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Actions and proposals for COVID-19 debt crisis resolution: A summary of the debate

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About the COVID-19 Response and Recovery project

This paper is an output from the project "Response and Recovery: Mobilising financial resources for development in the time of COVID-19", which is co-ordinated by the Debt and Development Finance Branch of UNCTAD and jointly implemented with ECA, ECLAC and ESCAP. This project is one of the five UN Development Account short-term projects launched in May 2020 in response to the COVID-19 crisis.

The project aims to enable low-income and middle-income developing countries (LICs and MICs) from Africa, Asia-Pacific, and Latin America and the Caribbean to diagnose their macro-financial, fiscal, external financial and debt fragilities in the global context, and design appropriate and innovative policy responses to the COVID-19 pandemic leading toward recoveries aligned with the achievement of the Sustainable Development Goals (SDGs).

The pandemic brought forward the problems of indebtedness built over the past years, themselves reflections of long-standing, structural patterns in the global economy. The purpose of the policy brief is to summarise the state of the debt debate as it unfolded from the onset of the pandemic to July 2020.

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Contents

I. Introduction

The pandemic brought on severe social and humanitarian set-backs marked by poverty, inequality, and gender-based violence scuppering progress on development goals. Deep recessions, disruption from trade coupled with a rapid reversal of capital flows and depreciating currencies were coupled with millions more moving into extreme poverty, facing unemployment and the risk of famine (Alston, 2020; ILO, 2020; WFP, 2020). The pandemic brought forward the problems of indebtedness building over the past years, themselves reflections of long-standing, structural patterns in the global economy (Bonizzi et al., 2020, Geda, 2003, IMF, 2018; UNCTAD, 2016). Health care costs increased, which in many countries paled in comparison to amounts spent on public debt service (Abiy, 2020). Limited fiscal space and the inability of low- and middle-income countries to access needed liquidity brought international debt to the centre stage (Gallagher et al., 2020).

The pandemic forcefully made governments choose between necessary measures to protect populations and economies, and keep up with debt service payments. Such choices, undermine the ability of States to promote and protect economic, social and cultural rights, and stand in the way of progress on achieving development goals. Unless governments and international actors take urgent steps to prevent governments from being forced to choose between necessary measures to protect populations and economies, and keep up with debt service, developing countries will face a crisis exacerbated not only by the virus itself but by the inability of the international community to act.

The purpose of the policy brief is to summarise the state of the debt debate as it unfolded from the onset of the pandemic to July 2020. Section II covers the elements identified to assist and curtail a generalised debt crisis from occurring. Compared to this, Section III covers the main response by the IMF and G20 in particular. Section IV categorises the variety of options put on the table to address private sector exclusion from the DSSI. Section V reviews the discussion around the use of voluntary and non-binding principles, while Section VI briefly examines market-based solutions. These discussions are unfolding and will continue to unfold as the pandemic progresses; the purpose of this policy brief is to provide a documentation and summary of the debate circa July 2020.

II. What is needed

Several elements have been highlighted to address the financing needs of developing countries and build a people-centred recovery. The first is immediate debt and condition-free financing. The IMF and the UNCTAD have highlighted that developing countries face a 2.5 trillion USD financing gap, and yet initial assessments find that developing countries' access to needed liquidity is severely constrained (IMF, 2020b; UNCTAD, 2020a; Gallagher et al., 2020; Stubbs et al., 2020). Second, immediate debt relief is required to address short term liquidity pressures and medium-term sustainability problems. The required debt relief is estimated at 1 trillion USD (UNCTAD, 2020b). Debt relief must address all creditors to avoid fragmented, costly, and lengthy negotiations that lead to worse outcomes and repeat reschedulings. It must also cover all countries that need it, and assistance ought to be in addition to commitments to overseas development assistance. Third, ensuring comprehensive participation of all creditors as well as neutral assessments of the needed relief require an independent body to undertake meaningful debt sustainability assessments, oversee comprehensive standstills and manage restructurings. These proposals can be taken forward through a 'Global Debt Deal' (UNCTAD, 2020a).

Several intergovernmental organisations, national leaders, academics, and civil society organisations have emphasized the need for comprehensive and immediately instituted debt standstills on repayments and debt relief initiatives, alongside proposals for large and immediate stimulus packages. As stated by UN DESA, "Without aggressive policy action, the COVID-19 pandemic could turn into a protracted debt crisis for many developing countries" (UNDESA, 2020 p1). African ministers called for 44 billion USD earmarked for debt waivers on all interest payments, including bond payments of public debt, and the Summit announcement from the Heads of State and Government of the ECOWAS made a call for debt cancellation (Apa News, 2020; UNECA, 2020). The United Nations General Secretary called on the G20 to include standstills for all creditors in 2020 (Guterres, 2020). National leaders such as Ecuador's Congress, the Prime Ministers of Pakistan and Ethiopia have urged for debt standstills across creditors and debt relief to free up resources needed to address the pandemic (Kueffner and Bartenstein, 2020; Peshiman, 2020; Taylor, 2020). In May 2020, US Senator Sanders and Member of the Congress Omar led a global call, signed by more than 300 parliamentarians across the political spectrum from over twenty countries, to support debt cancellation for IDA countries (Omar and Sanders, 2020). Signatories included Áurea Carolina (Brazil), Jean-Luc Mélenchon (France), and Jeremy Corbyn (UK). Breathing space on debt repayments needs to be provided to all countries that need it; many middle-income countries spend over 20% of government revenue on debt service (Ghosh, 2020; Okonjo-Iweala et al., 2020; United Nations Secretary-General, 2020). Civil society and workers organisations across the globe have sustained political pressure in favour of debt cancellation and debt justice (Committee for the abolition of illegitimate debt, 2020; Progressive International, 2020; Ravenscroft, 2020).

The pandemic brought important weaknesses of existing debt architecture to the fore. For instance, it cannot administer the entire universe of creditors, prevent collective action problems, or ensure inter-creditor equity. Most importantly, the existing system cannot guarrantee that debt repayment difficulties are dealt with rapidly and comprehensively in a way that minimises the impact on populations in countries in debt distress. Diversion of resources from essential basic services and the policy constraints attached to accessing World Bank and IMF financing, and debt relief schemes, undermine countries right to development. The COVID-19 shock has forcefully brought to the fore the implications of the unfair, ad hoc, and creditor-centred approach to sovereign debt crisis resolution, reinvigorating the discussion for a comprehensive sovereign debt resolution mechanism. Civil society, academics, and policy institutions have put the long-standing demand for a formal international statutory approach to sovereign debt restructuring back on the table. The urgency for a coordinated approach was most resolutely put forward by UNCTAD, proposing an "International Developing Country Debt Authority (IDCDA) mandated to oversee the implementation of comprehensive temporary standstills as well as case-by-case longer-term debt sustainability assessments and consequent sovereign debt relief and restructuring agreements" (UNCTAD, 2020a p12). The transformation of the international debt architecture to develop a comprehensive framework for debt restructuring was put forward by the UN Secretary-General as part of a three-phased approach to address the debt crisis. The global call by Civil Society Organisations (CSOs) on debt cancellation includes creating a systematic, comprehensive, and enforceable debt restructuring process under the United Nations (see Ravenscroft, 2020). As put by UNDESA, a consequence of this gaping hole in international sovereign debt architecture is that the world is "ill-prepared for the current crisis" (UNDESA 2020). Germany's post-war cancellation could act as a benchmark case to guide the boldness and degree of relief that is needed (Ghosh, 2020; UNCTAD, 2020a).

III. What is being delivered

The three initial responses that met these calls for action were more loans through the doubling of access on emergency lending facilities of the IMF (2020e), six-month debt service relief to the (IMF, 2020d), and rescheduling of bilateral debts falling due to the end of 2020 through the G20's Debt Service Suspension Initiative (G20, 2020a).[1] This response risks repeating mistakes from how the 1980s crisis was addressed. The rapid upscale of loans suggests that the diagnosis of the problem facing developing countries is a short-term balance of payments problem – a temporary liquidity problem. Such a reading would exacerbate the fact that countries already facing a sustainability problem which would require suspension of payments and negotiations to write-down debts to manageable levels. Without compelling banks to participate and offer meaningful reductions of their claims, creditors will repeat the 'short-leash approach', showing a preference for adjustment and repeat rescheduling rather than definitive restructuring. It is worth recalling that the 1980s debt crisis was vastly worsened because of a similar erroneous approach to the crisis.

a. The IMF

Since the IMF and World Bank's joint statement pledging to support developing countries through the pandemic, the IMF has scaled up two financing facilities, the RFI and the RCF, by increasing their access limits temporarily to 100% of quota (IMF and World Bank, 2020; IMF, 2020c). These facilities enable rapid dispersion of loans without the need for negotiated upper-credit tranche programmes. As a result of this expeditious process, there has been a rapid increase in financing across regions, facilities, and income groups. The two upscaled loan facilities, RCF and RFI, have financed 66 countries from the beginning of March to the end of June to the amount of 24.2 billion USD, the majority of which (14.7 billion USD) has gone to DSSI eligible countries (IMF Monitor, 2020).
The IMF also repurposed one of its trust structures to finance debt service relief on debts due to itself. On April 13th 2020, the IMF announced it would use money in the CCRT to pay for the debt service falling due on IMF loans over the next six months (IMF, 2020d). Despite recent pledges by

[1] A detailed examination of the IMF response is covered in Stubbs et al. (2020).

governments to support this fund -such as the UK -, its resources could only support a fraction of the debts service to the IMF that developing countries will make over the next six months (IMF, 2020a). Thus, it is extremely limited in scope, applying only to a handful of low-income countries. The initial package from this fund amounted to approximately 215 million USD debt service relief for 25 countries and has reached 257.13 million USD and 28 countries by the end of June. All recipients are DSSI eligible countries.

b. The G20

On April 15th, the G20 announced the Debt Service Suspension Initiative (DSSI). This scheme supports "a time-bound suspension of debt service payments for the poorest countries that request forbearance", covering both principal repayments and interest payments falling due during the suspension period (G20, 2020a). The agreed period for the suspension is from May 1st to the end of 2020, which may be extended following a report on liquidity needs by the World Bank and IMF. The Initiative covers all IDA eligible countries and all least developed countries as defined by the United Nations, which are currently on debt service to the IMF and World Bank. Eritrea, Sudan, Syria, and Zimbabwe were the IDA countries excluded due to their protracted non-accrual status.

Accessing the DSSI was made conditional on four factors: having an IMF financing in place (or a request for IMF financing), committing to use freed resources for pandemic-response with the monitoring done by the IFIs; disclosing all public sector debts bar commercially sensitive information; and lastly, agreeing that the only new concessional debt contracted during the suspension period will comply with the IMF's Debt Limit Policy (DLP) and the World Bank's policy on non-concessional borrowing (G20, 2020a).

The DSSI covers all official bilateral creditors under the following terms: any principal repayments or interest payments falling due must be repaid by the debtors within three years following a one-year grace period. The suspension can be implemented either through rescheduling or refinancing on NPV-neutral terms, with postponed payments due over 2022 – 2024. "A cut-off date protecting new financing in case of possible future restructuring will be set on March 24th, 2020" (G20, 2020a). As the Initiative is not mandatory, countries must request it.

DSSI eligible countries are due to pay 42.7 billion USD in debt service in 2020, of which 17.4 billion USD on bilateral debt (World Bank, 2020). If this is adjusted to account only for eligible debts and the May - December period that the DSSI currently covers, the amount of potential debt service relief that the DSSI could cover amounts to 11.5 billion USD (World Bank, 2020). According to the World Bank's monitoring, as of July 21st, 41 countries have participated in the Initiative, with indicative savings of 8.7 billion USD of debt service (World Bank, 2020). The July 18th G20 Communique states that 42 countries requested to participate in the scheme stating that even fewer deferred repayments have been delivered to date (5.3 billion USD) (G20, 2020c). However, most debt service payments that DSSI eligible countries will make in 2020 do not qualify for DSSI relief.

Given the partial coverage of the DSSI, the G20 called on private creditors to participate on comparable terms and multilateral development banks "to explore the options for the suspension of debt service payments over the suspension period, while maintaining their current rating and low cost of funding" (G20, 2020a). With over 20 in-scope countries for the DSSI having issued Eurobonds with an estimated 5 billion USD in debt service due within the suspension period, the exclusion of other creditors severely undermines the effectiveness of the Initiative (Adams, 2020b). Initially, the industry body - the Institute for International Finance (IIF) – made optimistic pronouncements, as in early April, the IIF President and CEO Timothy Adams supported the calls by the World Bank and IMF on private creditors to suspend debt payments (Adams, 2020a, p2). Subsequently, however, and following consultation with its members, the IIF made clear that any private sector participation will be voluntary, on a case-by-case basis and with less-favourable terms than those offered by bilateral creditors. The IIF's suggestive Terms of Reference - published May 28th 2020- for private sector participation state that as forbearance on its own is NPV negative, any participation "must be combined with economic improvements, some seniority, or credit enhancements to achieve NPV neutrality" (Adams, 2020b; IIF, 2020). The Terms of Reference do not differentiate between bond-holders and bank creditors in order to uphold non-discrimination between creditors, despite the distinct operationalization of the forbearance for different creditor groups.

The key features of the private sector's proposed participation are that (IIF, 2020) were that the comparability of the treatment mechanism used by the Paris Club customarily will not apply to the private sector response to the DSSI. Participation may be by way of suspending or deferring applicable amounts owed or making a new advance in respect of each deferred payment. In the latter case, the advance should be used solely to pay, on its due date, the amount which would otherwise be deferred and that new advances are on the same terms as the deferred amounts. The repayment period for the deferred amounts would be over three years, from 2022 following a one-year grace period. The Terms covers principal and interest repayments falling due from the 1st of May to the end of 2020. Unpaid interest will be capitalized, and interest will be accrued at an appropriate rate to be agreed upon by the parties. In order to encourage burden-sharing among creditors, it is assumed that borrowers requesting participation will seek to include as many private creditors as possible through, for instance, the use of minimum participation thresholds. Borrowers would have to negotiate the specific modality of execution with each creditor. Any new financing request will be consistent with the IMF and World Bank guidelines.

To conclude, the DSSI's limitations include its restricted country, creditor, and period coverage. The need for cash-flow relief is only partly addressed by the current measures, which postpone only a minority of upcoming obligations and create new ones through the IMF's emergency financing. To date, the private sector has not participated. Despite claiming to take principles of NPV neutrality into account, the IIF's terms of reference increase the balance owed by participating countries by applying interest on the deferred amount. The obligation to negotiate separately with each creditor is costly and creates delays for a needed breathing space. The insistence on voluntary participation creates the opportunity for free-riders and exploitation by litigious creditors of potential downgrades and defaults. Given the modest impact that existing initiatives have, many proposals for improvement of the DSSI and debt reduction have emerged.

IV. Addressing the Private sector exclusion from the DSSI

Extending the DSSI is necessary to enable countries to use all available resources to address the pandemic rather than prioritize foreign debts. There is no inter-creditor equity without commercial creditor inclusion, as official sector participation will facilitate private creditor repayment. Furthermore, the prospects of full repayment will be greater if private creditors agree to participate in the standstill today. To address these issues, several approaches to expand the suspension offered by the G20 have been proposed. Without broader coverage, the appearance of policy-momentum at the start of the pandemic risks falling into a protracted debt crisis with the spectre of lost development progress looming large.

As a consequence of the gap in international sovereign debt architecture, a plethora of piecemeal approaches were put forward to expand the suspension scheme offered by the G20. Beyond a fully-fledged international statutory resolution mechanism, proposals broadly fit into three categories: The first category explores the contractual possibilities to operationalise a standstill to include private creditors. The second involves institution-building while remaining within a contractual approach. Finally, national statutory regulation and the IMF's Articles could also be relied on.

a. Use of contractual clauses ("CACs")

Extending the coverage of the DSSI to include private creditors was suggested through a creative use of the "collective action clauses". Gelpern et al. (2020) point to "aggregated" CACs that could allow creditor majorities to secure new terms across multiple bond issues. This leaves debtors able to use bond-by-bond and aggregated voting mechanisms to achieve a standstill. The onset of a default may precipitate accelerations on debts due, making debts further unmanageable and encouraging legal enforcement by aggressive creditors. Buchheit & Hagan (2020) suggest a way to avert the acceleration of amounts due when a default cannot be avoided. They propose to raise the percentage of creditors needed to support an acceleration (from 25% to 50%), suggesting that "CACs" could mimic a feature of syndicated bank loans, permitting "the supermajority of bondholders to impose an obligation to share rateably with all holders the proceeds of any recovery following a rogue litigation" (Buchheit & Hagan, 2020, p3).

These proposals, however, are cumbersome and prone to holdouts. The aggregation feature necessitates the offering of new instruments on identical new terms, and moreover, the coverage of any such measure is limited (Gelpern et al., 2020). This is partly because substantial portions of outstanding obligations, such as external commercial loans, do not contain such possibilities. Several outstanding bonds issued by low-income developing countries contain the first generation of CACs, which preclude aggregation (Bonizzi et al., 2020). Third, despite the hopes placed on single-limb aggregation, the ongoing negotiations in Argentina suggest that they are far from robust to ensuring widespread creditor participation.

b. Central Credit Facility

A broad standstill that ensures private creditor participation could be implemented by establishing a central credit facility (CCF). The proposal by Bolton et al. (2020) suggest that a multilateral development bank could create a CCF for each country. Debtor governments seeking to participate would notify creditors that payments coming due during the relevant standstill period would be made to the facility, which would initially fund crisis response measures and later be used to repay creditors. Borrowers would formally inform the creditors and request acknowledgement that the repayment into the CCF constitutes a full release of the obligation regarding the relevant payment. The corresponding amount will credit the creditors' account in the CCF. Creditors would thus receive an identical instrument allaying concerns for inter-creditor equity.

With regards to interest payments, the standstill would apply to all creditors uniformly. Three options are offered for handling principal payments: first, the official sector could promote exchange offers to reschedule principal amounts; second, principal amounts could be handled as interest payments; or third, principal amounts could be negotiated on a case-by-case (p.6). With respect to interest payments, the benefits of setting up a CCF is that it can be implemented rapidly and could avoid the need for bespoke negotiations with numerous individual creditors. In this way, the CCF reduces legal costs and avoids "a welter of incongruous conditions" (p. 5) while ensuring inter-creditor equity. However, concerning principal payments, only some would be due during the suspension period on a subset of the DSSI countries with outstanding bonds. So, the suggested options for ensuring a deferral on the principal- bar the option of them being treated as interest payments- would suffer from the ostensible objective the CCF seeks to avoid: case-by-case, lengthy and costly negotiations.

The claims held by lenders in the CCF would be considered de facto senior to other debt, which could be enhanced through the comingling of funds deposited by a multilateral institution with recognized preferred creditor status. However, as the instrument may be in technical default over the period between the diversion of the payment and the receipt of the creditors' consent, without adequate legal protection, this could provide opportunities for creditors to exploit. In the meantime, the acknowledgement of the borrower's actions "will probably be sought through a consent solicitation addressed to all holders of each such bond" (p. 5), raising the spectre of inadequate consent.

One of the CCF benefits is the potential speed of implementation, including through the centralisation of monitoring by a multilateral development to ensure any drawings are used solely for crisis amelioration. Yet, this benefit must be weighed against drawbacks. The Multilateral Development Banks are creditor institutions with their own loans at stake, simultaneously resisting their inclusion in the DSSI (Malpass, 2020). They fall short of the need for a neutral arbitrator of the process and have a track record of conditionality programmes that are responsible for structurally weak, underfunded health systems that the DSSI aims to succour (Kentikelenis et al., 2020; Ortiz & Stubbs, 2020).

c. Using the IMF's Article VIII

Binding private-sector creditors to a debt standstill could be operationalised by using a little-known section of the IMF's Articles of Agreement (Article VIII, Section 2-b). Most recently put forward by Munevar & Pustovit (2020), the use of this article has been raised in the past as a means to impose standstills on private creditors (Williamson, 1989). It relies on using IMF Articles to approve restrictions on international transactions, including debt contracts. It could protect debtors from litigious creditors as would prevent debt contracts from being enforceable in the IMF's members' courts. The proposal's benefits include that its implementation may be relatively swift, as it does not require any modification of the Articles of Agreement. It would also ensure uniformity of treatment for private creditors. While frequently debated at several junctures over the past three decades, the article has never been used for this purpose.

d. Halting legal pursuits

The spectre of default and the proposals to extend the coverage of creditors are open to the possibility of creditor litigation. A cluster of succinct proposals deals with preventing legal challenges. For the CCF above, Bolton et al. (2020) suggest that an official body, such as the G20, could pronounce that official sectors and debtors are acting out of necessity regarding Article 25(1) of the Articles on State Responsibility (International Law Commission 2001). National statutory legislation could constrain the ability of creditors from bringing lawsuits. In the UK, civil society organizations advocated for this proposal and prompted legal commentary to develop a national statutory proposal more thoroughly (Jubilee Debt Campaign, 2020; Connelly et al., 2020). The intention is to mirror, where possible, the 2010 Debt Relief Act, introduced to limit creditors' ability to seek the recovery of the full debt value by countries benefiting from the Heavily Indebted Poor Countries (HIPC). The proposal aims to prevent private creditors holding English law bonds (the jurisdiction of the vast majority of Eurobonds issued by low income developing countries) from pursuing legal proceedings during the moratorium period. The principal mechanism through which this would work is for qualifying countries to apply to the relevant UK court requesting a stay of any proceedings that a creditor may bring. The moratorium applies to any debt securities which creditors could bring to courts or arbitral tribunals in the UK. This builds on the existing Insolvency Act 1986, which halts legal proceedings when companies are under administration. A moratorium on the legal process, including arbitral and enforcement proceedings, could be extended to countries, as it is done currently for companies in administration under UK insolvency law. The proposal covers DSSI qualifying countries until January 2022 and allows for discretion to include other low-income developing countries for a period to be determined separately.

Buchheit & Hagan (2020) suggest an "international equivalent of a temporary moratorium on mortgage foreclosures" as means to permit judges to halt lawsuits against countries by amending sovereign immunity laws in the US and the UK. It is important to note that these proposals do not offer any relief: the proceedings that a creditor may bring are merely delayed, not annulled. Similarly, several suggestions have been made to protect the assets of the countries facing litigation along the lines of the UN National Security Council's creation of 'worldwide legal immunity' over Iraq's oil assets (Buchheit & Hagan, 2020; Gelpern et al., 2020).

V. Voluntary and non-binding principles

The debate over the need for a statutory mechanism and debt cancellation is divided. While calls for cancellation and an independent statutory mechanism were reviewed in Section II, Buchheit & Hagan (2020: 3) and Bolton et al. (2020: 6) suggest that there is no political enthusiasm to revisit an international statutory mechanism, nor the time to design and implement any institutional solution. This divide and long-stainding inability to agree to debt workout mechanisms has led to greater emphasis and proliferation by a range of actors on voluntary and non-binding principles. Existing principles such as the UN's Basic Principles on Sovereign Debt Restructurings (A/RES/69/319) and UNCTAD's principles on promoting responsible sovereign lending and borrowing have been joined by the G20 Operational Guidelines for Sustainable Financing, but also operational guidelines by the OHCHR Independent Expert of Foreign Debt and Human Rights endorsed by the Human Rights Council in 2012. The existent gaps, overlaps, complementarities and inconsistencies among them highlight the range of objectives that different actors have in setting standards and have also risen to the fore during the pandemic.

In the context of the pandemic, the UN Secretary-General called for a framework based on the Addis Agenda that promotes a multifaceted approach to improve the contractual approach, use national statutory legislation to prevent litigation, and further develop soft law principles based on international norms. The need for further development of soft law principles for fair restructuring and responsible lending, as well as their use by adjudicating bodies, is stated by UNDESA (2020). In this context, UNDESA promoted a Sovereign Debt Forum, to provide a platform for discussions between creditors and debtors in the context of the SDG debt relief initiative (UNDESA, 2020). The IATF mentions ways to strengthen debt transparency and management, a point raised by the creditors in the DSSI. The International Institute of Finance has developed Voluntary Principles on debt disclosure by private creditors, expected to materialise during 2020. The use of the G20's Operational Guidelines for Sustainable Financing has been furthered by developing a diagnostic tool for creditors to check compliance, with the IATF (2020) stating its broad use to date. Gelpern et al. (2020) propose some degree of coordination and shepherding, including a Sovereign Debt Coordination Group set up by the G20. However, this group would not have any legal authority in and of itself.

VI. More market-based solutions

a. Debt relief and SDGs

The unfolding debt crisis has also reinvigorated the discussion on debt swaps, buybacks and new financing instruments (United Nations Secretary-General, 2020; Inter-Agency Task Force on Financing for Development, 2020). These suggestions take their cue from past debt-to-health and debt-to-climate swaps and have been suggested as a means to "swap a country's debt-servicing payments for investments in sustainable development" (Inter-Agency Task Force on Financing for Development, 2020, p 136). These suggestions however leave many unresolved issues. These measures are broadly recognised for not being conducive to addressing unsustainable debts. Furthermore, it is not clear whether buybacks are the best use of limited foreign exchange which could nevertheless still leave the debtor facing severe financial constraints in the future. Converting loans into direct equity investments does not clarify whether this investment would be forthcoming regardless.

Beyond these, the use and adoption of other innovative financing mechanisms proposed include using state-contingent debt instruments to conserve fiscal space in times of crisis (see Gelpern et al., 2020). This is crucial for state-contignent alterations to terms of payments, reviving the arguments around the need to invoke state of necessity, fundamental change in circumstances and force majeure on the basis of international law.

b. UNECA

In late March, UNECA addressed the President of the World Bank, the Managing Director of the IMF, and the ECB's Governor calling for immediate waivers of interest on all public debt for 2020 with the possible need for medium-term relief (UNECA, 2020a). As the IIF CEO and President reported on May 11th 2020, preserving future market access is a key priority (Adams, 2020b). A newly formed Africa Private Sector Working Group has been working with UNECA and the African Union Special Envoy on COVID-19 to progress proposals for so-called "innovative financing solutions" (UNECA, 2020b).

UNECA's Director-General, Vera Songwe, advocated a mechanism to assist with the debt repayment difficulties. While details remain to be seen, the plan aims to exchange existing bonds for new concessional instruments. One option is to establish a special purpose vehicle (SPV) to serve as a bridge finance facility that could lower debt costs while retaining market access. This plan, according to Songwe, should interest bondholders, as they "will exchange a bond that is illiquid for another bond with a triple A rating" (Bandeira, 2020). A variation of the plan involves the intermediation of a multilateral bank that would "convert the current debt into debt securities with a longer maturity, benefiting from five-year payment and coupon exemption". A third still variation by the African Union suggests that the SPV can be financed by issuing Special Drawing Rights. According to press reports, the plan being drawn by UNECA and the African Union had been presented to bondholders and credit rating agencies. However, credit rating agencies have been sceptical about the proposal for an SPV to convert African debt into longer-term instruments (EX Africa, 2020). Proponents liken the scheme to the debt transformation which securitised commercial bank loans conducted through the Brady Plan that addressed the 1980s crisis. Nevertheless, creditor groups warned against using any one-size-fits-all approach (UNECA, 2020b) and progress on this front is yet unclear.

VII. Conclusion

While the G7 suggested that the DSSI may be extended beyond the current deadline of the end of 2020, the current initiatives (CCRT and DSSI) are insufficient to address the scale of the debt crisis developing countries face. Just to indicate, from the estimated benchmark of 1 trillion USD in needed debt relief, the IMF's debt service relief amounts to 257 million USD and the DSSI, even if implemented in full, covers 11.5 billion USD, and instead the IMF's rapidly disbursing facilities have created 14.7 billion USD de facto senior new debts for DSSI eligible countries. The cash-flow assistance postpones debt repayments into the near future when the costs of addressing the crisis will have increased. The IMF is approving loans on a premise of debt sustainability that may not exist, and on a notion of sustainability that sidelines the ability to safeguard basic socioeconomic infrustrures (Laskaridis, 2020a). It is therefore creating the conditions for the build-up of further debts. In the future, as economic conditions will have deteriorated further, and low-condition rapid financing will be inaccessible will lead countries into upper-credit tranche IMF programmes. The focus on further financing, as opposed to relief, leads to both the IMF's new facilities and the G20's DSSI to implicitly enable foreign debt repayments and in particular to those of excluded creditors, to be prioritised over needed expenditures to address the pandemic.

The plethora of proposals that emerged to address the unfolding debt crisis is a testament to the small degree of consensus that exists among differen actors. It is also the result of the gap in international architecture and inadequate means to address debt repayment difficulties. This brings back into view the stark choice that the pandemic empahsied: the choice between debt repayments or essential social spending. These choices are also the result of failed debt sustainability assessments that are not fit for purpose, given that debts deemed sustainable may nevertheless entail repayment schedules that dramatically reduce and constrain available fiscal space (Laskaridis, 2020b). Instead, the notion of debt sustainability ought to incorporate future financing gaps arising out of SDG expenditures and the implementation of Agenda 2030, with human rights considerations to promote and protect economic, social and cultural rights at its core.

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