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When push came to shove: COVID-19 and debt crises in low-income countries

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ABSTRACT

The pandemic brought to the fore the long-standing weaknesses of resolving countries' debt repayment difficulties. This article examines the response by the G20 and the IMF in the first six months of the pandemic focusing on low-income countries. This article maps the proposals and current debate motivated by the pandemic and argues that a critical element of the dysfunctional architecture that deserves more attention is Debt Sustainability Analysis (DSA). The article analyses the characteristics of IMF loans to DSSI eligible countries, and scrutinises the IMF's loan approval basis. The article finds that programmes were approved on the basis of sharp "V" shaped recovery and re-establishment of fiscal austerity after transitory deficit spending. As a consequence of the problems in international sovereign debt architecture, the IMF and G20 have provided piecemeal policies to address the unfolding crisis. The article suggests the problem of DSA is symptomatic of its fraught origin and concludes that along with existing proposals to improve sovereign debt architecture, the alternatives for a more suitable economic analysis ought to be revisited.

RÉSUMÉ

La pandémie de COVID-19 a révélé les difficultés qui depuis longtemps freinent le remboursement des dettes nationales. Cet article étudie la réponse du G20 et du FMI lors des six premiers mois de la pandémie, se concentrant plus spécifiquement sur les pays à faible revenu. Il retrace les différentes propositions et les points forts du débat actuel sur la pandémie, et suggère qu'une attention particulière devrait être prêtée à l'Analyse de la Viabilité de la Dette (AVD), car il s'agit d'une caractéristique essentielle de ce système dysfonctionnel. Cet article analyse les caractéristiques des prêts offerts aux pays éligibles DSSI, et interroge les critères d'approbation de prêt du FMI, révélant que des programmes furent approuvés du simple fait de leur rapide reprise en « V », et de la réinstauration de l'austérité financière après une phase transitoire de dépenses publiques. En conséquence de cette faille dans le système international de dette souveraine, le FMI et le G20 ont adopté des politiques fragmentaires en réponse à la crise actuelle. Cet article

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suggère que le problème de l'AVD est symptomatique de la tourmente de son contexte d'origine, et il conclut qu'au-delà des propositions existantes pour améliorer le système de dette souveraine, il est nécessaire de revisiter d'autres méthodes d'analyse économique plus adaptées à la situation.

Introduction

The pandemic is having a severe social, humanitarian, and economic impact in developing countries. Deep recessions, disruption from trade and declines in key commodity prices are coupled with a rapid reversal of capital flows and depreciating currencies. Health care costs are increasing, which in many countries pale in comparison to amounts spent on public debt service (Abiy 2020). This is pushing millions more into extreme poverty (Alston 2020; Summer, Hoy and Ortiz-Juarez 2020), unemployment (ILO 2020) and the risk of famine (WFP 2020). The impact of the pandemic, and the deficiencies of the Global Financial Safety Net in providing low- and middle-income countries with access to needed liquidity (Stubbs et al. 2021), have brought a new debt crisis to the centre stage. Growing debt vulnerabilities have been a growing concern for years (Bonizzi, Laskaridis, and Toporowski 2019, 2020; IMF 2018a; UNCTAD 2016), but reflect long-standing, structural inequalities in the global economy (Geda 2003; Laskaridis 2021b; Shola Omotola and Saliu 2009). The pandemic has forcefully made governments choose between necessary measures to protect populations and economies, and keeping up with debt service payments.

As debt repayment problems are exacerbated, the long-standing weaknesses of addressing sovereign debt crises have reappeared. What happens when countries find themselves in debt repayment difficulties? Countries face an amalgam of creditors' forums and disparate legal environments; they face exclusion from capital markets, risk creditor litigation, while forced to abandon development plans often alongside contractionary IMF programmes that fail to provide equitable and long-lasting solutions to debt problems (United Nations 2011). As widely acknowledged, debt crises are dealt with in ways characterised by "too little, too late", frequently failing to re-establish debt sustainability, and at great social cost for the debtor country (Barry, Herman, and Tomitova 2007; Guzman, Ocampo, and Stiglitz 2016).

While it is too early to provide a full assessment, this article examines the initial policy response by the IMF and the G20, and contextualises the response within the international debt architecture. First, we introduce the main features of the IMF's and G20's policy response over the course of the first six months of the pandemic, and maps the state of the debate surrounding alternative policy proposals. We then move onto an examination of key trends in the policy initiatives by the IMF and the G20 and an examination of the recent debt sustainability assessments underpinning the IMF's loan financing. Finally, we contextualise the problems of the response in light of the gap in international debt architecture and revisit the needed alternatives.

Mapping the policy response

A summary of the IMF and G20 schemes

The IMF and G20 introduced three main policy measures in the first six months of the pandemic. The IMF scaled up to two financing facilities, the non-concessional Rapid

Financing Instrument (RFI) and concessional Rapid Credit Facility (RCF), enabling rapid dispersion of loans without the need for negotiated upper-credit tranche programmes (IMF 2020e), and revived a facility, the CCRT, for debt-service relief (IMF 2020h). As a result of this expeditious process, there has been a rapid increase in financing, across regions, facilities, and income groups, analysed in Stubbs (2021).[1]

The G20 inaugurated the Debt Service Suspension Initiative (DSSI) in April to support "a time-bound suspension of debt service payments for the poorest countries that request forbearance", covering both principal repayments and interest payments falling due to official bilateral creditors during the suspension period (G20 2020a). There has been no enforcement of private creditor participation. The countries eligible for this initiative are those eligible for International Development Association (IDA) borrowing and those defined as Least Developed Countries (LDC) by the United Nations, which are current on debt service to the IMF and the World Bank. There are 77 countries that were categorised as IDA or LDC at the time of the DSSI launch, but only 73 are eligible to participate due to protracted arrears by four countries.[2] Four conditions need to be fulfilled for countries to participate in the DSSI: IMF financing or request for financing must be in place; the resources freed must be used for pandemic-response and will be monitored by the International Financial Institutions (IFIs); participation necessitates detailed disclosure on public sector borrowing bar commercially sensitive information; and finally, new borrowing during this period must comply with the IMF's Debt Limit Policy (DLP) and the World Bank's policy on non-concessional borrowing (G20 2020a). The terms of reference for the scheme stated that any suspended debt repayment must be repaid within three years following the one-year grace period, making any deferred payments due over 2022-2024. The DSSI can be implemented through rescheduling or refinancing on NPV-neutral terms. NPV neutrality entails that this postponement of payments provides no relief and involves no creditor loss. It is a voluntary initiative, and while Standard and Poor's have indicated that application to the DSSI would not be viewed negatively, Moody's have differed stating that applying to the scheme raises the prospect for subsequent private creditor loss (White and Case 2020), and have downgraded or placed on review for downgrade several countries (Moody's 2020a, 2020b).

The G20 called on private creditors to participate in the scheme on comparable terms and multilateral development banks to encourage their support while not jeopardising their rating (G20 2020a). The industry body – the Institute of International Finance (IIF) – published suggestive terms of reference for its participation in May (IIF 2020). Taking a harder stance than bilateral creditors, the IIF stated that forbearance on its own is NPV negative, thus any participation must come with financial benefit and credit enhancements (Adams 2020b; IIF 2020). Despite claiming to take principles of NPV neutrality into account, the IIF's proposal increases the owed amount to participating countries by applying interest on the deferred amount. [3]

Reactions and alternatives to the policy response

As economic conditions deteriorated and policies were rolled out, a plethora of supplementary and alternative proposals emerged to mitigate the unfolding debt crisis. Much of the debate focused on how to expand the suspension offered by the G20 and broaden the spectrum of creditors involved. As the DSSI focuses on only a small segment of debt service due, the exclusion of private creditors drew widespread criticisms.

Making use of contractual provisions in bond contracts to operationalise a broader standstill was suggested by Gelpern, Hagan, and Mazarei (2020) and Buchheit and Hagan (2020), and private creditor participation could be implemented through the proposal by Bolton et al. (2020), who suggested that a multilateral development bank (MDB) create a central credit facility (CCF) for each country. Debtor governments seeking to participate would notify creditors that payments coming due during the standstill period would be made to the facility, which would initially fund crisis response measures and later be used to repay creditors who would receive a corresponding credit in the CCF by the corresponding amount.[4] While they suggested that a MDB ensures any drawings are used solely for crisis amelioration, and that private creditors could potentially enhance their claims through the co-mingling of funds with multilateral development funds that are de facto senior, this must be weighed against the fact that MDBs are creditor institutions, which are simultaneously resisting their inclusion in the DSSI (see for instance Malpass 2020b). Leaving the World Bank and IMF as chief arbiters of any scheme would fall short of the needed neutrality and confidence, given their track record of conditionality programmes that are responsible for the structurally weak, underfunded health systems (Kentikelenis et al. 2020; Ortiz and Stubbs 2020) that the DSSI aims to succour. An alternative suggestion to bind private-sector creditors to a standstill was put forward through operationalising a little-known section of the IMF's Articles of Agreement (Article VIII, Section 2 (b)). Most recently put forward by Munevar and Pustovit (2020), the use of this article has been raised in the past as a means to impose standstills on private creditors. It relies on the IMF approving restrictions on international transactions, preventing enforceability of debt contracts in IMF members' domestic courts. While frequently debated at several junctures over the past decades, the Article has never been used for this purpose.

The aforementioned proposals would be cumbersome and remain open to the possibility of creditor litigation. Several outstanding bonds issued by low-income developing countries contain the first generation of collective action clauses (CACs) (Bonizzi, Laskaridis, and Griffiths 2020),[5] are prone to holdouts, and as a result, the pandemic reinvigorated proposals to deal with preventing legal challenges. While these proposals do not offer debt relief, as the proceedings a creditor may bring are delayed not annulled, they offer protection to debtor states during a crisis. For the CCF above, Bolton et al. (2020) suggest that – if pursued – an official body, such as the G20, could pronounce that official sectors and debtors are acting out of necessity with reference to Article 25(1) of the Articles on State Responsibility. National statutory legislation could also constrain the ability of creditors from bringing lawsuits. In the UK, this proposal was advocated by civil society organisations (Jubilee Debt Campaign 2020) and prompted legal commentary to thoroughly develop a national statutory proposal (Connelly et al. 2020). The proposal aims to prevent private creditors holding English law bonds, which most low-income countries issue, from pursuing legal proceedings during the moratorium period.[6] Similarly, Buchheit and Hagan (2020), suggested an "international equivalent of a temporary moratorium on mortgage foreclosures", permitting judges to halt lawsuits against countries by amending sovereign immunity laws in the US and the UK. Several suggestions have been made to protect the assets of the countries that face litigation along the lines of the UN National Security Council's creation of "worldwide legal immunity" over Iraq's oil assets (Buchheit and Hagan 2020; Gelpern, Hagan, and Mazarei 2020).

The debate illustrates the dissatisfactions towards the existent policy response that arise as a consequence of the lack of an overarching, comprehensive approach. Even though

Buchheit and Hagan (2020, 3) and Bolton et al. (2020, 6) suggested that there was little political enthusiasm to revisit the debate, nor the time to design and implement any institutional solution, a plethora of proposals for institutional coordination far beyond what the DSSI or any augmentation can achieve have been vocally put forward. The discussion on soft-law principles – voluntary and non-binding agreements that have been developed by several institutions, have come to the fore (see UNDESA 2020). Market-based proposals such as debt swaps have also been raised, taking their cue from past debt-to-health and debt-to-climate swaps (Inter-Agency Task Force on Financing for Development 2020; United Nations Secretary General 2020), as have financing instruments such as state-contingent debt instruments that would conserve fiscal space in times of crisis (see Gelpern, Hagan, and Mazarei 2020). Short of a fully blown statutory mechanism, some degree of coordination and shepherding is proposed by Gelpern, Hagan, and Mazarei (2020) in the form of a Sovereign Debt Coordination Group set up by the G20, and by UN DESA, in the form of a Sovereign Debt Forum, to provide a platform for creditors and debtors to discuss debt relief in the context of meeting SDG goals (UNDESA 2020).

Beyond this though, immediate and drastic debt relief, as well as systemic and institutional debt resolution mechanisms have been called for. Intergovernmental organisations, national leaders, academics, and civil society organisations have emphasised comprehensive and immediately instituted debt standstills on repayments, as well as debt relief initiatives, alongside proposals for large and immediate stimulus packages. In March 2020 African ministers called for $44 billion earmarked for debt waivers on all interest payments of public debt (UNECA 2020) and the United Nations General Secretary called on the G20 to include standstills for all creditors for 2020 (Guterres 2020). National leaders have widely raised the issue of debt relief. Ecuador's Congress called on the government to suspend debt payments to all lenders to free up resources needed for addressing the pandemic (Kueffner and Bartenstein 2020). The Prime Minister of Pakistan and of Ethiopia urged for debt relief for all developing countries (Peshiman 2020; Taylor 2020) and in mid-May, US Senator Sanders and Member of the Congress Omar led a global call signed by more than 300 parliamentarians to support debt cancellation for IDA countries (Omar and Sanders 2020). Civil society and workers' organisations across the globe have sustained political pressure in favour of debt cancellation through far-reaching global campaigns (for instance see CADTM 2020; Progressive International 2020; Ravenscroft 2020), with Germany's post war cancellation suggested as a benchmark (Ghosh 2020; UNCTAD 2020b). The urgency for a coordinated approach to the debt crisis was resolutely put forward by UNCTAD, for an International Developing Country Debt Authority to oversee comprehensive temporary standstills, Debt Sustainability Analyses (DSAs) and consequent debt relief (UNCTAD 2020a). The UN Secretary General's proposal also involved the transformation of international debt architecture to develop a comprehensive framework for debt restructurings. Such proposals are supported by the global call by CSO's (see Ravenscroft 2020).

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, 1). For this reason, three main policy recommendations would constitute an improvement to existing policies. First, immediate debt and condition-free financing. The IMF and UNCTAD have highlighted that developing countries face a 2.5 trillion USD financing gap (IMF 2020c; UNCTAD 2020a) and yet initial assessments find that developing countries' access to needed liquidity is severely constrained (Gallagher et al. 2020; Stubbs et al. 2021).[7] Second, immediate debt relief to address short-term liquidity pressures, and medium-term sustainability problems, with an estimated required debt relief at 1 trillion USD (UNCTAD 2020b). This should cover all creditors and all countries that need it (Ghosh 2020; United Nations Secretary General 2020), including countries not eligible for the DSSI, such as middle-income countries, some of which spend over 20% of government revenue on debt service (Okonjo-Iweala et al. 2020). Third, comprehensive creditor participation and neutral assessments of needed relief require an independent body to undertake meaningful sustainability assessments, oversee comprehensive standstills and manage restructurings. These proposals could be taken forward through a "Global Debt Deal" (UNCTAD 2020a).

The response to the unfolding debt crisis: key trends

Against this backdrop, we trace the key characteristics of the policy response. Overall, in the first six months of the pandemic, the IMF approved over 88 billion USD to 85 countries, across all facilities. Over the same period, the two enlarged loan facilities – RCF and RFI – financed 69 countries over 29 billion USD. With respect to DSSI eligibility, a summary of RCF and RFI financing is shown in Table 1. The majority of financing has been non-concessional (21.7 billion USD) as opposed to concessional (7.4 billion USD), and DSSI eligible countries have received just over half of their IMF financing on non-concessional terms.

A total of 48 DSSI eligible countries received RFI and RCF financing up to August 2020, some of which were funded from both facilities: 7.1 billion USD in concessional loans and 7.6 billion USD in non-concessional loans. This is summarised in Table 2. The IMF repurposed one of its trust structures to finance debt service relief, but prioritised non-concessional new financing to the detriment of grant financing. On April 13th, the IMF announced it would use money in the Catastrophe Containment and Relief Trust (CCRT) to provide grant financing for the debt service falling due on IMF loans over the next six months (IMF 2020h). Despite recent pledges by governments to support this fund (such as the UK (IMF 2020a), its resources are limited. The initial package from the CCRT amounted to approximately 215 million USD debt service relief for 25 countries growing only slightly since. All recipients are DSSI eligible countries. While an important move in the right direction, there are several limitations.

Table 1. Total RCF and RFI Loans approved by IMF by Region and DSSI Eligibility, Billion USD, March – August 2020.

	Concessional (RCF)	Non-Concessional (RFI)		RFI Total	Grand Total
	DSSI Eligible	**Not DSSI Eligible**	**DSSI Eligible**		
Emerging and developing Asia	**1.0**	**0.0**	**0.8**	**0.8**	**1.8**
Emerging and developing Europe	**0.1**	**0.8**	**0.2**	**1.0**	**1.1**
Latin America and the Caribbean	**0.2**	**4.7**	**0.0**	**4.7**	**4.9**
Middle East and Central Asia	**0.8**	**3.9**	**1.8**	**5.7**	**6.5**
Sub-Saharan Africa	**5.3**	**4.7**	**4.7**	**9.5**	**14.8**
Grand Total	**7.4**	**14.1**	**7.6**	**21.7**	**29.1**

Source: Author's calculation from World Bank (2020a) and IMF Monitor (2020).
Note: Loans from other facilities, including funds committed prior to the pandemic are not included but can be found in Stubbs et al. (2021).

Table 2. IMF financing and DSSI eligible countries.

IMF Financing to DSSI Eligible Countries, March to August 2020, Billion USD	
Grant financing (CCRT)	0.25
Concessional (RCF)	7.36
Non-Concessional (RFI)	7.59

Source: Author's calculation from World Bank (2020a) and IMF Monitor (2020).

The use of the CCRT is limited in scope supporting only a fraction of the debt service to the IMF that DSSI countries will make over the next six months. Countries that benefit from the CCRT will continue to make principal payments to the Fund (111 million USD in principal repayments between July and the end of 2020), while DSSI eligible countries that have been excluded from this initiative will make a total projected principal and interest repayments to the Fund of 1.05 billion USD over the same period.[8] Second, while funding debt service relief is a welcome measure, these funds end up in the IMF's coffers, not the country's. It may not clearly be a net gain for developing countries as there is a concern that the donations going into the CCRT pot could be repurposing aid funds (Munevar 2020).

The creditor composition for DSSI eligible countries shows that the G20 initiative addresses just a fraction of outstanding obligations (Figure 1 in nominal values). DSSI countries, on aggregate, owe 38% of public and publicly guaranteed (PPG) external debt to bilateral creditors, 41% to multilateral creditors and 21% to private creditors (World Bank 2020a).[9]

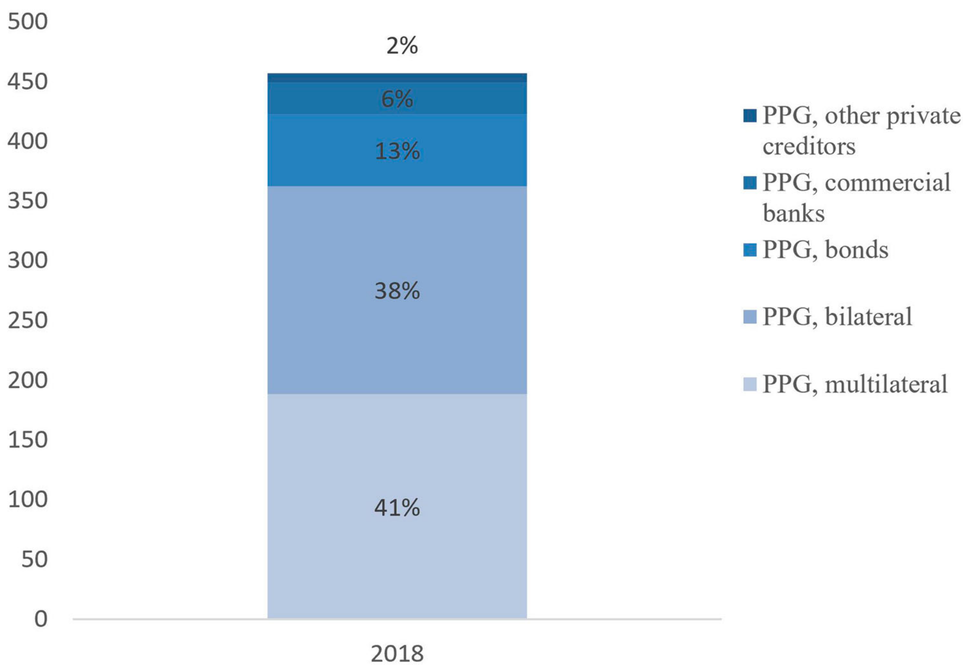

Figure 1. Creditor Composition of External Public and Publicly Guaranteed (PPG) Debt Stocks for DSSI Eligible Countries, shares and Billion USD, 2018.

Source: Author's Calculation based on World Bank (2020a).

The total debt service payments that DSSI eligible countries are due to pay in 2020 is 42.7 billion USD of which 17.4 billion USD on bilateral debt – the debt covered by the DSSI (World Bank 2020c). If this is adjusted to account only for the period that the first phase of the DSSI covered (May to December), the maximum amount of potential debt service relief that the DSSI could cover is 11.5 billion USD (World Bank 2020c). This amount is not only underwhelming when compared to the degree of relief that is needed, it is also underwhelming as only a fraction has been delivered. As of July 2020, 41 out of 73 eligible countries have participated, potentially covering 8.7 billion USD of debt service (World Bank 2020c). The July 18th G20 Communique stated that even less has been delivered: deferred repayments to date are 5.3 billion USD (G20 2020b). However, as seen in Figure 2, the majority of debt service payments due in 2020 are not eligible for DSSI relief.

In summary, the DSSI could offer up to 11.5 billion USD if implemented in full, but less than half has been delivered months after its inception. Even if implemented in its entirety, the breathing space created would be partial, as most of the debt repayments due are not covered, and any temporary breathing space offered by the IMF's emergency financing and DSSI would only ease the repayment of non-participating creditors. The initiatives are limited and expensive; the voluntary aspect of the DSSI means that debt service relief is partial and delivery shorter than what is called for.

IMF loan financing, DSSI and risk of debt distress

The IMF and World Bank reiterated that they should be tasked with identifying unsustainable debt situations (e.g. in Malpass 2020a). This section examines the 39 DSAs

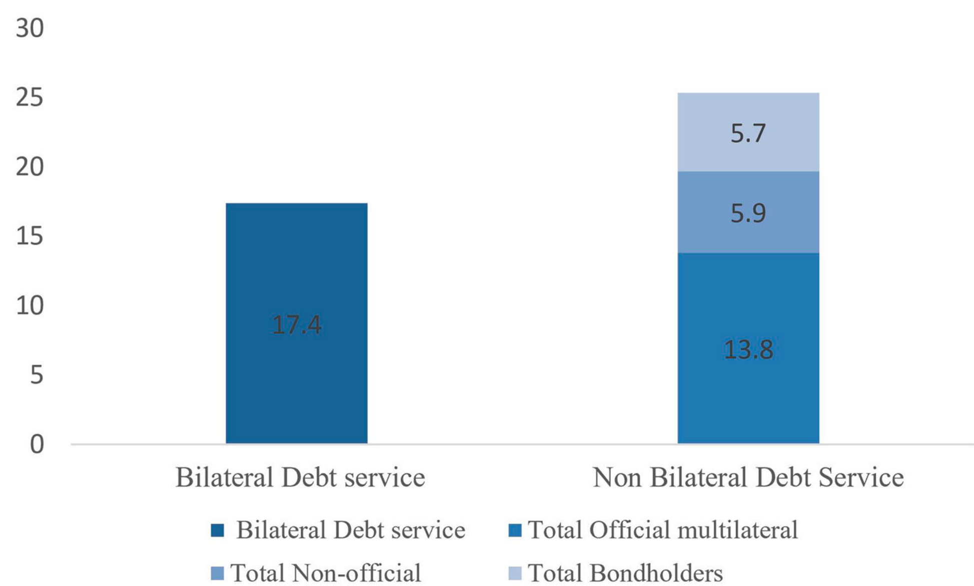

Figure 2. Debt Service Payments in 2020 by DSSI Eligible Countries, billion USD. Source: Author's calculation based on World Bank (2020a).

Note: The taxonomy of creditors provided by the World Bank for DSSI reporting includes four categories. The Non-official category includes all other private creditors, such as commercial bank loans and loans covered by an export credit guarantee (World Bank, n.d.).

released between March and August 2020 for DSSI eligible countries that received emergency IMF financing. Like the framework developed for countries with significant market access, the low-income country framework includes projected debt dynamics under baseline and stress tests scenarios, but unlike the market access framework, assessments include an explicit risk rating of the likelihood of debt distress that arises from specific thresholds that are determined, inter alia, by a controversial measure of a country's debt carrying capacity (Nissanke and Ferrarini 2004; Van Waeyenberge 2007). As shown in Figure 3, of the loans provided up to August 2020, 34% have gone to countries assessed as being in debt distress or at high risk of debt distress. Several countries assessed as being at moderate risk of debt distress and one in high are nevertheless lent to on non-concessional terms.

Two out of the five indicators that inform the risk of debt distress are the PPG debt service ratio as a share of exports and government revenues. Across the range of debt-carrying capacities, breaches to sustainability are assumed to occur at 10-21% of exports, and 14–23% of revenue (IMF 2018b). Figure 4 plots these two indicators, along with the risk of debt distress and DSSI participation up to August 2020.[10] A cluster of countries spend over 10% of government revenue on debt service and 15% of export income. Participation in the DSSI has taken place across the range of debt service burdens that countries face, with participation ranging from low shares of debt service to exports, up to 26% in Cameroon. Several countries have not yet participated that have high debt service-to-revenue and export indicators, such as Kenya and Ghana. With respect to the risk of debt distress, countries with burdensome debt indicators, assessed as being at high risk had not, in the first 6 months of the pandemic participated in the scheme. Others, with relatively lower debt service burdens also assessed as being at high risk have not yet received the temporary relief through the DSSI. Existing problems are thus reinforced by further loans from the IMF and a repayment postponement without relief.

Looking further into the DSAs that these loans were approved on reveals assessments of debt sustainability that do not adequately assess a country's ability to service its debt. There are several issues that make conducting debt sustainability assessment at this

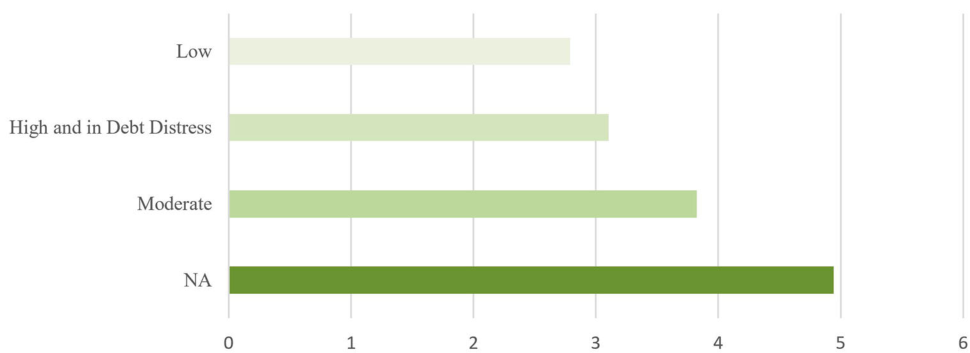

Figure 3. IMF Loan Financing to DSSI Eligible countries according to Risk of Debt Distress, Billion USD, August 2020.

Note: This does not include grant financing through the CCRT. DSSI eligible countries that do not receive an explicit risk rating are classed as NA. Source: Author's calculation from IMF Monitor (2020).

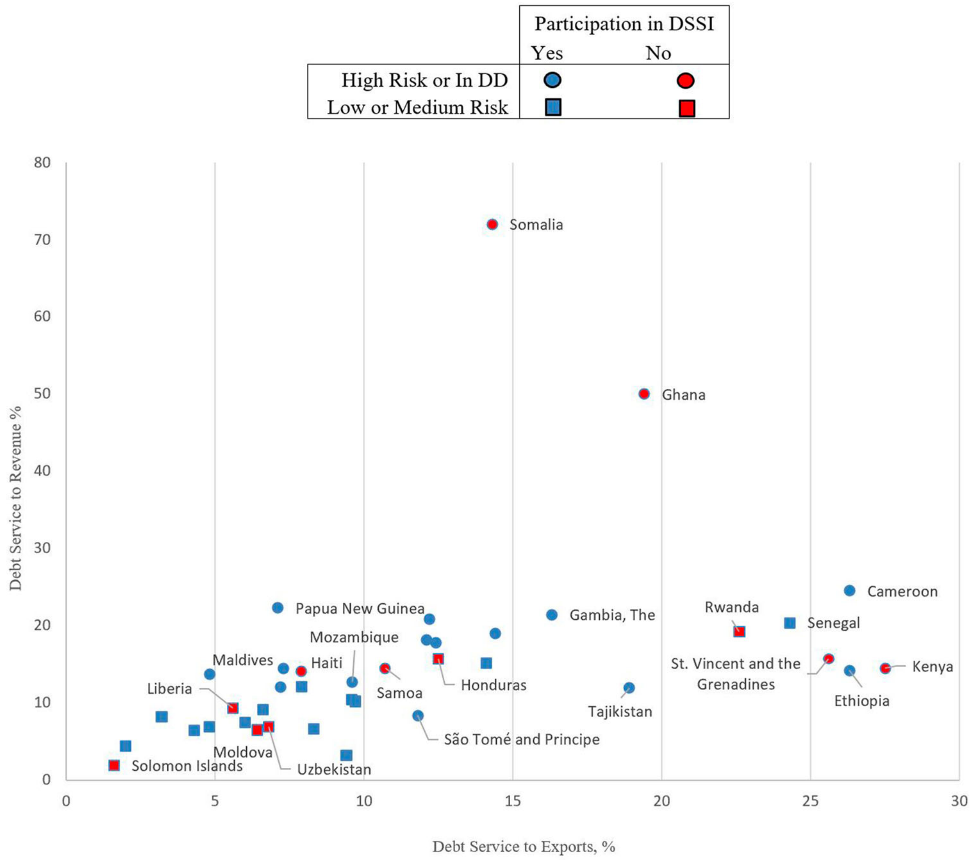

Figure 4. Debt Service Indicators, Risk of Debt Distress and Participation in the DSSI, August 2020.
Source: Author's calculation based on country level DSAs listed in the Appendix and World Bank (2020a).

moment exceptionally difficult and end up aggravating debt repayment difficulties countries face. Conducting debt sustainability assessments relies heavily on projections about the future, including the expected path of the global economy, and public and private debt dynamics. The evolution of the pandemic is still unknown, and the impact of lockdowns and disruption in economic activity on global growth is still underway. Commodity prices such as oil, on which several low-income countries depend also creates a lot of uncertainty over future income streams. For low-income countries that rely on development aid, it is still unclear the degree of support that will be sustained given that the shortfall from OECD countries' aid commitments over the past decade stands at approximately 2 trillion USD (UNCTAD (2020b).

Figures 3 and 4 highlight that the IMF's main response of increased loans leans towards countries already assessed as being at high risk of debt distress. The assessments however have not captured the full extent of the problem, and countries are receiving a "sustainable" label unduly. The pandemic brought upon severe disruption to the financial markets that was referred to by the IMF as "the largest capital outflow ever recorded" (IMF 2020b). This led to several sovereign credit downgrades, with FitchRatings

(2020) warning that there may be a record number of defaults in 2020, noting that in the first four months of 2020, it made a record of 29 downgrades. The distress in financial markets has had an across the board negative impact on sovereign bond yields (IMF 2020k). As explained in Bonizzi, Laskaridis, and Griffiths (2020) the redemption schedules for many low-income developing countries, including several DSSI eligible countries that have issued Eurobonds, are bunched beginning in 2023. The amount of financing these countries will require when these obligations mature is aggravated by the repayment of the IMF's non-concessional emergency loans due to begin in mid-2023, along with the bilateral debt-service payments rescheduled through the DSSI due over 2022-2024. There can be little confidence in the assumptions that the DSA's rely on about the roll over interest rates that would be relevant over the coming years, the amount of financing that will be available, to which countries, and on what terms.

A similar problem confounds the growth projections. While most of the loan approvals were announced without accompanying information on the assumptions that guided the approval (IMF Monitor 2020), subsequent DSAs show that IMF emergency loans have been approved on the basis of favourable growth assumptions. Figure 5 (panel 1) shows that loan approval is predicated on strong "V" shaped recovery, with growth, on average, higher in 2021 than in 2019. There is no shortage of evidence however, that the actual performance of growth in a deep crisis may be dramatically worse than the IMF's growth projections (IEO 2014; IMF 2013a). The consequence of overoptimistic growth projections is to underestimate the severity of a debt crisis and undermine the needed debt relief.

Equally problematic are the fiscal assumptions underpinning the IMF's loan approval. Globally, the scale of fiscal response to the pandemic across income groups has been unprecedented and far exceeds the measures taken during the global financial crisis (IMF 2020d). However, this is highly unequal across income groups: while several high-income countries have announced measures of over 10% of GDP to support COVID response (and in certain cases, far greater (IMF 2020d)), Sub-Saharan African

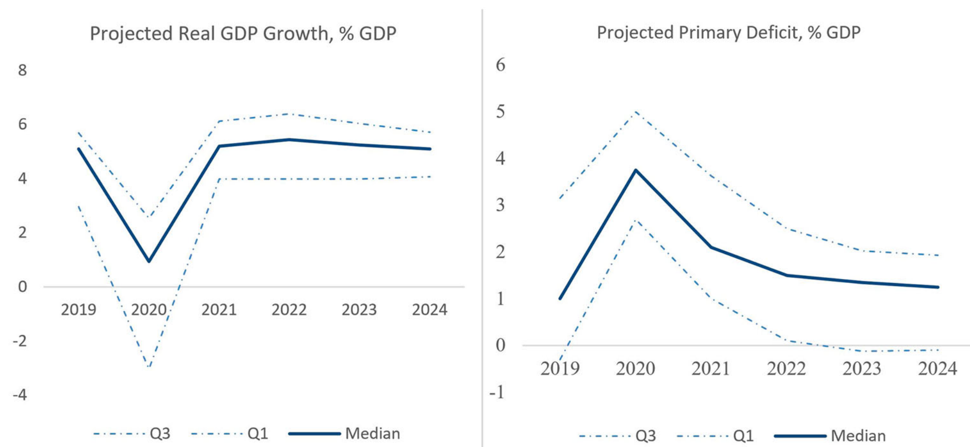

Figure 5. Projections underpinning 39 loan approvals to DSSI eligible countries, March – August 2020.
Source: Author's calculation from the DSAs listed in the Appendix.

countries have been much more constrained, with the average size of COVID-related fiscal package around 3 percent of GDP (IMF 2020l). Given the dire outcomes from COVID-19, the case for "building back better" has included calls for sustained demand stimulus over the coming period (IMF 2020d; the World Bank 2020b). However, IMF emergency loans have been approved on the assumption that countries will implement austerity measures over the years to come (Figure 5, panel 2). Addressing high debt through fiscal consolidation is ineffective in the best of times (Blyth 2015), but as austerity worsens growth prospects and has devastating effects on public health (Amnesty International 2020; Stuckler et al. 2017; UNCTAD 2017), assuming fiscal austerity for loan repayment would be disastrous.

The most important indication of why the DSAs are misguided are that several countries have already begun to curtail development programmes to adhere to the debt burden. Recent loan approval documents for Nigeria, Kenya and Cameroon identify non-priority public investment spending to reduce (IMF 2020i, 2020j, 2020k) showing that far from sustainable, debt service payments are already being prioritised over other developmental expenditures. The eligibility criteria on these rapidly disbursing, low-condition loans are finite (IMF 2020g, 2020f), and as access limits are reached, countries will move from low-conditionality loans to fully conditional programmes as indicated in IMF (2020e). Of the DSSI eligible countries receiving IMF emergency loan finance, at least 14 countries accessed 100% of quota through RCF/RFI by August 2020 (IMF Monitor 2020).

While the problems of conducting DSAs during the pandemic have not gone entirely unnoticed, they have not received sufficient attention. Gelpern, Hagan, and Mazarei (2020) recommended "Patience to allow for a more fully informed assessment", while calling for a broad standstill on all creditors in the meantime, and Crebo-Rediker and Rediker (2020) stated that there is no need to judge debts as sustainable when it is more realistic to say debt prospects are uncertain, stating damages to IMF credibility as a key reason. They propose that for countries whose sustainability is uncertain, the IMF should avoid erring on the side of unwarranted optimism and allow low-conditionality emergency financing to take place without needing strict sustainability requirement.[11]

DSA and International debt architecture

The DSA has flaws that go beyond the difficulty of making projections in times of uncertainty, and that are intimately linked with how debt crises are addressed. Despite their prominence, and centrality in debt restructuring (Hagan, 2020), DSAs as a central weaknesses of international debt architecture have not received the due importance in the recent aforementioned debate. The rapid upscale of loans approved on the basis of sustainability, suggests that the problem facing developing countries is being treated as a short-term balance of payments problem – i.e. a temporary liquidity problem. Such a reading would exacerbate the possibility that countries are facing a sustainability problem that would require debt write-down to manageable levels. The World Bank President stated as much, by saying that some IDA countries may need "comprehensive and fair debt restructuring that includes NPV reductions sufficient for restoring debt sustainability" (Malpass 2020a), and the Common Framework established in November 2020 is an attempt in this direction.

The problems of the DSA are symptomatic of its fraught origin. The DSA was inaugurated to guide IMF lending, specifically, to quantify access to extraordinarily large loans (IEO 2016; Laskaridis 2020; Schadler 2016). After sequential policy failures, the IMF reconfigured the bar of exceptional access to include a more rigorous assessment of debt sustainability. The reason was precisely because the Fund was incentivised to provide financing "when prospects for success are quite poor and debt burden of the sovereign is likely to be unsustainable" (IEO 2016, 18). Initially, DSAs were a means to attempt to provide the needed rigour that was seen to be lacking from IMF loan approvals, to enhance the credibility of its loan decisions and ensure greater safeguards over IMF resources.[12] Requirements of debt sustainability were solidified into pre-requisites of IMF financing, and despite the since rescinded amendments to the policy made over the Greek programme in 2010, current policy prohibits loan approval into situations of unsustainable debt, under both concessional and non-concessional facilities. Assessments of unsustainability require the Fund to seek restructuring or further concessional financing (IMF 2019). As a key component of programme design, DSA's contain the political calculus about who will shoulder the crisis. According to the IMF, "In principle, assessing whether bringing down debt ratios through a primary adjustment is too costly requires looking at the alternative by evaluating the costs of bringing down debt ratios through debt restructuring" (IMF, 2011). As much as being about the projected trajectory of key macroeconomic variables, DSA is about the political calculation of searching for the adjustment path that lies just shy of halting debt service.

Had past attempts to institute a statutory mechanism for debt resolution been fruitful, the DSA may have been destined for a more pivotal role (see Laskaridis, 2020). As indicated by the Executive Board discussions in the early 2000s, besides guiding IMF policy on access criteria, DSAs could also define the "need – and scope – of private sector involvement" and whether an application to the SDRM [Sovereign Debt Restructuring Mechanism] was justified.[13] As is well known, an overarching statutory mechanism was politically blocked by the United States leading to the increased reliance on a contractual approach to debt crisis resolution (Gelpern 2016) and efforts to achieve it continued (Li 2015).

Without such a mechanism, assuming sustainability when it is lacking repeats IMF policy failures from the past (IEO, 2004, 2016) and prioritises the repayment of creditors to the detriment of the needs of the borrowing country (Bantekas and Lumina 2019; United Nations 2011). Perpetuating potentially unsustainable debt reinforces the evidence that debt crises are characterised by too little relief, too late (Guzman, Ocampo, and Stiglitz 2016; IMF 2013b), with low-income country debts to foreign private creditors being the lengthiest to resolve (Wright 2011). When debt restructurings do take place, they are insufficiently large to guarantee adequate future sustainability, leading to repeat reschedulings (Guzman 2017), even though greater relief may lead to better outcomes (Reinhart and Trebesch 2014). Moreover, in the case of large IMF programmes, these are more successful when accompanied by debt restructuring (IMF 2019).[14] The rapid increase of IMF loans during the pandemic, in situations where debt repayment prospects are deteriorating, without insisting on restructuring, enables the use of IMF resources to be used for the servicing of foreign creditors, increases the component of a country's debt which is owed to the IMF – a de facto senior creditor that is much harder to restructure – and therefore increases the depth of a restructuring that may be needed in the future to restore sustainability.

Along with the proposals disused earlier surrounding the urgency for a new sovereign debt architecture, lies the need for a more suitable concomitant and comprehensive economic analysis. Alternatives exist and ought to be revisited. The integration of soft-law principles, such as the 2015 UN General Assembly's Principles (Li 2015), into debt sustainability analyses has been argued and promoted broadly (Guzman 2018). This follows from a long-standing effort, beginning at the first UNCTAD conference in 1964, that sought to address debt repayment difficulties in the context of achieving development targets, as opposed to addressing repayment problems as commercial, short-term ventures.[15] The inability of DSAs to adequately safeguard future development plans has led to a resurgence of efforts to incorporate future financing gaps arising from meeting Sustainable Development Goals (SDG) expenditures into calculations of debt sustainability (Inter-Agency Task Force on Financing for Development 2020; UNDESA 2020; Munevar 2018). Lastly, ensuring debt crises are addressed while respecting human rights obligations, has implications for the conduct of debt sustainability analyses (Bantekas and Lumina 2019; Bohoslavsky 2016; Lumina 2013). Any of these alternatives would be a huge improvement and enable fairer and better international debt architecture.

Conclusion

The pandemic highlighted the long-known inability of the existing international debt architecture to administer the entire universe of creditors, prevent collective action problems, ensure inter-creditor equity, and most importantly, ensure that debt repayment difficulties are dealt with rapidly and comprehensively in a way that minimises the impact on populations in countries in the debt crisis.

This article draws a series of conclusions. First, the article mapped the proposals and current debate surrounding the resolution of COVID-induced debt crises that have aimed to suggest improvements to the problematic international architecture, and argued that a critical element of the dysfunctional architecture that deserves more attention are debt sustainability analyses (DSA). Second, the article offered arguments as to why the first six months of the initiatives by the IMF and G20 are unsatisfactory. The voluntary aspect of the DSSI means that debt service relief is partial, favourable to certain creditors, and delivery is on expensive terms and far less than needed. The article scrutinised the IMF's loan approval basis and found that the programmes were approved on the basis of sharp "V" shaped recovery and re-establishment of fiscal austerity after transitory deficit spending.

Third, the article argued that these problems of DSA are symptomatic of its fraught origin, and that the DSA is not fit for purpose. Hence, along with existing proposals to improve sovereign debt architecture, we need to revisit the alternatives for a more suitable concomitant and comprehensive economic analysis. Several alternatives exist: integration of debt sustainability analyses with soft law principles, with sustainable development goals and within a human rights framework. This would enable a fairer and better international debt architecture.

Notes

1. Facilities were initially scaled up by increasing their access limits temporarily to 100% of quota (IMF 2020c). For detailed examination of the IMF response see Stubbs et al. (2021). Data on the IMF's response is sourced from a new dataset available on IMF Monitor (2020) unless stated otherwise.

2. The IDA countries excluded due to their protracted non-accrual status are Eritrea, Sudan, Syria, and Zimbabwe.
3. This backtracks from the initial optimistic pronouncements made in early April, where 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, 2).
4. The authors suggest distinct treatment for interest and principal payments.
5. Newer issuances contain the latest generation of collective action clauses that include single-limb aggregation.
6. The intention is to mirror, where possible, the UK's 2010 Debt Relief Act, introduced to limit the ability of creditors to seek recovery of the full value of debt by countries benefiting from the Heavily Indebted Poor Countries (HIPC) Initiative.
7. On the issue of needing both relief and new financing see Tan (2014).
8. Author's calculation from the IMF's Members' Financial Data tools, available here: https://www.imf.org/external/np/fin/tad/index.aspx.
9. Data is sourced from the World Bank's International Debt Statistics (The World Bank 2020a). Not all DSSI eligible countries report to the IDS; excluded countries are South Sudan, Vanuatu, Tuvalu, Kiribati, and the Marshall Islands. Outstanding loans to the IMF are reported separately to long term external debts and in 2018 amount to 30.5 billion USD (World Bank 2020a).
10. Data is sourced from the 39 individual debt sustainability assessments issued since March for DSSI eligible countries, listed in the Appendix. In some instances, more than one DSA was issued since March (Guinea, Rwanda, Papua New Guinea, Myanmar) in which case only the latest is included.
11. A possible analogy to this proposal could be in line with the European Banking Authority's postponement of bank stress testing and capital requirements measures to deal with the pandemic (BIS 2020; EBA 2020).
12. For detailed examinations of these points see Laskaridis (2020).
13. Sourced from the IMF Archive: EBM/03/64–July 2, 2003 a.m. Reference: 517552. Board DOC ID: EBM/03/64–Final. July 2, 2003.
14. For a review of these issues as they relate to the pandemic see Tan (2020).
15. A history of debt sustainability analysis as it developed through the efforts to achieve a fairer resolution to debt crises can be found in Laskaridis (2021a).

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Appendix. List of consulted Debt Sustainability Analysis documents

	Country	Date of DSA
1	Burkina Faso	DSA: April 25 2020
2	Cabo Verde	DSA: April 23 2020
3	Cameroon	DSA: June 4 2020
4	Central African Republic	DSA: April 28 2020
5	Chad	DSA: April 9 2020
6	Côte d'Ivoire	DSA: April 23 2020
7	Ethiopia	DSA: May 6 2020
8	Gambia, The	DSA: April 8 2020
9	Ghana	DSA: April 16 2020
10	Grenada	DSA: May 13 2020
11	Guinea	DSA: July 16 2020
12	Haiti	DSA: April 20 2020
13	Honduras	DSA: June 3 2020
14	Kenya	DSA: May 11 2020
15	Kyrgyz Republic	DSA: March 27 2020
16	Liberia	DSA: June 12 2020
17	Madagascar	DSA: April 10 2020
18	Malawi	DSA: May 15 2020
19	Maldives	DSA: April 23 2020
20	Mali	DSA: May 8 2020
21	Mauritania	DSA: April 29 2020
22	Moldova	DSA: April 22 2020
23	Mozambique	DSA: April 29 2020
24	Myanmar	DSA: July 2 2020
25	Nepal	DSA: May 11 2020
26	Niger	DSA: April 23 2020
27	Papua New Guinea	DSA: June 26 2020
28	Rwanda	DSA: June 18 2020
29	Samoa	DSA: April 28 2020
30	São Tomé and Principe	DSA: April 14 2020
31	Senegal	DSA: April 16 2020
32	Sierra Leone	DSA: June 10 2020
33	Solomon Islands	DSA: June 4 2020
34	Somalia	DSA: March 12 2020
35	St. Vincent and the Grenadines	DSA: May 29 2020
36	Tajikistan	DSA: May 7 2020
37	Togo	DSA: April 16 2020
38	Uganda	DSA: May 14 2020
39	Uzbekistan	DSA: May 19 2020