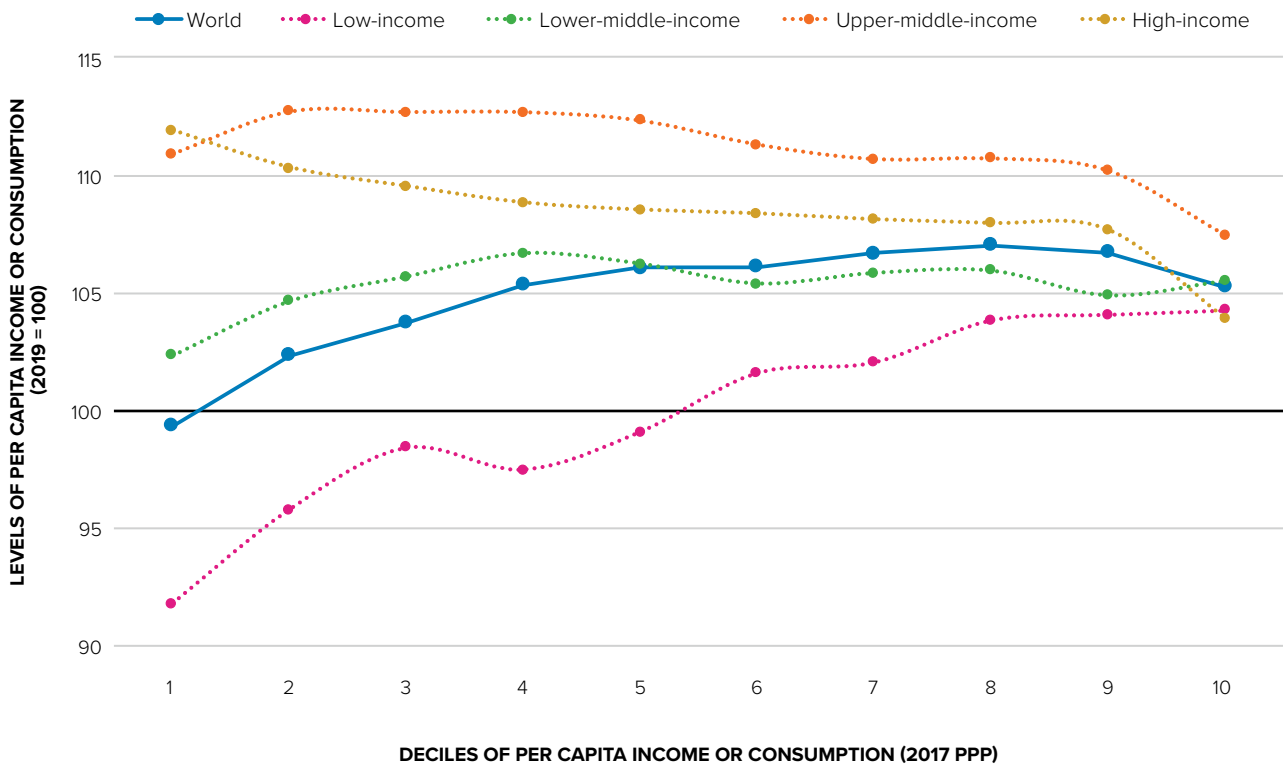


Source: Authors' own elaboration based on the sources described in the Annex. Notes: Percentage changes in per capita income or consumption by decile of the distribution in each year based on GDP per capita growth projections as of April 2023 relative to projections made in October 2019. The coverage is for 161 countries accounting for 96 percent of the global population.

Instead of comparing the levels of per capita income projected for 2023 with the counterfactual projections for that year in the absence of the polycrisis, Figure 6 depicts a comparison of such levels, in real terms, with the corresponding levels recorded in 2019. In general, the unequal contraction of per capita income that started with the pandemic has followed a recovery over the next three years that is highly unequal among countries. **By 2023, the poorest 10 percent of the world's population was projected to be the only group that had not yet recovered its pre-pandemic**

per capita income level, in real terms. Looking at countries' income groups, **the bottom half of the population in low-income countries would still remain, in 2023, below the pre-pandemic levels—especially the incomes of the poorest 20 percent.** The incomes of the population in both upper-middle- and high-income countries, on the other hand, are already between 7 and 10 percent above pre-pandemic levels, on average, with an expansion that has been relatively higher among poorer individuals.

Figure 6: Per capita income or consumption by decile in 2023 relative to 2019 (2019 = 100)



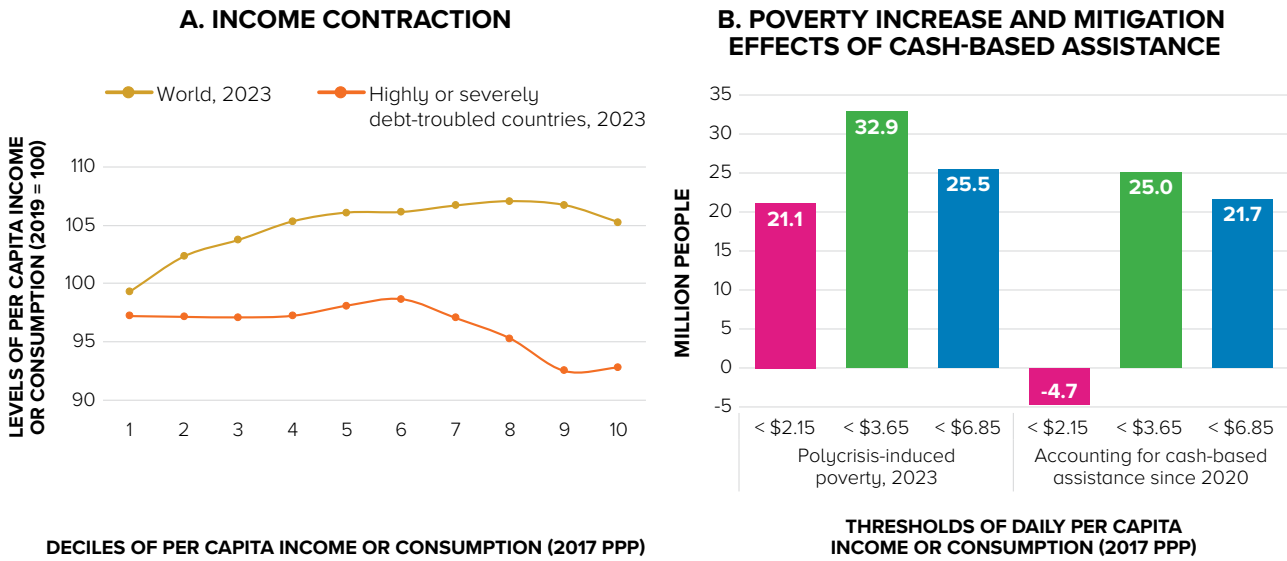
Source: Authors' own elaboration based on the sources described in the Annex. Notes: Levels of per capita income by decile of the distribution in each year based on growth projections as of April 2023 relative to the levels recorded in 2019 (2019 = 100). The coverage is for 161 countries constituting 96 percent of the global population.

A poverty pause to match a debt pause

As developing economies enter their fourth year of crisis mitigation, they are less able to deliver even ‘targeted and temporary support to poor and vulnerable households’ to counter the effects of macro shocks. We call attention to the link between ‘debt pauses’ that occur at the macro level and ‘poverty pauses’ created to mitigate crises where they are needed the most: at the household and individual level, frequently at the bottom of the income distribution.

Our analysis reveals that as a result of **the cumulative effects of the polycrisis, the average per capita income levels of the population in highly or severely debt-troubled countries in 2023 remain well below the levels recorded in 2019** (Figure 7, panel a). Moreover, relative to the absence of such a polycrisis, among this group of debt-troubled countries, there would be an additional 21, 33, and 26 million people living on less than \$2.15, \$3.65, and \$6.85 a day, respectively (panel b).

Figure 7: Per capita income or consumption by decile in 2023 vs 2019 (2019 = 100) and additional poor and mitigation of emergency social assistance in debt-troubled countries



Source: Authors' own elaboration based on the sources described in the Annex. Notes: Panel a depicts levels of per capita income or consumption by decile of the distribution in each year based on growth projections as of April 2023 relative to the levels recorded in 2019 (2019 = 100). The figure for the world covers 161 countries constituting 96 percent of the global population. In panel b, the graph plots projections, among highly or severely debt-troubled countries, of the additional number of people living on less than the indicated thresholds of per capita income or consumption in 2023 (million people) as a result of the polycrisis and after accounting for annual emergency cash-based assistance since 2020. The coverage for highly or severely debt-troubled countries is for 43 low- and middle-income economies, as defined in Jensen (2022), which constitute 14.2 percent of the global population.

These estimates of poverty among the group of highly or severely debt-troubled countries omit new or scaled-up emergency social responses in the form of cash assistance that most governments have implemented annually to mitigate the income effects of the pandemic and the cost-of-living crisis, among other subsequent shocks. To account for such policy responses, our analysis considers the daily per capita amounts of the implemented cash assistance for the target population following a similar approach to the one presented in Fajardo-Gonzalez et al. (2021) (see Annex).¹⁵ The results in Figure 6, panel b suggest that the estimated additional 21 million people living in poverty at \$2.15 a day in this group of debt-troubled countries are likely fully mitigated by emergency cash assistance, and the latter may have reduced poverty in an additional 4.7 million people. Yet, this large mitigation effect is not observed at higher poverty lines: emergency cash assistance has likely mitigated only 8 million of the additional 33 million poor at \$3.65 a day and 4 million of the additional 25.5 million poor at \$6.85 a day. These results are potentially due to constraints in the generosity of the cash transfers and population coverage. In fact, most of the poverty mitigation achieved at the \$2.15-a-day poverty line results from the unprecedented policy response that took place in 2020, when 90 cash-based programmes were deployed among these countries. By contrast, the

number of emergency cash-based programmes was 22 in 2021 and only 13 in 2022. Thus, while the consideration of cash transfers in the projections illustrates the strong mitigation potential of such measures, the poverty-reducing effects are likely not long-lasting given that the continuation or new introduction of such policies is not possible in the current context of large debt burdens.

Looking at the global figures, how much would it cost to mitigate the polycrisis-induced poverty projected for 2023? Assuming a perfectly targeted mechanism of adaptive social protection and excluding administrative costs, our simulations in Table 4, panel a, show that the annual cost of mitigating the additional 75 million people living in poverty by 2023, using the \$2.15 a day poverty line, would reach almost \$2.89 billion (2017 PPP) or US\$3.45 billion (2022 prices). **To mitigate the additional polycrisis-induced 165 million people living in poverty globally based on the poverty line of \$3.65 a day, the annual cost would reach \$11.93 billion (2017 PPP) or US\$14.24 billion (2022 prices)** and almost \$20.5 billion (2017 PPP) or US\$24.44 billion (2022 prices) to mitigate the additional 132 million people living on less than \$6.85 a day. Relative to the size of the world's economy in 2022 (\$139 trillion, 2017 PPP), these annual costs represent, respectively, 0.002 percent, 0.009 percent, and 0.015 percent of the global GDP.

As a share of the total external public debt service by low- and middle-income countries (US\$379 billion in 2022), these annual costs represent 0.93 percent, 3.85 percent, and 6.60 percent, respectively.

These simulations, however, omit the income losses among those people who were already below the corresponding poverty line prior to the pandemic and subsequent crises, and who have been pushed into deeper poverty during 2020-2023. Considering these income losses, the total cost of mitigating the polycrisis-induced additional poverty and impoverishment among the already poor when using the poverty line of \$2.15 a day would reach \$17.85 billion (2017 PPP) or US\$21.32 billion (2022 prices), equivalent to 0.013 percent of the world's GDP or almost 5.8 percent of the total external public debt service by low- and middle-income

countries. When using the \$3.65-a-day poverty line, these costs would reach \$89.71 billion (2017 PPP) or US\$107.11 billion (2022 prices), equivalent to 0.065 percent of the world's GDP or almost 29 percent of the total external public debt service (Table 4, panel b). Moreover, panel c of Table 4 contrasts the total amount of external public debt service with the amount required to eradicate total poverty globally in 2023, i.e., topping up the per capita income or consumption of the population in poverty in 2023 up to the value of the corresponding poverty line (similar to the exercise presented in Gray Molina, Montoya-Aguirre and Ortiz-Juarez 2022).¹⁶ The simulation suggests that the total external public debt service by low- and middle-income countries is twice the total cost required to eradicate poverty at \$2.15 a day and little more than 40 percent of the total cost to eradicate poverty at \$3.65 a day.

Table 4: Annual cost to mitigate additional poverty in 2023 as a result of the cumulative effect of the polycrisis during 2020-2023

	Costs per year		
	\$2.15	\$3.65	\$6.85
	a. Additional people falling into poverty		
Total amount (billion) (2017 PPP)	2.89	11.93	20.47
As share of world's GDP (2017 PPP)	0.002%	0.009%	0.015%
Total amount (billion) (US\$ 2022)	3.45	14.24	24.44
As share of total external public debt service (US\$ 2022)	0.93%	3.85%	6.60%
	b. Additional people falling into poverty + income loss among the already poor		
Total amount (billion) (2017 PPP)	17.85	89.71	296.92
As share of world's GDP (2017 PPP)	0.013%	0.065%	0.214%
Total amount (billion) (US\$ 2022)	21.32	107.11	354.50
As share of total external public debt service (US\$ 2022)	5.76%	28.95%	95.81%
	c. Eradication of total poverty		
Total amount (billion) (2017 PPP)	153.04	766.80	3,904.12
As share of world's GDP (2017 PPP)	0.11%	0.55%	2.81%
Total amount (billion) (US\$ 2022)	182.72	915.50	4,661.24
Total external public debt service as share of the poverty eradication cost	202.50%	40.42%	7.94%

Source: Authors' own elaboration based on the sources described in the Annex. Notes: In panel a, the total cost is computed as the sum of the absolute difference in per capita income or consumption and the value of the corresponding poverty line for those people who are identified as poor in 2023 as a result of the polycrisis but who would not be poor in 2023 had the polycrisis not occurred. In panel b, the total cost is computed as the total cost in panel a plus the sum of the absolute difference in per capita income or consumption before and after the polycrisis among those people who were already in poverty prior to the polycrisis. In panel c, the total cost is computed as the sum of the gaps between the per capita income or consumption and the poverty line among all people identified as poor in 2023 after accounting for the effects of the polycrisis. The world's GDP figure used in the calculations corresponds to 2022 and equals \$139 trillion (2017 PPP), as published in the World Bank's World Development Indicators. The estimate on debt service costs (total external public debt) reached \$370 billion in 2022 and is expressed in US dollars. This figure corresponds to all low- and middle-income countries (developing economies).

Conclusion: Focus on people

The multilateral system—through the G20, the G7, the Paris Summit and the SDG Summit—is addressing some of the key development finance challenges facing developing economies today, but not nearly at the speed and scale required. In this brief, we connect the dots between macro challenges of rising debt service payments and micro challenges of poverty and vulnerability mitigation at the household and individual level.

We highlight a missing piece of the puzzle in the current global conversation on debt-based financing: In the absence of debt restructuring at scale, there is no fiscal space left for developing economies to mitigate downturns or to invest in the SDG and Paris-aligned challenges of our times. This means that the costs of inaction will be cumulative and hard-hitting for some of the poorest and crisis-affected economies in the world—particularly in low-income and lower-middle-income countries.

Developing economies are repeatedly told there is no systemic crisis and that they should wait for growth to resume and for interest rates to pivot—

all the while ‘delivering targeted and temporary protection to poor and vulnerable households’ *without the financing or the fiscal space to get the job done.*

We propose a way to get the job done by linking debt pauses to poverty pauses and making this a systemic addition to the international financial architecture. Each developing economy will face very different circumstances and will control its own policy space, but if an exogenous shock shrinks its fiscal space, bloats its debt servicing and throws households into poverty, there must be an automatic trigger that stabilizes this free fall.

In a context of dwindling development assistance—and caught between the urgency of humanitarian action and the strategic importance of longer-term human development investments—there is room for policy actions that bridge both. We believe this is the beginning of a conversation on how to prepare national and multilateral responses to the challenges of a shock-prone future.

Annex: Data and methodology

To compute the incidence of poverty globally and among a set of highly or severely debt-troubled countries, the analysis primarily exploits binned distributions of household per capita income or consumption reconstructed from the World Bank's Poverty and Inequality Platform.¹⁷ These distributions, expressed in 2017 purchasing power parity (PPP), are available for 2019 and cover about 96 percent of the world's population across 161 countries. For 2019, our baseline year, the analysis pools together these countries' distributions to create a global database that is used to measure the incidence of poverty before the *polycrisis*, namely, the pandemic and subsequent events such as the cost-of-living crisis, the war in Ukraine and ongoing tightening financial conditions.

To capture the cumulative effect of the polycrisis on poverty over the period 2020–2023, the analysis follows a counterfactual approach that compares the poverty headcount rates resulting from household per capita income or consumption had the polycrisis not occurred (benchmark) with those poverty headcount rates calculated after accounting for the economic shocks brought by said polycrisis.¹⁸ The *benchmark scenario* exploits the October 2019 version of the IMF's WEO to project the global database from 2019 to 2023 using the countries' annual GDP per capita growth rates forecasted in the absence of the polycrisis—with a distribution-neutral passthrough rate of 85 percent—and adjusting for annual changes in countries' population.¹⁹

The *polycrisis scenario*, on the other hand, first exploits an additional 50 distributions from countries that collected household surveys in both 2019 and 2020 to capture both the pandemic-induced income contraction and the distributional changes in these countries—of these, 27 are high-income countries and 17 are upper-middle-income countries. For the remaining 111 countries in the global database, the analysis exploits the April 2023 version of the IMF's WEO to project the distributions from 2019 to 2020 following the previous approach based on each country's population and GDP per capita growth rates—again with a distribution-neutral passthrough of 85 percent to capture the economic contraction. This same approach is then applied to the global database in 2020 to project it forward annually to

2023 and capture the post-pandemic recovery and subsequent economic blows.

Notice that the previous procedures allow us to approximate annual poverty rates over the 2020–2023 period both had the polycrisis not occurred and after accounting for its economic effects, which likely passed through to households—in addition to computing the pre-polycrisis poverty rate (2019). The series derived under the *polycrisis scenario*, however, omits most of the social policy responses that governments around the world implemented to mitigate the immediate effects of the crises on household income—the series is only picking up the likely effects of the responses in 2020 across the 50 countries that collected household surveys in both 2019 and 2020. To account for such responses in highly or severely debt troubled countries in 2020 and over 2021–2023, we construct a *mitigation scenario* that exploits countries' official statistics and several social protection trackers to undertake a systematic assessment of the potential poverty mitigation effects of new or scaled-up cash-based social assistance programmes implemented annually since 2020.²⁰

The information retrieved from these sources allows for the identification of both the transfer amounts and periodicity of each policy response, as well as each policy's target population, either universal coverage or targeted according to beneficiaries' income level. This information lets us allocate cash assistance to the population covered in our distributions under the polycrisis scenario. For each country, we determined the total cash amount (converted from local currency units to 2017 PPP) that individuals would ideally receive every year starting in 2020—e.g., in the case of transfers delivered to the household, we assumed equal sharing within it, and the transfer was then divided by the average household size to estimate the per capita benefit. To allocate these individual benefits, we identified the number of beneficiaries according to their position in the country's distribution the year before the policy response was implemented—i.e., the position in 2019 to allocate cash transfers to mitigate the effects of the pandemic in 2020; the position in 2021 to allocate the benefits to compensate for the impacts of the cost-of-living crisis in 2022; and so on.

Endnotes

- 1 Salome Ecker is Economic Analyst at UNDP, email: salome.ecker@undp.org; George Gray Molina is Head of Inclusive Growth and Chief Economist at the UNDP Bureau for Policy and Programme Support (BPPS) as well as Chief Economic Advisor to the Administrator, email: george.gray.molina@undp.org; Lars Jensen is Senior Economist at UNDP BPPS, email: lars.jensen@undp.org; and Eduardo Ortiz-Juarez is Lecturer in Development Economics at King's College London and Senior Economic Research Advisor at UNDP, email: eduardo.ortizj@kcl.ac.uk.
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- 2 For an overview of the international debt response, see for instance Jensen, L. (2022), 'Avoiding 'Too Little Too Late' on International Debt Relief', UNDP Development Futures Working Paper, October 2022.
- 3 Here, 'developing economies' refers to all low- and middle-income countries.
- 4 Zambia's and Malawi's 2021 values are 27 percent and 25 percent, respectively.
- 5 Due to their higher gross national income (GNI) per capita, many middle-income countries are not eligible for concessional finance, and thus face higher borrowing costs.
- 6 See reference in endnote 2 for identification of the 52 highly debt-troubled developing economies.
- 7 This figure only considers public external debt servicing. On top of that, especially African countries struggle with increased domestic debt, which in Africa has increased from 15 to 30 percent of total debt within the last decade and which at times has higher interest costs than external debt.
- 8 See for instance the debt chapter of the [Finance for Sustainable Development Report 2023](#), Inter-agency Task Force on Financing for Development, UN DESA, 2023.
- 9 See GCRG (2023), 'A World of Debt—A growing burden to global prosperity', UN Global Crisis Response Group, July 2023.
- 10 It should be noted that higher debt, and debt servicing, is not necessarily a problem if funds are used efficiently and for productive investments as these are likely to improve automatic debt dynamics. However, even for productively invested debt, there is a question of whether the rates of return can justify some forms of debt.
- 11 See for instance UNCTAD (2023), 'Global Trends and Prospects: Trade and Development Report Update', Chapter D, April 2023.
- 12 See for instance UNDP (2023), 'Building Blocks out of the Crisis: The UN's SDG Stimulus Plan', UNDP Global Policy Network Brief, February 2023; Coulibaly, S. B. and W. Abedin (April 2023), 'Addressing the Looming Sovereign Debt Crisis in the Developing World: It is Time to Consider a 'Brady Plan'', Brookings, April 2023; Ramos, L., R. Ray, R. R. Bhandary, K. P. Gallagher and W. N. Kring (2023), 'Debt Relief for a Green and Inclusive Recovery: Guaranteeing Sustainable Development', Boston, London, Berlin: Boston University Global Development Policy Center; Centre for Sustainable Finance, SOAS, University of London; Heinrich-Böll-Stiftung, April 2023.
- 13 See the Appendix for details on the methodology for estimating these poverty increases.
- 14 UNDP (2022), 'Uncertain Times, Unsettled Lives: Shaping our Future in a Transforming World', Human Development Report 2021/2022, New York: UNDP.
- 15 Fajardo-Gonzalez, J., G. Gray Molina, M. Montoya-Aguirre, and E. Ortiz-Juarez (2021), 'Mitigating Poverty: Global Estimates of the Impact of Income Support during the Pandemic', Development Future Series Working Paper, New York: UNDP.
- 16 Gray Molina, G., M. Montoya-Aguirre, and E. Ortiz-Juarez (2022), 'Temporary Basic Income in Times of Pandemic: Rationale, Costs and Poverty-Mitigation Potential', *Basic Income Studies*, 17(2): 125-154.
- 17 Reconstructed through the PIP Stata module (version 0.9.5) by computing the cumulative share of the population with household per capita income or consumption below a series of thresholds that change in value every \$0.10 a day per person (2017 PPP), starting from \$0.10 up to a maximum value that covers 99.9 percent of the population. From these cumulative shares, individuals within each \$0.10 bin were isolated and then assigned the middle value of their bin as their daily amount of per capita income or consumption. The size of the population within each \$0.10 bin is used as a weight.
- 18 In the spirit of Mahler, D. G., C. Lakner, R. A. Castañeda Aguilar, and H. Wu (2020), 'The Impact of COVID-19 (Coronavirus) on Global Poverty: Why Sub-Saharan Africa Might Be the Region Hardest Hit', World Bank Blogs.
- 19 For further details on the estimation of this passthrough rate, see Lakner, C., D. G. Mahler, M. Negre and E. Beer Prydz (2022), 'How Much Does Reducing Inequality Matter for Global Poverty?' *The Journal of Economic Inequality*, 20: 559–585.
- 20 Specifically, Gentilini, U., M. Almenfi and P. Dale (2020), 'Global Database on Social Protection and Jobs Responses to COVID-19'. Living database, version 14 (December 11, 2020), Washington, DC: World Bank; Gentilini, U., M. Almenfi, J. Blomquist, P. Dale, L. De la Flor Giuffra, V. Desai, M. B. Fontenez, G. Galicia, V. Lopez, G. Marin, I. V. Mujica, H. Natarajan, D. Newhouse, R. Palacios, A. P. Quiroz, C. Rodriguez Alas, G. Sabharwal and M. Weber (2021), 'Global Database on Social Protection and Jobs Responses to COVID-19, version 16 (January 28, 2022), Washington, DC: World Bank; Gentilini, U., M. Almenfi, H. Tirumala Madabushi Matam I, G. Valleriani, Y. Okamura, E. R. Urteaga and S. Aziz (2022), 'Tracking Global Social Protection Responses to Inflation' living paper version 4 (December 2022), Washington, DC: World Bank; and <https://data.undp.org/gendertracker/>.