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Systemic reform of the international debt architecture is yet to start

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In times of crisis, systemic weaknesses and gaps would become more glaring, therefore making the necessity of reform more compelling. The COVID-19 pandemic is no different. For countries with little fiscal space to maneuver, they certainly cannot mount needed fiscal response to fight the pandemic. Meanwhile, as a result of increasing expenditure and collapsing revenue, public debt has increased drastically in developing countries, both low-income and middle-income ones. Many of these countries had entered the pandemic with a high debt burden. It has not been surprising that more countries are facing high risks of debt distress than prior to the pandemic and some are in distress.

The debate to save lives or to service debt has become a moral question for the international community and also given impetus to a call for reform of the international debt architecture - a politically sensitive issue. Amid the fear of likely defaults of a wall of developing countries that may unleash a systemic debt crisis across the world, the International Monetary Fund (IMF) started to call for such an urgent reform in October 2020[1]. However, while the pandemic is still raging with new virus variants and no systemic reform of the debt architecture has been introduced, the enthusiasm for reform of the international debt architecture seems to be dissipating and complacency starts to emerge.

Since the start of the COVID-19 pandemic, major international initiatives to address the devastating debt problem of developing countries have targeted at temporary debt service relief of official debt of low-income countries and liquidity boost. However, the bulk of developing country debt is owed to the private sector, which means the major part of risky debt of developing countries has not been addressed. Private creditors have not even par-

Abstract

The COVID-19 pandemic has pushed the reform of the international debt architecture to the policy agenda. Up to now policy measures to address the crushing debt burden of developing countries have focused on boosting time bound liquidity provision, which is insufficient in amount and restrictive in scope as debt-ridden and pandemic struck middle-income countries have not been covered. Even the implementation of these policy measures has been hindered by existing systemic problems. The reform of the debt architecture is yet to start. However, complacency seems to emerge. The risk of "wasting" the crisis should be avoided.

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La pandémie de COVID-19 a fait de la réforme de l'architecture de la dette internationale une priorité politique. Jusqu'à présent, les mesures politiques destinées à faire face à l'écrasant fardeau de la dette des pays en développement se sont concentrées sur l'augmentation de la fourniture de liquidités dans le temps, ce qui est insuffisant en termes de montant et restrictif en termes de portée, car les pays à revenu intermédiaire endettés et frappés par la pandémie n'ont pas été couverts. Même la mise en œuvre de ces mesures politiques a été entravée par les problèmes systémiques existants. La réforme de l'architecture de la dette n'a pas encore commencé. Cependant, la complaisance semble émerger. Il faut éviter le risque de "gaspiller" la crise.

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La pandemia de la COVID-19 ha llevado la reforma de la arquitectura de la deuda internacional a la agenda política. Hasta ahora, las medidas políticas para hacer frente a la aplastante carga de la deuda de los países en desarrollo se han centrado en impulsar la provisión de liquidez a plazo fijo, lo que resulta insuficiente en cuanto a su cuantía y restrictivo en cuanto a su alcance, ya que no se ha incluido a los países de renta media endeudados y afectados por la pandemia. Incluso la aplicación de estas medidas políticas se ha visto obstaculizada por los problemas sistémicos existentes. La reforma de la arquitectura de la deuda aún no ha comenzado. Sin embargo, parece surgir la complacencia. Hay que evitar el riesgo de "desperdiciar" la crisis.

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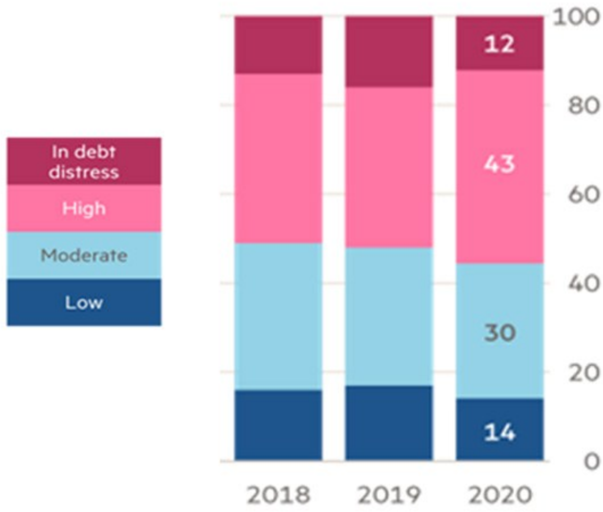
ticipated in international initiatives for temporary debt service relief. On the other hand, middle-income countries have the lion's share of risky debt and many have been hard hit by the pandemic, yet they seem to have fallen into the gap and they are neither qualified for debt service suspension nor concessional lending as the criteria for these benefits are based on gross domestic product (GDP) per capita even during the pandemic. Therefore, debt service relief of bilateral official debt of low-income countries and (insufficient) liquidity provision would only have limited impact on the debt problem of developing countries. Even though the nightmare scenario of systemic debt crisis may have been averted, the debt mountain would not disappear and will be a major obstacle for "building back better and greener", not to mention achieving the Sustainable Development Goals (SDGs). Without addressing systemic gaps of the international debt architecture, temporary measures to mitigate the debt burden of some countries can only be "band-aid" solutions.

I. Temporary liquidity boost is not tantamount to systemic reform

It is important to point out that the measures taken by international financial institutions (IFIs) and the Group of Twenty (G20) so far have been mostly for liquidity provision on a temporary basis and they are not tantamount to systemic reform. This is not to say liquidity support is not important. On the contrary, faced with a dire situation of collapsing health systems, sudden fall in GDP growth, shrinking revenue, sharp decline of international trade, sudden-stop of tourism and many other woes, liquidity provision is an important option to provide new though limited financial resources to developing countries to increase fire power to protect lives and livelihood in the face of the deadly COVID-19 pandemic and also prevent countries with liquidity problem from sinking into an insolvency trap. Alleviating debt service burden can increase and free up governments' financial resources to meet exceptional balance of payments needs caused by the pandemic so that crisis-struck countries would be able to focus on containing the crisis and minimizing the negative impact of the pandemic. To reduce the number of defaulting countries would certainly minimize the likelihood of a systemic debt crisis which would lead to global financial instability and worsen human suffering during the pandemic.

However, measures taken so far are time bound and targeted at low-income countries (LICs). LICs are indeed vulnerable. Prior to the pandemic 44% of LICs were in debt distress or high risk of debt distress while now the percentage has increased to 55% (See Figure 1. Adapted from the Financial Times.). However, initiatives to reduce debt service burden of LICs have not introduced new norms or new rules e.g. no new elements for debt standstill during crisis or calamity or rules to oblige private creditor participation etc. Neither have the old system been revised. Besides, in implementing these temporary measures, systemic problems with the international debt architecture have surfaced and weakened the effectiveness of these measures. Following is a brief analysis of these initiatives.

Figure 1. Debt sustainability assessment of low-income countries (2018-2020) (%)



Source: IMF

A. IMF grants for servicing IMF debt and emergency lending

Credit should be given to the IMF for being the first mover in providing debt service relief during the pandemic. In April 2020, the IMF announced that it would provide grants through the Catastrophe Containment and Relief Trust to 29 of its poorest and most vulnerable Member Countries to cover interest and principal payment of these countries' eligible IMF debt falling due. The duration was originally 6 months and subsequently has been extended to the current two years. The purpose is to help these poor countries to channel more of their scarce financial resources towards vital emergency medical and other pandemic relief efforts. The World Bank, however, refused to join the IMF on the ground that it could jeopardize its AAA credit rating and limit or make its financing more expensive in the future.[2] However, we have not seen any downgrading of the IMF's rating after its suspension of debt service payments.

For countries which are deemed as having sustainable debt, thus not qualified for debt service relief but have been hard hit by the pandemic, they can also apply to a number of IMF financing facilities including emergency financing. Most of the IMF developing Member Countries have asked for emergency financial assistance from the IMF. This is not a new phenomenon but worth mentioning as it could facilitate countries in times of crisis though the amount is not sufficient.

B. G20 Debt Service Suspension Initiative

The G20 Debt Service Suspension Initiative (DSSI) started from May 2020. It applies only to official bilateral debt for 73 low-income developing countries that are either eligible to borrow from the International Development Association (IDA) or are least developed countries. It is also time bound which was 6 months at the beginning and is currently expected to finish by end December 2021 unless further extended. The initiative does not change at all contractual terms of private debt though it invites the private creditors to join on voluntary terms, which means private participation will not take place as the private creditors do not have the habit of joining debt relief on a voluntary basis. Up to now, no private creditor has volunteered. This shows one systemic gap of the debt architecture, namely different kinds of creditors normally would not coordinate voluntarily and private creditor participation has always been difficult as there are no instruments to legally bind them. Therefore, despite the debt service relief by the IMF and the DSSI by the G20, debtors continue to pay private creditors on time during the pandemic for fear of reputation loss. Where does the money come from when revenue earning by many governments has been almost dried up and pandemic related expenditure skyrocketed? It would not be surprising if some of the money comes from debt service suspension or multilateral emergency lending, which is outright free riding for private creditors.

Another systemic problem in the debt architecture exposed by the DSSI is the role of credit rating agencies. As credit rating plays a dominant role in determining a country's accessibility to the international credit market, the DSSI-eligible countries, though hit hard by the pandemic, would have to calculate the cost and benefits of joining DSSI and decide whether to join. The DSSI initiative had a slow start because countries are afraid of the possible prospect of credit rating downgrades which would negatively affect their reputation at the international capital market. As of May 2021, 47 out of the 73 eligible countries have requested participation in the DSSI.[3]

DSSI is not debt relief per se. It is debt service payment deferral, meaning debt owed is to be paid back at a later date. It is a temporary debt standstill. In addition, the suspension of debt service payments to official creditors is on Net Present Value (NPV) neutral term. This debt world jargon means that debtors are obliged to pay back to their official creditors the same amount of debt service suspended in the future. So it is kicking the can down the road and not a relief at all. Nonetheless, it is helpful, as countries do not have to pay during the agreed time period when the pandemic is still not yet under control. They can divert the interest and principal payment to spend on pandemic control as well as economic recovery.

DSSI has also drawn complaints from the middle-income countries (MICs), many of which have been among the hardest hit by the pandemic and also have crushing debt burden. This category of countries has no access to concessional loans. The wooden treatment of the MICs during an unprecedented global pandemic and the deepest economic recession since World War II has drawn criticism from the MICs, academia and international institutions**.** This is another systemic problem of the international debt architecture. Some institutions have already started to work on a vulnerability index which include more variables to decide the degree of vulnerability. At one webinar, the World Bank Chief Economist, Dr. Reinhart, identified the realistic difficulties in addressing MIC debt issues, that is, their larger scale of debt as compared to the debt owed by LICs.[4] The following table shows the difference of scale of debt between the LICs and MICs. The size of external debt of MICs was more than 38 times that of the LICs for the year 2020. Their unsustainable debt is also much larger. The current financial fire power of the IMF and the World Bank as well as the current policy tools do not seem to be well equipped to cope with the debt problems of these countries at such a large scale and with a complex composition of debt. Once again, this proves the need to reform the international debt architecture, so these countries would not be left alone to fight the pandemic by themselves.

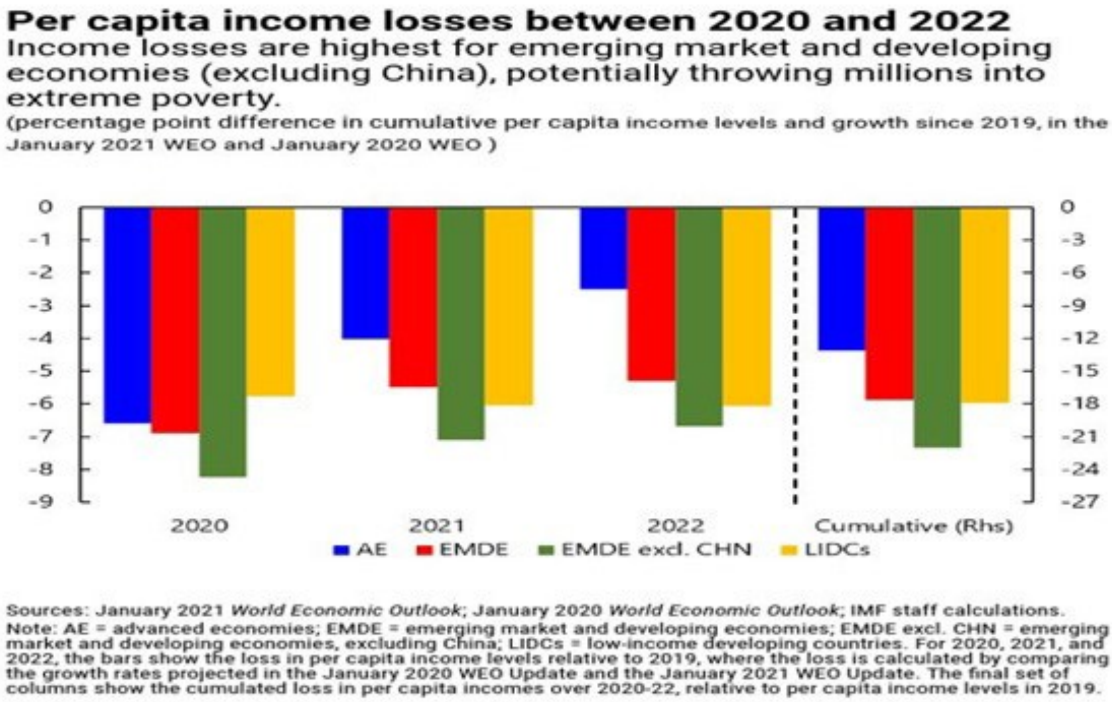
A United Nations Development Programme (UNDP) study[6] identified the total debt-service payment at risk for the period of 2021 to 2025 for long term public and public guaranteed debt and noted that LICs account for only 6% of the full period for risky debt-service payment; lower middle income countries (LMICs) account for 49%; and

Table 1: Debt by country groups, type of debt and by creditors in April 2020 ($ billion)

	Low-income	Low- to upper-middle income
Total external debt	150	5,706
Long-term debt	132	4,653
Private issuers	14	2,081
Public and govt. guaranteed	118	2,572
Official creditors	104	947
Private creditors	14	1,628
Bonds	3	1,252

Source: *World Bank data reproduced from Bolton et al. (2020). Table by Avinash Persaud*[5]

Figure 2 (credit to the IMF)



upper middle income countries (UMICs) account for 45%. A large share of UMIC risky debt is rated 'default current or imminent'. Regarding private debt of middle-income countries, it amounted to US$ 2,081 billion in 2020 while low-income countries only had US$ 14 billion (see Table 1). It is not surprising as they are hardest hit by the pandemic and also entered the pandemic with high levels of debt. An examination of the per capita GDP loss of countries by the IMF reveals that the income losses are the highest for emerging economies (see also Figure 2.) This shows that the debt problem of the middle-income countries should be addressed. According to the World Bank, out of the 120 million additional people pushed into poverty as a result of the pandemic, an estimated 82% are from the middle-income countries.[7] The data shows that these countries do need a helping hand, and that their ability to counter drastic external shocks cannot be compared with advanced economies. For instance, in 2020, advanced economies on average deployed about 24 percent of GDP in fiscal measures, compared with only 6 percent in emerging markets and less than 2 percent in low-income countries.[8]

To address the debt problems of MICs would require reform of the international debt architecture (see below).

C. Common Framework for Debt Treatments beyond the DSSI

To address the problem of unsustainable debts faced by DSSI eligible low-income countries in the aftermath of the COVID-19 pandemic, the G20 and the Paris Club came to an agreement entitled the "Common Framework for Debt Treatments beyond the DSSI" in November 2020. Under the Common Framework, eligible countries can also apply for debt restructuring for their unsustainable sovereign debt in addition to benefiting from debt service suspension. For countries with debt deemed as sustainable, they could have debt rescheduling (debt re-profiling) which defers the debt payment for an agreed duration. The private sector is supposed to provide debt relief comparable with the official debt, meaning not less favorable than the treatment from official bilateral creditors towards debtor countries. It is not on a voluntary basis like DSSI, but it is required. However, there exists no supranational legal mechanism to compel the private sector to participate in the Common Framework, which means their involvement remains to be seen. The most ground-breaking element of the Common Framework is that some non-Paris Club G20 official creditor countries including China, India, Saudi Arabia and Turkey have agreed to join the initiative. Like DSSI, the Common Framework is a welcome step forward. However, once again the heavily indebted and pandemic hard hit middle-income countries are not eligible for the Common Framework.

The operation of the Common Framework follows the template of the debt relief and rescheduling of the Paris Club with the IMF and the World Bank playing a very important role. Debt owed to the IMF and the World Bank would not be touched on the ground that they need to retain their preferred creditor status. But for LICs, in addition to bilateral official debt, debt owed to multilateral creditors constitute an important part. The IMF debt service relief is far from sufficient.

To initiate the process, the requesting country needs to officially submit debt relief proposals that are subject to a

Debt Sustainability Analysis (DSA) to be conducted jointly by the IMF and World Bank. DSA has been under close scrutiny and criticized for its over-optimistic forecasts of economic prospects of debtor countries and lack of consideration of some important variables affecting debt sustainability. The IMF would assess the country situation and decide on the size of the debt relief or the terms of debt rescheduling. The debtor country must implement an IMF programme and certain IMF defined policies or structural reforms.

From the signals given from the G20, it seems that a comprehensive debt restructuring under the Common Framework might not be the envisaged objective while debt rescheduling could be the main debt treatment under the Common Framework. The Statement at the Extraordinary G20 Finance Ministers and Central Bank Governors' meeting of 13 November 2020 indicated that "in principle, debt treatments will not be conducted in the form of debt write-off or cancellation."[9] This focus on extension of debt maturity and debt reduction on NPV terms alone carries the risk of "too late and too little". Whether or not this position has been shifted is not very clear.

So far only 3 eligible countries have applied to the Common Framework, i.e. Chad, Ethiopia and Zambia. The same concern with DSSI also looms over the Common Framework, namely whether participating in the Common Framework would restrict access to borrowing in commercial markets or raise debt servicing costs down the road. This concern is more relevant for the Common Framework than that for DSSI as in the case of the former, comparable treatment by private creditors has been requested instead of being voluntary. Therefore, the risk of credit rating downgrades and/or deterioration in market reputation seems to be higher.

Some consider the Common Framework as a milestone in sovereign debt crisis resolution. But a close examination shows it is very much like old wine in a larger bottle. No systemic reform is included in the elements of the Common Framework. It is certainly not a comprehensive multilateral framework for debt crisis resolution as it deals predominantly with official bilateral debt and complex issues like bonds and holdout problem, etc. have not been addressed.

D. New SDR allocation

Another major boost to liquidity provision to countries to fight against the pandemic is the new Special Drawing Rights (SDR) allocation of $ 650 billion which has been more or less a decided issue as it has obtained the blessing from major IMF Member Countries, the G20 and the Group of Seven (G7). This is going to be the largest new issuance of SDR since they were created in 1969. The new issuance is a truly non-debt creating additional financial resources for countries. Comparing with the real needs of financial resources, as noted, DSSI and IMF emergency financing instruments are far from enough. According to the IMF estimates, LICs need around US$200 billion for relief and recovery up to 2025, and another US$250 billon to resume development progress.[10] Therefore, the new allocation is a significant boost to liquidity provision.

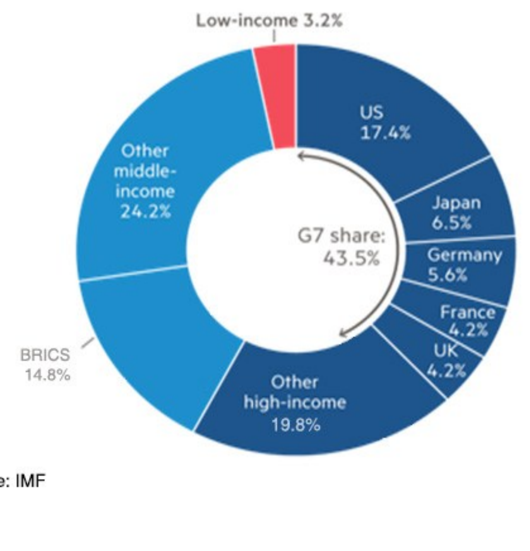
However, the allocation of the SDRs will be proportional to the quota of each of the countries. This means countries which need SDRs most will be given the least and those which do not need them will have the most of it. For instance, the G7 countries combined hold quotas amounting to 43% of the Fund, equivalent to USD 283 billion out of a new issue of USD 650 billion while low-income countries will have 3.2% of it (See chart below. Adapted from the Financial Times.).

The IMF quota system is still under reform, an important systemic reform for the international financial architecture including the international debt architecture, which is expected to increase the voice of developing countries in international financial affairs.

Alongside the request for new issuance of SDR, there has been the discussion about how to transfer the unused SDRs by advanced countries to vulnerable developing countries. However, there is no existing mechanism for this kind of transfer. Meanwhile, the IMF has a set of detailed rules for governing the use of SDRs. Its special accounting system for SDRs and the desire to retain the SDR's international reserve currency status in the global economy have made such kind of transfer a complex issue.

Nevertheless, the new SDR allocation creates an opportunity to formulate a workable mechanism to allow donated SDRs to be rechanneled to countries in urgent need of unconditional liquidity. For the moment, this task has been given to the IMF. The Communiqué of the second G20 Finance Ministers and Central Bank Governors' meeting of April 2021 stated that "(w)e also invite the IMF to present proposals to enhance transparency and accountability in the use of the SDRs while preserving the reserve asset characteristic of the SDRs. In parallel, we ask the IMF to explore options for members to channel SDRs on a voluntary basis to the benefit of vulnerable countries,

Figure 3. SDR allocations in line with the IMF quota system



Source: IMF

without delaying the process for a new allocation."[11]

There are suggestions that IMF's Poverty Reduction and Growth Trust (PRGT) could be a vehicle to place the donated SDRs as it has used SDRs before.[12] However, the PRGT provides budget support loans to LICs at very concessional rates but typically with conditionality attached. The Rapid Credit Facility (RCF), which is under the PRGT, has been used as the IMF's emergency financing facility during the pandemic and has not charged interests and has no conditionality but it has to be repaid within 10 years (grace period of 5½ years, and a final maturity of 10 years.)

The existing rules do not oblige the IMF to be the only institution to have the responsibility for recycling the donated SDRs. According to the IMF Articles of Agreement, official financial entities may also hold and use the SDRs, including intergovernmental monetary institutions and regional development banks.[13] Thus, IMF is an appropriate agency to recycle the SDRs, but not the only body to do so. Besides, to allow the IMF to monopolize the liquidity provision by multilateral institutions may not be a good idea, in particular with the controversies over the IMF conditionality, its ideological bias and its control by the advanced countries. Other financial institutions may bring more diversity and vitality to the process. There have also been suggestions for establishing special purpose facilities for vaccines[14], for climate change[15], etc. to use the SDRs. For instance, the Economic Commission for Africa (ECA) has partnered with PIMCO and proposed to set up a Liquidity and Sustainability Facility for vulnerable African countries to be partly financed by SDRs.[16]

The use of re-channeled SDRs should not be limited only to LICs. So far it is very difficult for MICs to have access to concessional lending; facilities to recycle SDRs must ensure MICs are eligible to benefit from them. Naturally, there should be mechanisms to ensure that the allocation of donated SDRs would be transparent and governments would be held accountable for its effective utilization for the benefit of the population in fighting the pandemic and supporting a fairer and better recovery from it.

The new issuance of SDRs is tasked to facilitate the world to recover from the COVID-19 pandemic. It should be allocated for the public good. Therefore, its re-channelling and use should not be subject to conditionality, should not be at cost to beneficial countries, should be for all vulnerable countries irrespective of country groupings and not be reported as official development assistance (ODA) if donated by the advanced countries.

II. What systemic reform is needed?

The universe of public and private debt has undergone major changes over the past two decades or so. However, except for incremental contractual enhancement there have been no systemic developments for debt crisis prevention and resolution. Academia and the civil society continue to complain about the non-system over sovereign debt restructuring[17] and the international debt architecture as a whole.[18] Civil Society Finance for Development (FfD) Group Submission to the United Nations (UN) Independent Expert on foreign debt and human rights on "International debt architecture reform and human rights" in June 2021 requested for "(A) debt architecture reform agenda for real change and real solutions" to fill in the gaps in debt relief, debt restructuring and liquidity provision.

In 2020, the liquidity crunch triggered by the pandemic and the worsening debt indicators did make the alarm bell ring loud and clear. We had the deepest economic recession since World War II and the COVID-19 pandemic impact will last for a long period of time. The developed countries are having the second round of stimulus. The developing countries are having even smaller fiscal space but higher debt level because of the pandemic. As a result, the discussion of the reform of the international debt architecture was intensive then. Now, owing to fiscal stimulus in developed and a few emerging economies as well as to liquidity support (though not sufficient) from multilateral financial institutions and the good policies adopted by developing countries, the situation has improved marginally for most of the developing countries. Even though debt problems are still severe and the pandemic has not been brought under control, the world has averted a systemic debt crisis. With it, the desire to reform international debt architecture has tapered to a great extent. The IMF seems to have toned down from "reform of the international debt architecture urgently needed" to " …this existing contractual framework has been largely effective….there is a need to strengthen the international debt "architecture""[19]. Both the IMF and the World Bank are talking about the importance of collective action clauses (CACs). There is a lot of complacency. But we know we are not out of the woods yet. Over half of the low-income countries are in debt distress or high risks of debt distress.

A recent UNDP report highlighted that one-third of vulnerable countries holding two-thirds of total external debt service at risk are not eligible for the Debt Service Suspension initiative nor for debt treatment under the Common Framework.[20] Many MICs being hard hit by the pandemic are among these countries but are facing limited access to new financing and at higher cost. 26 eligible countries for the DSSI have not applied to use the benefits owing to a systemic problem not yet addressed. The current discussion about inflation, be it transitory or permanent, will have its influence on the interest rate leading to the upward trend thus higher cost of borrowing. With increasing public and private debt because of the pandemic, the risk of rolling over debt will be increasing.

The IMF September 2020 paper[21] pointed out various weak points and gaps of the international debt architecture including the fact of lack of coverage of CACs by about 50% of the outstanding debt contracts and the absence of such kind of clauses for syndicated bank loans, which the United Nations have repeatedly highlighted in the United Nations General Assembly debt papers. The 2017 General Assembly debt paper point out that "(T)he danger at present is the mismatch between the very gradual, market-based reform of debt and financial instruments, on the one hand, and the growing urgency of sovereign debt vulnerabilities and distress in developing countries, on the other."[22]

The IMF paper also highlighted the need to have further reform of the debt architecture including tools that could be activated at short notice which includes reform of statutory nature which goes beyond the sporadic national laws to include international laws that would immunize assets from being snapped up by predatory creditors. Various temporary policy measures taken by the G20 and IMF have also been impeded in several ways by the existing weak links in the debt system. Without a reform, the incremental contractual improvements cannot address these problems. Credit rating agencies have not even been included in the reform equation.

The IMF Managing Director rightly pointed out that most of the measures taken so far have focused on liquidity—maintaining countries' access to financing, including official and market-sourced financing. Therefore, she said, "*(P)erhaps most importantly, it is necessary to reform the international debt "architecture" , which includes institutions such as sovereign debt contracts, the International Monetary Fund and the Paris Club, and a policy framework that supports orderly debt restructuring. The goal is to provide fast and* adequate debt relief to countries in need, *so as to benefit not only these countries, but also the entire system*."[23] There should be no back track from this rallying call for reform of the international debt architecture.

The system should allow debt standstill/debt moratorium during times of a systemic crisis as the pandemic we are having now. Debt standstill should cover all countries being hit hardest and facing risks of debt distress. The objective is not to allow debt servicing to mop up the limited financial resources of crisis-struck countries with heavy burden and leave them with no money to fight the crisis. A GDP per capita based debt standstill would not be sufficient. Contractual improvements can also come to the rescue, for instance state-contingent sovereign debt like GDP linked bonds and a force majeure clause which will serve countries in times of natural calamities.

Credit rating agencies need to undergo reform and should be included in the equation of international debt architecture as they affect the implementation of debt relief. As proved by the Asian financial crisis and European debt crisis, the procyclical credit downgrades of the credit rating agencies made the crisis worse and more difficult to implement international measures to mitigate the crisis.

As debt restructuring is complex, time consuming and costly, in times of crisis, there is often a panicky search for solution as there is not an existing mechanism to go to. Even though this would require an amendment of the IMF's Articles of Agreement, the pandemic makes many people feel that we should not wait for another crisis to renew this wish to have such a mechanism. If this continues to be an impasse, there is the expressed desire to resort to Chapter VII of the UN Charter to provide temporary protection of the assets belonging to sovereigns as it happened in the case of Iraq in 2003 when the UN Security Council passed a resolution. Debt cancellation would also be required for countries in debt distress as past experiences have shown that it would be difficult for insolvent countries to grow out of the debt trap, in particular currently no one knows when the world economy can restore to its pre-COVID form.

The IMF quota system needs to be further reformed. There should be a standing mechanism to re-channel the unused SDRs to countries which need it. The mechanism should not be based on GDP per capita but should be based on countries' urgency of need for liquidity. It should be allocated without conditionality, with no cost, and should not be considered as ODA. It should not be housed entirely in the IMF. Special-purpose facilities could be formulated. However, it would be good to set up a special purpose fund because the PRGT is tailored to LICs, while the recycled funds are for countries in need including middle-income countries. In addition, borrowing from PRGT requires IMF poverty alleviation programmes.

The nightmare scenario of a systemic global debt crisis seems to have been averted, yet the COVID-19 pandemic will have a long lasting negative impact. The much expected reform of the international debt architecture has yet to be started. To wind it down at this stage would mean missing an opportunity of a century. Let's not waste the momentum created by the current crisis and just let the pandemic hit; if action is not timely taken debt ridden developing countries will lose a development decade.

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