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**Research Report**

## How can the global sovereign debt architecture work better for African countries?

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A large, textured brown map of the African continent is centered on the page. The map shows the outlines of all African countries in white. A dark purple horizontal band is superimposed over the middle of the map, containing the title text.

## **HOW CAN THE GLOBAL SOVEREIGN DEBT ARCHITECTURE WORK BETTER FOR AFRICAN COUNTRIES?**

Abel Gwaindepi

This report is written by Abel Gwaindepi, Researcher, DIIS, and is published by DIIS.

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# ABSTRACT

There is a growing consensus that sovereign debt challenges in Africa are no longer only an issue of poor debt contraction and management practices, but that the sovereign debt architecture itself needs reform. Drawing on existing data, the literature and interviews with experts this study examines the state of sovereign debt in Africa, the failures of existing debt resolution mechanisms, and the urgent reforms needed to make the system more effective for African nations. The study finds that since 2010 African sovereigns have increasingly borrowed from private creditors with corresponding debt distress and defaults driven by short-term, high-cost, private debt, especially to bondholders. Reform proposals disproportionately target debt without emphasising that it is a symptom of deep structural issues that need to be prioritised for debt sustainability to be long-lasting in Africa. In this expanded creditor landscape, the reform proposals reveal an insider-outsider polarisation. Critical voices calling for a global sovereign debt resolution mechanism have gained strategic momentum but are not widespread enough for action. However, there are some tactical areas for pragmatic reforms. These include improving debt sustainability analysis tools, credit rating agency practices, and debt transparency. For African sovereigns, robust debt management systems are important as they allow pre-emptive restructurings which have been found to be better on many fronts than post-default restructurings. The analysis underscores the urgent need for reforms that integrate Africa's real sector development needs, emphasising debt architecture reforms that boost economies, but also make the architecture fairer and more efficient.



Delegates arrive to the Development Committee Plenary during the World Bank/IMF Spring Meetings, Washington, 2024. Photo: Ken Cedeno / Reuters / Ritzau Scanpix.

## INTRODUCTION

The main conclusion is that, high risks notwithstanding, debt vulnerabilities in low-income countries today remain substantially less alarming than they were in the mid-1990s.

(Chuku et al. 2023, p. 27).

We find that among 66 of the most economically vulnerable countries, 47 countries with a total population of over 1.11 billion people will face insolvency problems in the next five years as they seek to ramp up investment to meet climate and development goals.

(Zucker-Marques et al. 2024, p. 1).



These two quotes vividly illustrate the current polarised perspectives surrounding the international debt architecture. The first, from an IMF working paper, represents what can be termed the insider view, while the second expresses the dire urgency perceived by independent researchers – the outsider view. Bridging this insider-outsider divide is central to any meaningful progress in reforming the international debt system. Outsiders express serious concerns that the insiders ‘do their own homework and grade it themselves’. Insiders claim reforms should and are taking place in the form of incremental rather than sweeping or overhaul reforms, which can be complex and risk destabilising markets. Over the years the reforms undertaken by key institutions within the international debt architecture have been criticised as marginal, self-preserving and mostly too little, too late. With the exception of the HIPC programme in the mid-1990s and MDRI in 2005, which were substantial, debt resolution strategies are often reduced to ‘extend and pretend’ approaches and have proven inadequate at addressing structural vulnerabilities. Now, with the dual pressures of climate financing and of achieving the Sustainable Development Goals (SDGs), the inadequacies of the current debt resolution mechanisms are more visible than ever.

Despite an emerging consensus that the international debt architecture is failing, there is little agreement on the path forward. How African countries can access affordable, long-term development and climate finance while maintaining debt sustainability remains an unresolved question. This study responds by exploring the interactions between African countries and the international debt system, in an effort to understand why debt distress persists as a recurrent issue. Africa, where most vulnerable countries are (34 of the 39 highly indebted poor countries) is increasingly considered as the frontline continent regarding sovereign debt and access to development and climate finance (Jensen 2022). Seventeen of the twenty most vulnerable countries are in Africa (Kenewendo et al. 2024). This study combines a desktop review of the literature with secondary data analysis and qualitative interviews with experts from the World Bank, ministries of finance, UN agencies, civil society organisations (CSOs) and think tanks.

Section 2 discusses the current debt landscape in Africa, exploring some of the major trends in debt accumulation and the distress this has caused in African countries. The section also highlights the diversity of debt portfolios held by a selected African sovereign to illustrate how debt defaults occur in different circumstances. Section 3 focuses on debt and the current Paris Club and G20

Common Framework debt restructuring resolution. It also includes discussions of the debt management and pre-emptive restructurings that are important for preventing defaults. The fourth section dwells on areas of reform that are necessary for debt sustainability in Africa, highlighting the role of integrating the real economic sectors in debt restructuring, so as to move beyond palliative treatment and towards addressing underlying issues. Section 5 concludes.





# THE DEBT LANDSCAPE IN AFRICA

## **Why do countries borrow, and how much debt is too much?**

The international economic system has evolved in such a way that sovereign debt has become an inevitable component of functional economies. Indeed, modern states rely on tax collection to sustain and manage a permanent floating debt, which successive administrations are obliged to continue servicing (Gwaindepi, 2018; Gwaindepi and Karimu 2024). Buchheit (2018, p. 1) aptly states that:

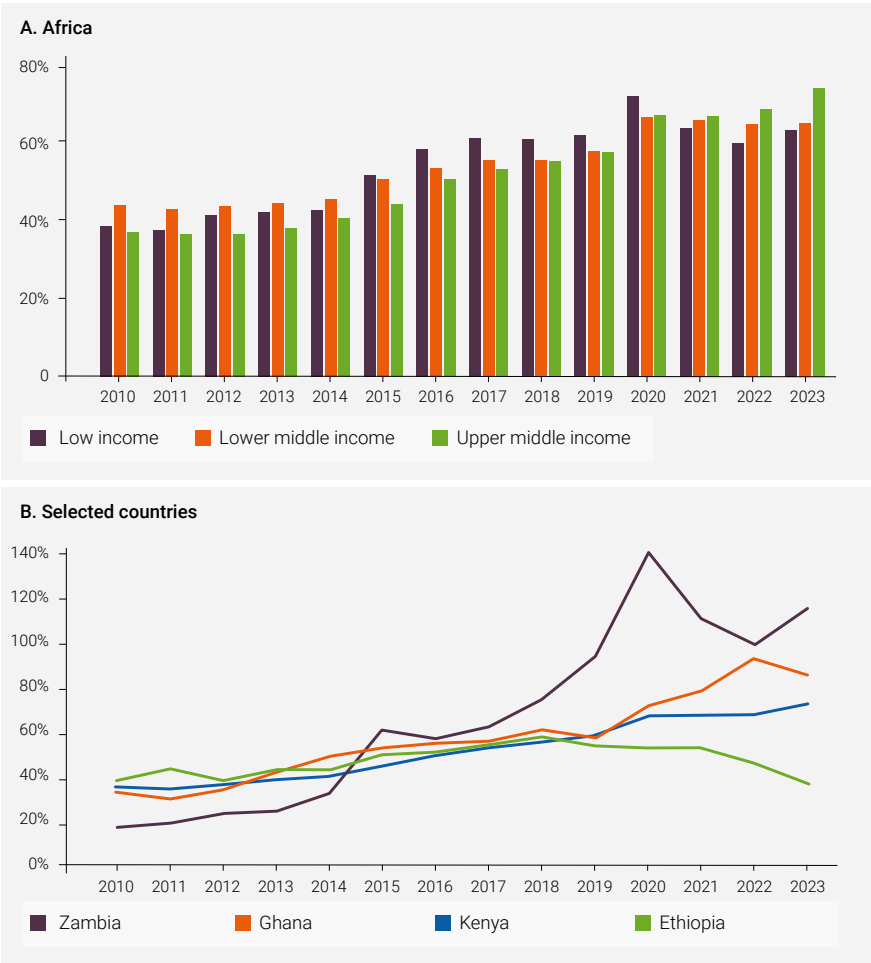
In the 21<sup>st</sup> century every sovereign borrows in the sure and certain hope that when debt matures, they will be able to borrow from someone else to repay that and when that matures, they will borrow from someone else to repay that... and so on and endlessly so forth in perpetuity.

Long-term affordable debt is essential for governments to provide the critical infrastructure that serves as the foundation for economic development. Among many reasons to borrow given in the literature, five are worth highlighting: (i) to fund budget deficits during recessions where there are tax revenue shortfalls (known as 'tax smoothing'); (ii) to invest for the future, through national infrastructure; (iii) for liability management in case there is not enough liquidity to meet debt servicing; (iv) to build positive credit credentials and improve access to international markets in the future; and (v) to develop domestic capital markets and banking systems (Eichengreen et al. 2019; Smith 2021; Abbas and Pienkowski 2022).

While the above can be considered legitimate motives for borrowing, there are also poor reasons for debt accumulation. Examples include political vanity projects (e.g. ‘roads to nowhere’ or projects that produce white elephants); political budget cycles; rent-seeking behaviour; and budget manipulation (Smith 2021). Sovereign borrowing typically occurs through concessional financing or market-rate instruments such as government bonds for countries with established market access.

Although sovereign debt is often necessary, it is a double-edged sword. When debt is accumulated unsustainably countries risk insolvency, especially when no new lender is willing to lend to a country whose debt obligations are due. Indeed, the

**Figure 1. Debt to GDP in Africa since 2010**



Source : Data from UNCTAD (2024).

refinancing assumption that has put sovereigns in perpetual debt has often led to default (Buchheit 2018). Determining how much debt is 'too much' remains a contentious issue. Debt sustainability analysis (DSA) tools, while useful in hindsight analysis using existing data, often fail to accurately predict when a crisis will occur (Ams et al. 2019; Blanchard 2022). Major drivers of sovereign debt crises and subsequent defaults include: (i) high debt burdens; (ii) chronic economic stagnation; (iii) commodity price volatility (oil, copper etc.) especially when these are used as collateral; (iv) political and institutional weaknesses; and (v) climate or health shocks.

**Determining how much debt is 'too much' remains a contentious issue. Debt sustainability analysis (DSA) tools, while useful in hindsight analysis using existing data, often fail to accurately predict when a crisis will occur.**

Traditionally, the debt-to-GDP ratio has been the primary indicator of a country's debt burden. But while this metric is significant, it is insufficient for determining a country's solvency (Ams et al. 2019). For instance, Japan has managed a debt-to-GDP ratio exceeding 250% (IMF 2022) but most African nations lack the market depth, growth levels and foreign reserves to sustain such high levels of debt. Blanchard (2022) underscores that what was considered unsustainable in the 1990s may be sustainable today, especially when GDP has grown, emphasising that there are no definitive 'magic numbers' for debt ratios. Figure 1 illustrates the trajectory of average debt-to-GDP ratios in Africa since 2010 (Panel A) and highlights trends among some countries that have recently restructured their debt (Panel B). The general pattern across the continent over the past decade is one of rising debt levels.

A general guidance, which has been contested, suggests that a debt-to-GDP ratio above 60% is detrimental to debt sustainability and economic growth in emerging economies (Reinhart and Rogoff 2010; Blanchard 2022; Abbas and Pienkowski 2022). However, debt defaults occur at various levels of debt-to-GDP ratio. As Blanchard (2022) argues, we can never identify a level of debt that is generally considered safe since country-specific factors need to be considered. Ethiopia, for instance, experienced strong annual GDP growth between 2000 and 2020, making it an unlikely candidate for default. Yet, unlike Ghana, Zambia and Kenya whose debt rose to above 60%, Ethiopia still defaulted in 2023 despite a debt-to-GDP ratio of just 38%.

Over the years, understandings of the likelihood of debt default in Africa and globally have become more nuanced. The broadening of debt sustainability analysis has been necessitated by lessons learned on what triggers events of default (EoDs) in different contexts. Figure 2 illustrates additional indicators used to assess debt sustainability in sub-Saharan African (SSA) countries, disaggregated by income level. The overall patterns indicate that, since the 1970s, debt has remained a recurrent issue for African countries, particularly for low-income economies.

Debt per capita has been rising in waves since the 1970s, with a particularly sharp increase beginning in 2010 reflecting a general rise in debt stocks (Figure 2A). While various factors have been identified as drivers of this growing indebtedness, external shocks such as climate-related disasters and health crises have significantly exacerbated debt burdens. Additionally, reserves have drastically declined since 2010, with the lowest levels observed in low-income countries (Figure 2B).

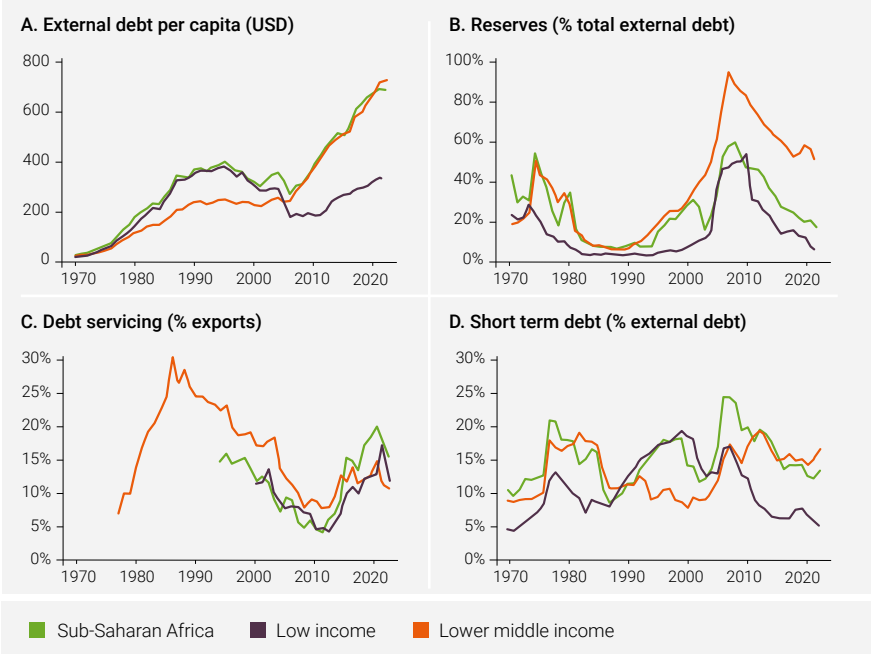
According to Kenneth Rogoff, one of the leading experts on sovereign debt, speaking at the launch of the Debt Management Forum for Africa (DeMFA) (AfDB, 2024), the accumulation of dollar-denominated reserves has enabled most advanced economies to avoid liquidity and solvency crises. In contrast, shrinking reserves in African nations have coincided with rising debt servicing obligations (Figure 2C). This has forced a reliance on cyclical, short-term debt (Figure 2D) which, when coupled with high interest rates, further exacerbates debt sustainability challenges. Compounding these issues is the evolving creditor landscape. For instance, during the Heavily Indebted Poor Countries (HIPC) initiative in the mid-1990s, 90% of public and publicly-guaranteed debt was owed to official creditors (Jensen 2022, p. 9). However, since then the creditor composition has shifted significantly.

### **Debt distress and the changing creditor landscape**

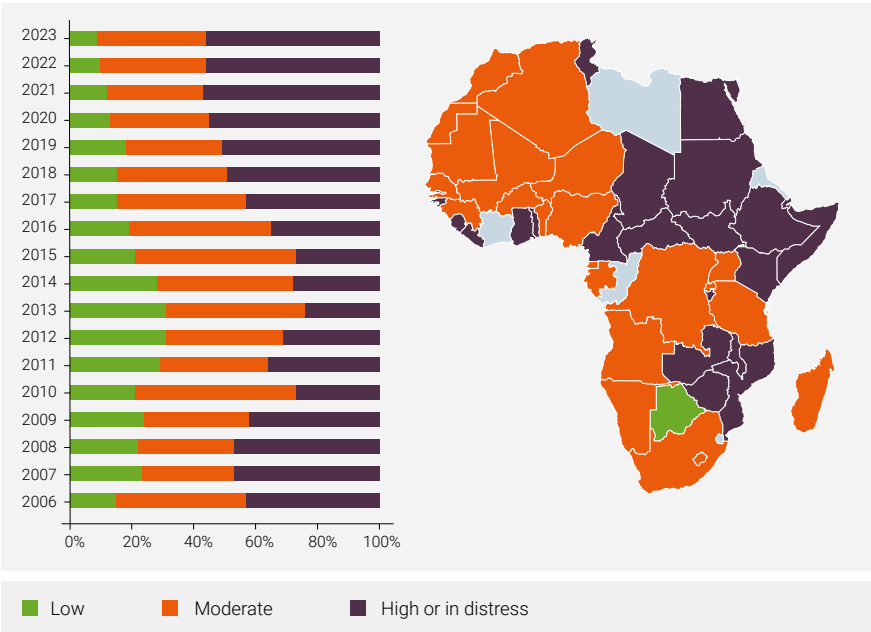
Debt distress has escalated over the past two decades with Botswana standing out as the only African country currently classified as low risk (Figure 3). The severity of the challenge is evident on the continent, where the majority have at least moderate risk. With 34 of the 39 worldwide highly indebted poor countries in Africa (87%), it may be time to ask a deeper question: is there an inherent 'African problem' with the global sovereign debt architecture?

Most of the continent is excluded from the capital markets because it is not considered a safe investment. Whether this risk perception is accurate is subject to debate, especially given evidence that multilateral development bank (MDB) and

**Figure 2. Debt sustainability indicators since 1970s**



**Figure 3. Debt distress in IDA eligible countries and Africa's debt distress**



development finance institution (DFI) loan recovery rates are highest in Africa when looking at a recent dataset of 20,000 transactions over the 1994–2022 period (Lee et al. 2024). The debates surrounding credit rating agencies (CRAs) and their potential biases are also relevant to this issue, as will be discussed later. As indicated by the CAF report, a significant problem is the generally poor assessment of risk in Africa (Songwe et al. 2022), much of which stems from the qualitative aspects of the rating processes used by the three major agencies, which have minimal presence on the continent – only three offices in South Africa. For example, Ghana's downgrade in 2022 was criticised because the analyst from Moody's had never visited the country and had only been in role for a few months (Cash 2024).

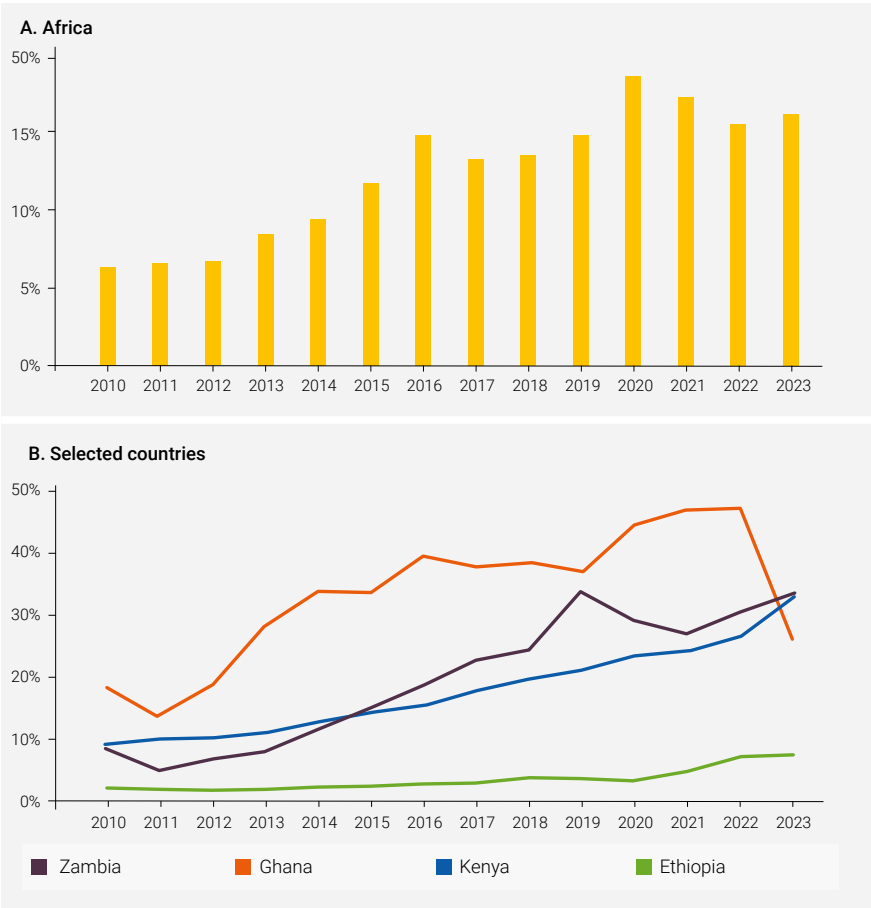
**Many countries go to great lengths to avoid the 'debt-stressed' label by allocating more resources to debt servicing than to essential services, leaving service provisioning deficiencies that distress citizens.**

Debt distress debates risk overlooking critical issues if they lose focus on the real sectors. Many countries go to great lengths to avoid the 'debt-stressed' label by allocating more resources to debt servicing than to essential services, leaving service provisioning deficiencies that distress citizens (Ghosh 2023, p. 3). As shown in Figure 4, interest payments consume an increasingly disproportionate share of public revenues, diverting funds away from vital public services and investment in education, healthcare, social safety nets, and other critical areas.

At the continental level, the average picture is that more revenue is going to interest payments, reducing the fiscal room (Figure 4A). However, moving beyond these averages reveals critical country-specific contexts. Figure 4B underscores that for certain countries such as Ghana, where debt servicing took almost 50% of revenues, these figures warrant serious concern. While technical defaults often dominate the discourse, they overshadow 'development defaults' – the failure to deliver essential services such as health and education – which are inadequately addressed by current debt sustainability tools. Alarmingly, approximately 3.3 billion people live in countries where interest payments exceed health expenditure, while 2.1 billion reside in nations where education spending is, similarly, less than debt servicing (UNCTAD 2024).



**Figure 4. Interest payments as share of government revenues, 2010-2023**

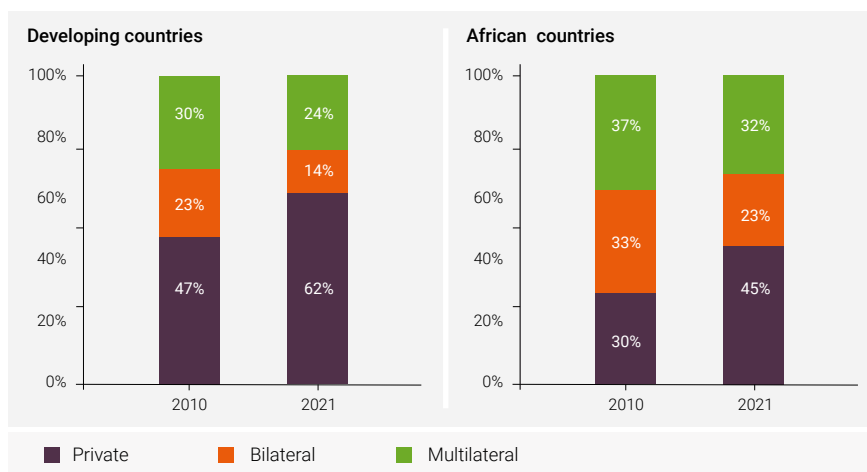


Source: Data from UNCTAD (2024).

Notes: The sharp drop for Ghana is after its debt restructuring.

In the context of heightened debt distress across the continent, it is important to explore who is lending to Africa and at what cost. On the creditor side, the sovereign debt architecture consists of official creditors (multilateral and bilateral creditors) and private creditors. There are other commercial players such as commodity trading companies, which also complicates the creditor landscape (e.g. Glencore which has been involved in Chad as a mining and commodity trader). Over the past decade there has been a shift in lending patterns to Africa and other developing countries, as illustrated in Figure 5. Generally, the composition of debt in developing countries, including those in Africa, has become more complex. The share of multilateral and bilateral debt has declined, while private creditors have taken on a more significant role, further complicating the debt landscape.

**Figure 5. The changing creditor landscape**



Source: Data from UNCTAD (2024).

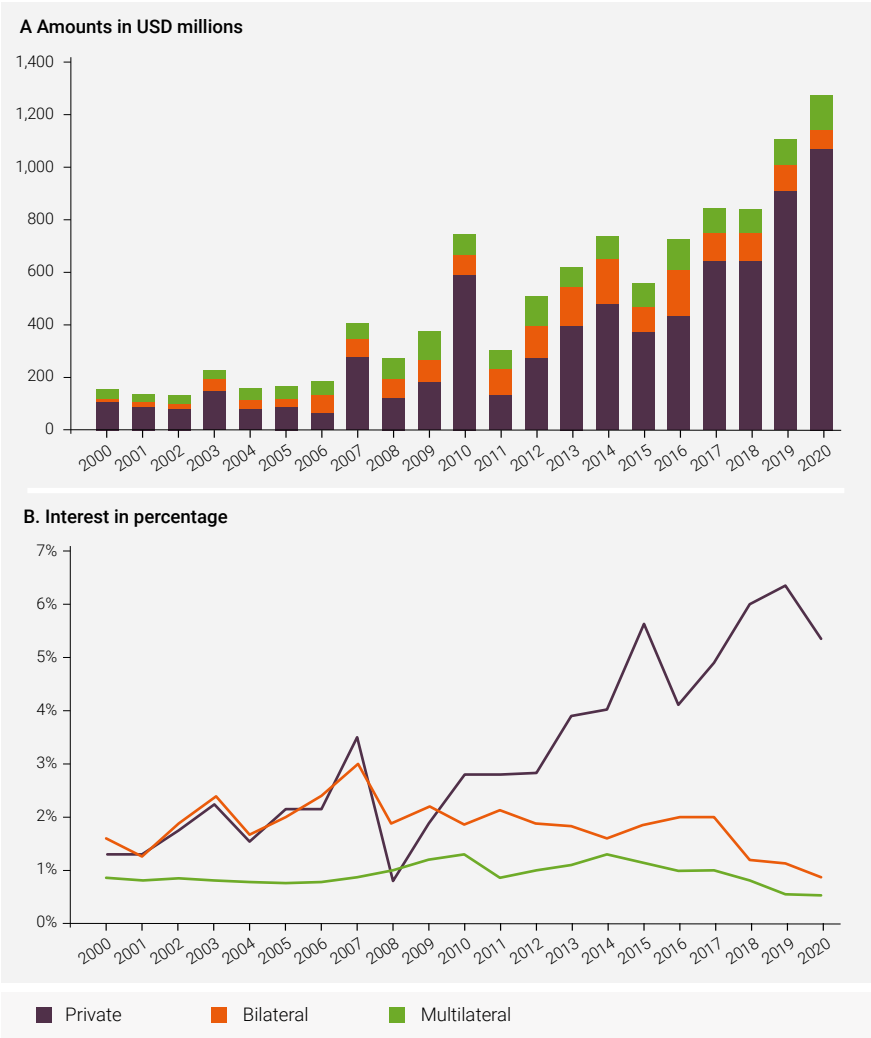
From 30% in 2010, private debt in Africa has grown to 44%, outpacing developing countries in general. This shift has contributed to the rising debt distress on the continent, especially considering that while multilateral and bilateral debt tends to have concessional interest rates and longer repayment periods, private creditors impose more expensive terms.

**Africa's debt is now predominantly private and costly, especially given that bonds have maturity dates with lumpy principal amounts to paid outright.**

The push for private sector-led investment in Africa has partly contributed to the rising sovereign debt owed to private creditors. Donor countries, which traditionally provide bilateral loans, are also reassessing how best to allocate aid, while the aid architecture has become increasingly fragmented, with many players while the average size of aid activities has declined by 35% (World Bank 2024). With development financing from donors and concessional loans stagnating or decreasing, low-income countries are increasingly turning to private creditors – an option that comes with significantly higher borrowing costs.

As Figure 6 below illustrates, official lenders that lend bilaterally have reduced loans to Africa while the multilateral creditors have increased only modestly. Private creditor loan amounts, particularly Eurobonds, have grown significantly. While bond issuances raise substantial amounts (Figure 6A), they come at a high cost in terms of interest (Figure 6B). As a result, Africa’s debt is now predominantly private and costly, especially given that bonds have maturity dates with lumpy principal amounts

**Figure 6. Average loan amounts and interest by creditor type, 2000-2020**



Source: Data from Mihalyi and Trebesch (2023).  
 Notes: Dataset covers over 7000 loans and bonds between 2000 and 2020 for the African continent.

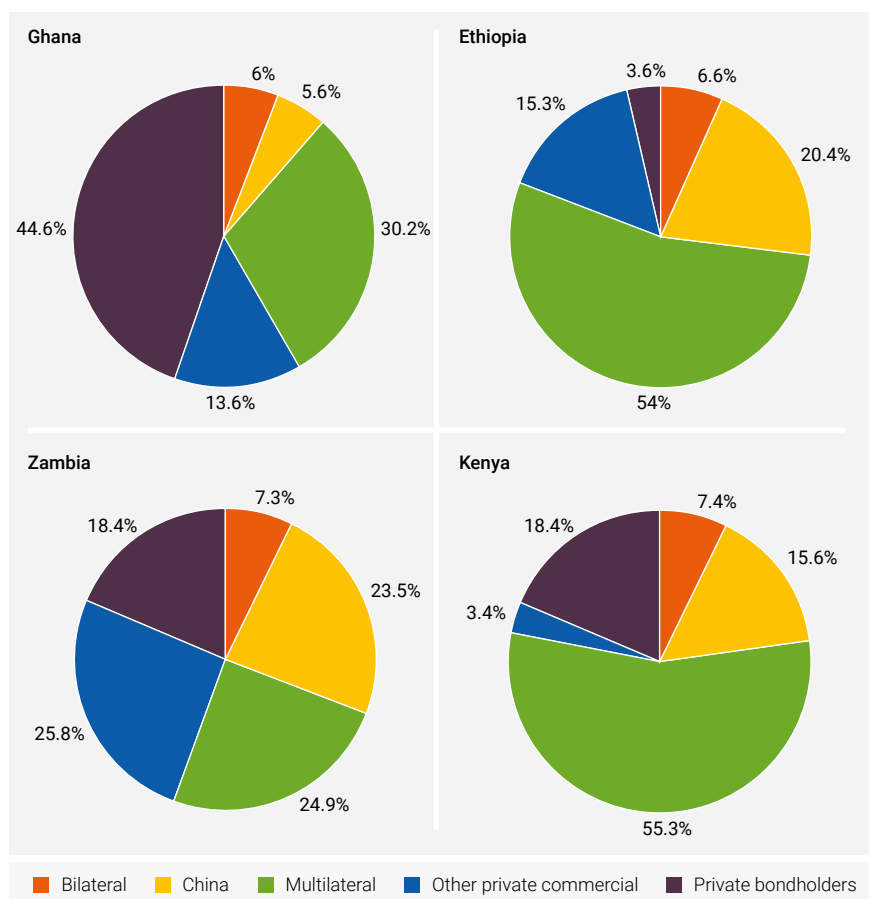
to paid outright (Abbas and Pienkowski 2022). Contingent liabilities and risks are even more pronounced for countries with high exposure to tradable bonds, such as Eurobonds. The increase in private sector lending to sovereigns has grown significantly more than the decrease of official lending. This makes refinancing risks substantial due to self-reinforcing cycles, where market panic can trigger large-scale sell-offs of a country's bonds, increasing yields and making it difficult to roll over maturing debt. This volatility can severely constrain a country's ability to manage its debt effectively.

While private sector financing has been praised as a potential solution, it is often offered at unsustainable rates, leading to significant debt challenges. For example, in Ghana and Ethiopia large payments to bondholders triggered defaults and debt restructuring. The greatest risks for LICs and emerging markets stem from the peaks in debt service when payments are lumpy (Green Climate Fund 2024, p. 5). The reduction or stagnation of multilateral and bilateral debt has left African countries more exposed to costly short-term debt and more complex restructuring processes as private creditors have limited flexibility for sustainable restructuring. A key challenge with this is that the risk-reward system leaves the bank playing a bigger role of lender of last resort to compensate for exiting creditors, especially in IDA-eligible countries (Gill 2024).

Multilateral and bilateral lenders offer concessional rates, with some as low as 0.5% in the case of the World Bank. However, as Figure 6 illustrates, the amounts lent are typically modest, barely exceeding USD 200 million on average. Figure A1 in the appendix shows that the share of concessional debt in external debt peaked in 2005 across all regions but has steadily declined since then. Private lenders in contrast, particularly bondholders, have significantly increased debt levels, but at much higher rates. The average interest rate now exceeds 6%, making the premium for private debt approximately 500% higher compared to multilateral lenders like the World Bank. In some cases, rates can soar as high as 12% (Gwaindepi and Siebrits 2023). The surge in debt accumulation over the past three years was a logical response to the Covid-19 pandemic, as revenues from remittances and tourism collapsed while public expenditure increased as governments addressed the health crisis.

Figure 7 highlights some countries in Africa that have recently defaulted on their debt. A key theme is the heterogeneity across countries, demonstrating that the growth of creditors over time, combined with local factors, has shaped debt distress and the forms of debt crisis. Ghana, for example, faced an overwhelming level of private debt, with 44.6% held by bondholders and 13.6% by other commercial

**Figure 7. Creditor profiles in selected countries in default**



Source: Data from the International Debt Statistics.

Notes: China constitute only bilateral category, and the private and commercial creditors may also have Chinese lenders.

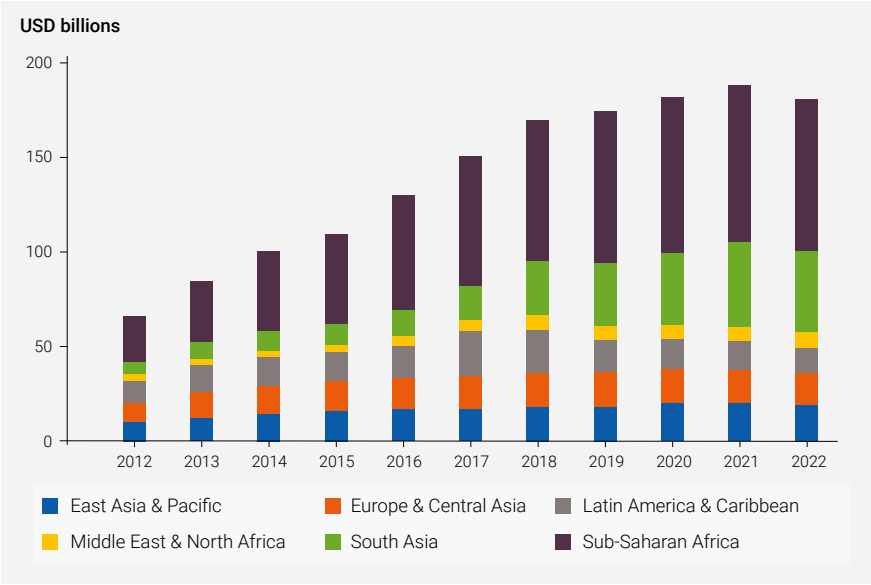
creditors. Ethiopia, which had a sizable portion of its debt with multilateral creditors (54%), failed to make a USD 33 million payment on its only international government bond in 2023. Zambia's debt was a complex mix of bondholders (18.4%), other commercial private creditors (25.8%), and Chinese creditors (23.5%), which led to its debt restructuring process. Kenya had 55.3% of debt held in multilateral institutions, followed by private bondholders at 18.4% and China with 15.6%.

The overarching picture in the case of defaulting countries is one of African nations having to fill the gap of insufficient credit from multilateral and bilateral creditors. Private investment into developing countries has also been slow (Gwaindepi and Siebrits 2023). The African sovereigns have had the advantage of a bigger pool of

private debt over recent years. Bond markets are particularly attractive because they allow countries to access large amounts of capital, especially compared to the smaller loans typically provided by official creditors (Mihalyi and Trebesch 2023). However, borrowing large sums in hard currencies, ‘the original sin’ of many developing countries (Eichengreen et al. 2005), exacerbates debt distress as repayments quickly drain reserves and take up a larger share of domestic revenue mobilisation. As Figure 4 illustrates, there is significant variation across countries, with Ethiopia and Ghana being the only nations where at least 20% of their debt is connected to China.

A key issue in the debt distress debate is the rise of Chinese lending. Over the past decade, sub-Saharan African countries have received a growing and significant share of Chinese debt compared to other regions (Figure 8). However, this rise has often been sensationalised, with media reports focusing on anecdotal cases and cherry-picked examples (Gelpern et al. 2023). The most balanced analysis of Chinese lending suggests that there is no monolithic ‘Chinese lender’. Rather, Chinese lenders are diverse and not closely coordinated; their lending practices to Africa are shaped by the political economy of China, best described as ‘fragmented authoritarianism’ (Bräutigam and Huang 2023). This fragmentation complicates top-down policy formulation around debt restructuring since there is no coherent ‘Beijing Club’

**Figure 8. The rise of Chinese debt to low- and middle-income countries**



Source: Data from the International Debt Statistics (The World Bank, 2025).

(Bräutigam and Huang 2023, p. 34). Before the Debt Service Suspension Initiative (DSSI) Chinese creditors followed a haphazard approach to debt restructuring (ibid. p. 14). Some changes in Chinese lending practices are warranted, particularly in the case of China Development Bank (CDB) loans, which include clauses for the termination of diplomatic relations between China and borrowing countries in the event of default, as well as other stringent loan repayment safeguards that, although commercially savvy, tend to be muscular (Gelpern et al. 2023, p. 7).

While critics of Chinese lending practices raise important concerns on lack of transparency etc. it is essential to understand that China has been filling a gap left by official creditors and other risk-averse lenders, both historically and due to the fact that China's loans have fewer policy conditionalities. In recent years China has emerged as an 'international lender of last resort' for many low-income countries,

China's swap line network has become an important tool of overseas crisis management. In total, we find that 170 billion USD have been extended by the PBOC to central banks of countries in financial or macroeconomic distress.

(Horn et al. 2023, p. 3).

In a context where some sovereigns are not considered 'too big to fail' due to their limited ability to cause systemic risks such as contagion, Chinese swap lines have played a crucial role in managing distress, especially in countries connected to its Belt and Road Initiative. This role parallels that of the US Treasury during the Latin American debt crisis and thus is not unique in the history of international financial architecture. Geopolitical rivalry between the West and the East has added a layer of complexity to the debates surrounding Chinese debt in Africa, leading to several myths that have since been debunked (Bräutigam 2020).

That China's lending to Africa is beyond economic rationale is widely accepted in geopolitical rivalry debates but the reality is that China is not opposed to debt restructuring. Recently, 46 countries participated in the Debt Service Suspension Initiative (DSSI), and China contributed 63% of the debt service suspension, despite holding only 30% of the debt (Bräutigam and Huang 2023, p. 5). These developments, with China rising as a lender of last resort, may signal 'deeper shifts towards a more multipolar and fragmented international financial architecture' (Horn et al. 2023, p. 16).





# SOVEREIGN DEBT RESTRUCTURING

## **Why do countries default?**

In the history of debt crises, the factors leading to defaults have predominantly been external to the defaulting countries. One word captures the essence of debt crises over the last 200 years: misfortune (Ams et al. 2019, p. 20). Abbas and Pienkowski (2022, p. 61) state that out of many factors that affect borrowing costs, credit worthiness and hence the sustainability of sovereign debt are 'beyond the control of governments'. According to UNCTAD (2019, p. 90) 'debt sustainability in developing countries is hardly in the hands of the affected sovereigns'. This is not to dismiss the role of domestic mismanagement and poor macroeconomic decisions such as overborrowing when ratings are good or in the event of minerals discovery such as in Ghana, but it does point to the reality that the debt architecture often determines the fate of nations. Even with a solid economic outlook developing countries cannot guarantee they will avoid default. According to Das et al. (2012, p. 69), key external factors include:

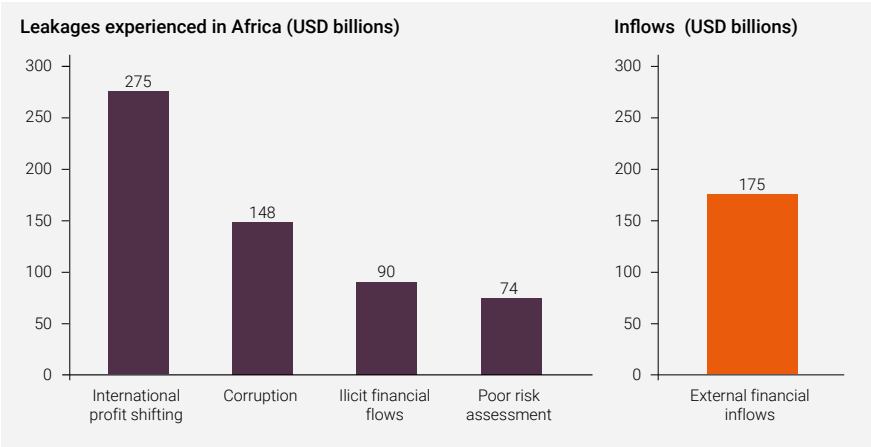
- A worsening of terms of trade;
- recessions in core countries that act as capital providers;
- increases in international borrowing costs due to tighter monetary policies in creditor countries; and
- crises in major economies that spread market disturbances across trade and financial markets.

These factors are critical to understanding debt resolution mechanisms. They create a structural disadvantage for small African economies, forcing them to navigate financial storms and shoulder heavy debt burdens while attempting to persuade reluctant creditors. Domestic factors are important but the solutions to debt crises in developing countries are largely external and systemic. Where indebted countries do not have much control over factors that can cause debt distress, collective action is essential, but the solutions should also be architecture-focused. This context means current calls by African leaders to ‘overhaul’ the system are not mere rhetoric but firmly grounded in reality. Many African countries were effectively ‘born’ into inevitable debt distress. For example, during decolonisation Zimbabwe experienced a massive exodus of capital, leading to balance of payments problems within its first decade of independence and debt challenges it has not recovered from since (Mkandawire 2020).

Addressing the systemic issues in the international financial architecture requires a broader discussion of how the system operates and pathways for meaningful reform need to be identified. One critical theme raised by advocates for reform is the extent to which the international system disadvantages African countries. Figure 9 highlights the staggering amounts lost illegitimately from African countries each year, depriving them of much-needed resources to meet their debt obligations.

According to the African Development Bank (2024), Africa is vulnerable to how the international financial architecture works, with leakages occurring through: (i) profit shifting, which accounts for USD 275 billion annually; (ii) corruption, amounting to

**Figure 9. The leakages in the international financial system**



Source: Data from African Development Bank (2024).

USD 148 billion; (iii) illicit financial flows, totalling USD 90 billion; and (iv) poor risk assessment, contributing USD 74 billion. Africa loses USD 587 billion each year in total – an amount that could easily cover most of the continent's debt obligations. This contrasts starkly with external financial inflows, which amount to only about USD 175 billion annually. These figures reveal that Africa is, in effect, a net creditor to the rest of the world, despite facing persistent debt crises. An example of such practices being exposed is when Zambia, a recent defaulter, fined Glencore's subsidiary, Mopani Copper Mines, USD 13 million for violating Arm's Length Standards, resulting in manipulated pricing and reduced tax liability, depriving the country of much-needed resources.

Often, the focus on debt resolution tools and platforms overlooks the underlying economic sectors such as extractive industries and weak financial markets where these challenges originate, ultimately undermining prospects for sustainable debt management. As one expert noted during an interview, 'Debt resolution mechanisms have forever dwelt on symptoms... debt problems are primarily economic problems.' Profit shifting alone weakens primary budget balances, exacerbates trade imbalances, and hinders value addition through underdeveloped manufacturing sectors. Additionally, poor reserve accumulation and persistent current account deficits have become the norm for many low-income countries. Yet, research consistently demonstrates that higher reserves significantly reduce the probability of distress and crises (Horn et al. 2023).

### **Prevention is often better than cure**

With the growing frequency of health and climate-related shocks it is imperative to be proactive in sovereign debt management. Preventing defaults should not merely be a technical exercise, as it has often been reduced to over the years, but rather a long-term strategy that prioritises the real sector. The longstanding fixation on treating symptoms has proven ineffective. However, there is progress. Many African countries now have public debt management offices within their ministries of finance, enabling more proactive debt management. While this development places responsibility squarely in the hands of African governments, the international system still exerts considerable influence as crises are often disproportionately triggered by external factors, as previously discussed.

As part of a holistic debt management system pre-emptive restructurings have become increasingly common in practice, though there remains a lack of formal policy around them. The IMF has largely been playing catch-up to industry practices by codifying existing practices (IMF 2022). For the Fund, this perhaps shows the

limitations of crisis focus policies instead of preventative policies. At their core pre-emptive restructurings involve the exchange or resolution of debt without any missed contractual payments to creditors (Asonuma and Trebesch 2016, p. 4). According to the IMF (2022, p. 33):

Restructurings are defined as ‘pre-emptive’ if (i) no debt service payments are missed (no legal default) or (ii) some debt service payments are missed, but only temporarily and after the start of formal or informal negotiations with creditor representatives (no unilateral default).

Pre-emptive restructurings entail proactive negotiations with creditors before a default occurs, with the aim of reducing the debt burden, extending repayment periods, or lowering interest rates. The goal is to avoid an event of default (EoD), as post-default restructurings tend to cause higher economic collateral damage. A significant advantage of pre-emptive restructuring is that it is a voluntary action, giving the debtor country a degree of control during negotiations, minimising litigation risks, and enabling the debtor to maintain market access.

Table 1 below highlights key differences between pre-emptive and post-default restructurings over recent decades. Examples of pre-emptive cases include Chad (2015, 2018), Mozambique (2016, 2019), and Seychelles (2010) among others (IMF 2022, p. 18).

**Table 1. The differences between preemptive and post-default restructurings**

Dimension	Preemptive restructurings	Post-default restructurings
Time from announcement to first dialogue	2 months	5 months
If creditor committees formed	48% of cases	50% of cases
Debt treated	USD 1.1 B	USD 0.5 B
Haircuts	24.20%	52%
Participation rates	100%	100%
Time to the completion of restructuring	5 months	20.5 months

Source: Data from IMF (2022, p. 65).

Notes: This is an average of 33 cases of preemptive and post-default restructuring in the world from 2002 to 2022.

The table demonstrates that pre-emptive restructuring outperforms post-default restructuring on several fronts. Dialogue time is notably shorter in pre-emptive cases, often because these processes are selective, allowing countries to target creditors with the most burdensome debt while demonstrating goodwill. This approach frequently bypasses the need for creditor committees, as not all pre-emptive restructurings require them. The average amount of debt treated in pre-emptive restructurings is significantly larger (USD 1.1 billion) compared to the smaller amounts in post-default cases (USD 0.5 billion). Haircuts in pre-emptive cases are more than half those in post-default scenarios, benefiting creditors as well, which explains the high participation rate (100%). The completion time for pre-emptive restructurings is also much shorter – averaging five months compared to nearly two years in post-default cases. Asonuma and Trebesch (2016) highlight several facts that align with the IMF data presented above. They show that pre-emptive restructurings: (i) are frequent, accounting for at least a third of all sovereign debt exchanges since 1978; (ii) they involve significantly lower net present value (NPV) haircuts, averaging around 18%, which is close to the 24% reported in Table 2; (iii) these restructurings are quicker, typically completed within a year on average; (iv) they are associated with smaller declines in economic output; and (v) they are linked to shorter periods of exclusion from financial markets.

Pre-emptive restructuring reflects the presence of robust national debt management systems. This is illustrated in Box 1, which highlights Zambia's progress in strengthening its debt management capabilities for transparency.

#### **BOX 1. IS ZAMBIA TURNING A NEW PAGE IN PUBLIC DEBT MANAGEMENT?**

The Zambian debt restructuring process, marked by its lengthy and painful unfolding, has become emblematic of the challenges faced by the Common Framework (Setser 2023, p. 1072). However, new developments based on lessons learned by debt managers are worth highlighting. Following a comprehensive review of the legal frameworks governing public debt, Zambia enacted a new law: The Public Debt Management Act of 2022. The law aims to achieve several objectives, including:

- Making public debt public by involving the National Assembly (rather than just the cabinet) in approving all loans. Section 23(1) states, 'A public body shall not raise a loan from a source outside the Republic without the approval of the National Assembly.'
- Establishing a Debt Management Office.

- Creating sinking funds for redeeming bonds when necessary.
- Ensuring that debt contraction is for valid reasons and does not exceed 65% of GDP, with annual borrowing plans shared transparently.
- Mandating the regular publication of data related to all loans.

Debt managers are aware of the challenges that rule-based debt management can face, especially when flexibility is needed. Nevertheless, these legal frameworks will ensure that, regardless of the political officeholder, public debt is scrutinised by elected officials, thereby fostering accountability. This is also a crucial signal to future investors and creditors, particularly if the principles of transparency and robust debate regarding debt are adhered to.

The Zambian direction shows that early dialogue on debt can begin at the debt contracting stage in a democratic manner. The success of pre-emptive debt restructuring, compared to post-default restructuring, shows the importance of active debt management systems with early warning systems. This is with the caveat that the international architecture or economy still plays a critical role.

### **Once bitten, twice shy? The failures of current debt restructuring solutions**

The Common Framework survives not because of its success, but rather because of the lack of any obvious alternative that would deliver better outcomes.

(Setser 2023, p. 1082)

Right now, we have a system where a country at its worst moment is responsible for basically coordinating all of these people who have no incentive to write off their claims. That's a little upside down, isn't it?

(Anna Gelpern cited in Blohm 2022, p. 1).

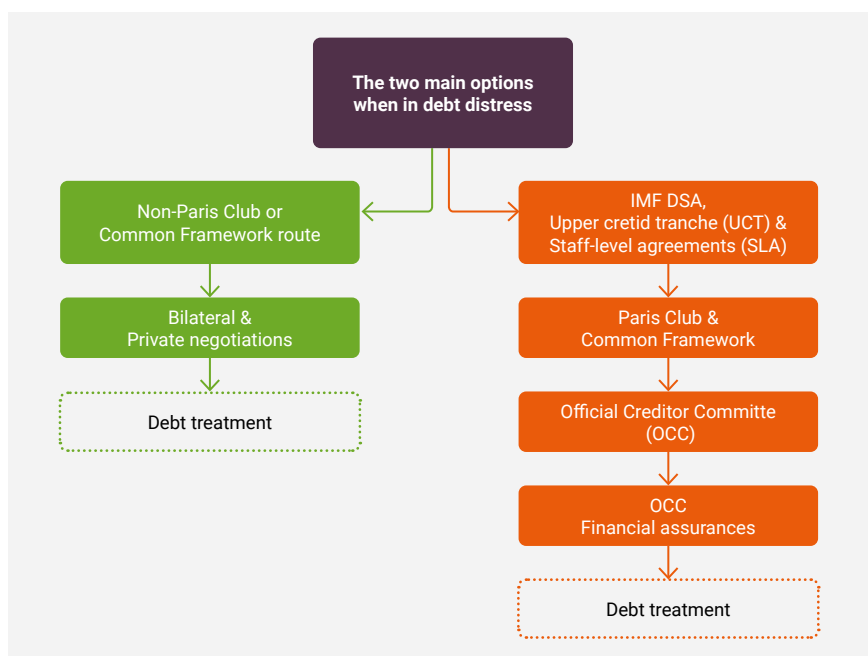
The repeated restructurings of countries like Ghana and Sri Lanka, which have each undergone at least 17 debt restructurings in recent decades, underscore deeper systemic issues within these economies. However, the growing attention must now be directed at the shortcomings of existing debt resolution mechanisms (UNCTAD 2024). Creditors, seeking to minimise losses, are often reluctant to accept substantial haircuts. It is telling that of the 44 countries that restructured their debt between 1980 and 2012, 38 underwent more than one restructuring, demonstrating that a single effort is rarely sufficient (Ams et al. 2019, p. 26).



Debtors often emerge from these processes barely capable of achieving debt sustainability, as restructuring tends to focus on temporary relief rather than substantive reductions in debt, even in Europe. A notable example is Poland, which underwent six restructurings with private creditors and four with the Paris Club between 1981 and 1990. True debt sustainability only emerged after the Paris Club granted 50% debt forgiveness and private creditors agreed to 45% haircuts – meaning other ongoing policies to make it a market economy became more potent (Ams et al. 2019, p. 26).

Debtor nations are also hesitant to restructure hastily given the significant uncertainties, penalties and costs involved. Restructuring often leads to a loss of market access as credit rating agencies are likely to downgrade the country. Some participants in the Paris Club’s Debt Service Suspension Initiative (DSSI) continued paying certain creditors merely to maintain access to future credit lines (Bräutigam and Huang 2023). Since DSSI did not cancel debt but suspended debt servicing, the suspended payments accumulated an additional USD 575 million in deferred payment costs (Bräutigam and Huang 2023, p. 31), exemplifying a classic ‘extend and pretend’ strategy. Beyond economic repercussions, political costs also weigh heavily on leaders, as restructuring can destabilise domestic governance and fuel unrest.

**Figure 10. Debt restructuring players and processes, a simplified version**



Source: Author's illustration.

The reluctance of creditors to accept haircuts coupled with the hesitance of defaulting countries to initiate restructurings often results in prolonged delays. When restructurings do occur they frequently fall short of achieving meaningful outcomes. The current debt resolution mechanisms reflect this challenge. Countries in or approaching debt distress face limited options, which depend largely upon the composition of their creditors. They typically face two main paths, at least in a simplified representation, though many factors come into play.<sup>1</sup> The first path, often called the Paris Club or Common Framework route, involves going through the IMF, which conducts a Debt Sustainability Analysis (DSA) to assess the extent of debt distress and determine the best restructuring approach for restoring debt sustainability. The IMF engagement is often unavoidable as the Fund must establish the credit tranche framework through staff-level agreements (SLAs) and two creditor committees (bilateral and private) to establish comparability of treatment. In this process the IMF acts both as participant and referee, defining the scope of restructuring while requiring the debtor country to implement strict economic and fiscal consolidation reforms under close monitoring.

The complexity and the numerous steps involved in the first option often lead countries to seek private negotiations with creditors: the non-Paris route. This partly explains why the G20 Common Framework has yet to receive wider participation of countries in debt challenges. The IMF programme is not necessarily part of the process when the non-Paris Club route is pursued, and it allows sovereign debtors some control and choices. However, without an IMF programme, in the second option it is less likely that all countries in distress can get creditors to agree (Fresnillo and Crotti 2023). Although private deals offer more autonomy they can lead to unfavourable agreements if a country has weak debt management capacity. In opaque restructurings poorly governed regimes may sell off strategic national assets or grant exclusive access to natural resources, further compromising the country's long-term economic stability (Carrai 2018).

The failure of the Paris Club and the G20 Common Framework (CF) is a recurring theme in discussions about the need to reform the international financial architecture (Kenewondo et al. 2024; Bräutigam and Huang 2023; IMF 2024). As one expert from a think tank noted in an interview, 'We have no debt resolution mechanism at all. The G20 Common Framework is not working'. Experts point out that its effectiveness is further limited by the G20's own original challenges, especially on representation and club-type formation (Ocampo and Stiglitz 2012; Vestergaard and Wade 2012; Larionova 2022). The IMF has adopted a wait-and-see approach arguing, 'To date, the CF has not been able to deliver financing assurances in a timely and reliable

manner and has yet to deliver on its promise' (IMF 2022, p. 39). In 2024 'Most directors agreed that more experience is needed with the CF and welcomed the staff's plan to closely monitor the CF's evolution' (IMF 2024, p. 6). Some of the key reasons for the negative assessments in the literature and expressed in our interviews are outlined below (although this is not to discount the rare instances where debt restructuring has been quick and effective).

**Lack of comprehensive solutions in debt restructuring:**

The current system is ad hoc, slow and unpredictable, resulting in a lack of comprehensive solutions. As Bräutigam noted in an interview, some deals at the Paris Club are concluded 'in men's rooms'. The G20's progress in addressing global imbalances has been described as 'inching forward at glacial speed' or 'semi-paralysis' (Vestergaard and Wade 2012, p. 258), which weakens the foundation of the Common Framework.

**The 'extend and pretend' approach:**

This approach has dominated as frameworks often prioritise short-term relief that is delivered too late. As one practitioner interviewed remarked, 'Sometimes the pretensions are around treating solvency issues as liquidity issues. Everyone is happy to kick the can down the road.'

**Lack of focus on development and climate issues:**

The current system fails to address development and climate issues adequately, leading to superficial solutions that do not focus on real sectors of the economy. Specifically, the Debt Sustainability Analysis (DSA) tools have not been developed to account for climate change and external shocks (Zucker-Marques et al. 2024). Climate clauses have recently been recommended to ensure that countries, especially Small Island Developing States (SIDS), receive necessary debt service suspensions in the event of shocks (The Bridgetown Initiative).

**Predetermined outcomes and power imbalances:**

The IMF often plays the dual role of referee and player, responsible for securing the amounts needed to make debt treatment work. This has led to power imbalances, with the IMF often siding with creditors rather than debtors. As one expert noted, 'The DSA tools are creditor tools, and the IMF comes in to safeguard the interests of creditors. At the Paris Club, the debtor country has to leave the room when its fate is being discussed'.

**Lack of urgency or neglect of systemically unimportant countries:**

Countries that do not pose systemic risks of contagion are not prioritised, and this disproportionately affects many African countries. It is a discrepancy that such countries are expected to support an architecture that does not prioritise their needs. The call from some African leaders for an overhaul is rooted in the perception that not all countries are treated equally. The Fund's approach, which argues that systemic reforms or HIPC-type interventions 'depend on the extent to which debt vulnerabilities in LICs become systemic and comparable to those prevalent in the mid-1990s' (Chuku et al. 2023, p. 6), further attests to the ranking of sovereigns and the classification of only a few as 'too big to fail'.

**Fragmented creditor landscape:**

The rise of non-Paris Club lenders such as China and the increasing prominence of private bondholders has led to delays and coordination challenges, taking a significant toll on debtor economies. While China has often been viewed as a rogue lender hindering the restructuring process, recent debates about China as an international lender of last resort have brought a more balanced perspective. As Bräutigam and Huang (2023, p. 46) note:

**The Paris Club, as a club institution, has club rules, not global rules. In debt restructuring, only the IMF's rules are truly global. From this perspective, what looks like China breaking the rules turns into: what should global rules be, who should be making them, how, and where?**

Those who have direct access, as members, to the Paris Club and the G20 CF will likely prefer to maintain these institutions as exclusive clubs of self-appointed powerful nations. However, if these frameworks are to govern global debt issues outsiders have legitimate reason to seek greater representation and transparency regarding the club's procedures. China and other nations desire to be included so they can shape global rules rather than being dictated to by a few powerful nations. Some contentious rules have centred around the comparability of treatment (CoT), which delayed Zambia's debt restructuring for nearly three years, as well as around the redefinition of official versus private sector debt (see Box 2). A notable example is China's situation, where it was pressured to treat debt as official even though it was issued by banks that raised capital in private markets (Bräutigam and Huang 2023). It is only fair that if China or other new creditors are expected to participate in the Club, they should be given an opportunity to challenge some of its rules.

## BOX 2. THE PERIMETER ISSUES BETWEEN OFFICIAL AND PRIVATE CLAIMS

Some of the debt restructuring delays can be attributed to the ‘race to the top’, where all creditors aim to secure the status that ensures the least number of haircuts. The non-tolerance policies protect International Financial Institutions (IFIs) that lend during crisis situations from financial exposure. While certain debt cannot be restructured, the expanding creditor landscape has introduced ambiguities regarding which creditors should be classified as official or commercial, and which should be treated as IFIs to receive preferred creditor status. The complexity of instruments, especially those sold in secondary markets, has also brought challenges.

The IMF has provided some clarity on these perimeter issues. A claim is considered official when (i) it is held by a government, or by an agency acting on its behalf; and (ii) it originates from a transaction where the creditor government or its agency provided or guaranteed financing to the borrowing country.

In the case of China, data suggest that the China Development Bank (CDB) and the China Exim bank together account for 80% of Chinese lending in Africa. The Chinese Exim bank stands as a true bilateral creditor since it is owned by the Chinese government (Bräutigam and Huang 2023). All other overseas lending is done commercially. As the majority of these Chinese institutions raise their funding from bond markets rather than through budgetary processes, they should be classified as fully commercial.

### The reform preferences: insider-outsider polarisation

The reform priorities for sovereign debt architecture are as complex as the system itself, given the multiple points of failure. Often, these priorities differ depending on who is considering the matter, with a clear divide between insiders and outsiders. The former group includes the Bretton Woods institutions (the IMF and the World Bank) and existing debt resolution mechanisms such as the Paris Club and the Common Framework. These institutions have been in place for over 80 years and represent the status quo. The latter group, who are increasingly calling for radical reforms, consists of leaders from the Global South, UN agencies, civil society organisations (CSOs), and some think tanks.

Based on an analysis of reports and the interviews we conducted, the following reform matrix captures the current polarisation in terms of what reforms are needed. While nuances do exist across the calls for reform, shaped by varying circumstances, Table 2 simplifies the polarisation. For example, through proposals of the Bridgetown initiative (Bridgetown 2.0), small island developing states (SIDS) face unique

**Table 2. Debt architecture reform matrix**

Reform focal points	Politicians from the Global South	Civil society and think tanks	Bretton Woods institutions & other MDBs	UN agencies
Inclusive governance of IFIs and	•	•	x	•
New debt resolution mechanism	•	•	x	•
Expand the G20 CF	•	•	x	•
Operational efficiency	•	•	•	•
Include climate justice	•	•	x	•
Debt & surcharges cancellation	•	•	x	•
Climate fund	•	•	•	•

• Strong support      x Weak to no support

Source: Adapted from Gwaindepi & Karim (2024: 20).

challenges, particularly their vulnerability to climate change, and thus emphasise reforms addressing these issues (Persaud 2023). Conversely, African countries have focused on representation in key institutions to break away from what has been described as ‘elite multilateralism’ (Ocampo and Stiglitz 2012, p. 3).

In the ongoing reform debates the Bretton Woods institutions, multilateral development banks (MDBs) modelled after them, and current debt restructuring processes have all faced significant criticism. As insiders, these institutions have increasingly faced calls for change. On certain reform priorities such as improving operational efficiency, expanding balance sheets, and creating new climate funds, outsiders are essentially knocking on an open door. These institutions have implemented incremental reforms over the years, but such efforts have proven insufficient, especially given the scale of current climate and development challenges.

A key critique is that insiders cannot effectively assess their own performance, as this leads to self-preserving reforms that merely ‘reproduce existing power imbalances in global governance’ (Ocampo and Stiglitz 2012, p. 6). For example, in 2023 a coalition of 74 CSOs called for an independent review of the World Bank’s effectiveness in addressing development issues. It is debatable whether achievements such as operational efficiency, improved information sharing, or enhanced transparency represent meaningful progress towards better global debt architecture or are simply basic responsibilities of sound governance. Box 3 highlights how reforms, such as

lending-into-arrears policies, have partly sought to keep the IMF relevant where its rules have risked making it obsolete as a player in debt restructuring. Many reforms over the years appear to have been reactive, implemented primarily when the institutions' relevance was at stake. Moreover, these reforms have often favoured creditors as the IMF lacks mechanisms to sanction creditors in the same way that it holds debtors to account (Buchheit and Lastra 2007).

### **BOX 3. ARE THE IFIS ALWAYS REFORMING? A LOOK INTO THE IMF'S ARREARS POLICY REFORMS**

As the creditor landscape has expanded in recent years, the IMF, as the crisis lender, has had to reconsider its arrears policies. These policies are mainly threefold: (i) The Lending into Arrears (LIA) policy for commercial creditors; (ii) The Lending into Official Arrears (LIOA) policy for arrears to bilateral official creditors (Paris Club and non-Paris Club lenders); and (iii) The Non-Toleration Policy (NTP) on arrears to multilateral creditors. The LIOA policy originally had three strands, with a fourth strand added recently:

**Strand 1:** When Paris Club lenders represent the majority of the total financing required from bilateral creditors over the programme period, a representative standing forum is encouraged for maximum creditor coordination.

**Strand 2:** When Strand 1 is not an option, a bilateral non-Paris creditor may consent to fund financing despite arrears.

**Strand 3:** In the absence of the above two options, the Fund can proceed with funding if certain conditions are met: (i) In emergency situations, and the debtor is pursuing appropriate policies; (ii) the debtor is making good faith efforts to reach an agreement with the majority creditor; or (iii) if the creditor is unwilling to provide a contribution. This option was necessitated in 2015 by the conflict between Ukraine (debtor) and Russia (creditor).

**Strand 4 (new):** This is a less clear and more flexible strand, applied when all the above strands fail. It is highly discretionary and allows the Fund to proceed with funding into arrears, but with safeguards (due to financial exposure) in circumstances of creditor-coordinated challenges. Some of these safeguards include longer restructuring or small disbursements.

The Lending into Official Arrears (LIOA) policy is a new addition from 2015, often interpreted as a way to allow debt restructuring even when China does not cooperate. For the Fund, 'reputational credibility' (IMF 2024) is also critical to avoid holdout bilateral official creditors stalling or preventing the IMF from assisting countries in need. With China's rising role as a lender of last resort, there are risks that countries will eschew the official route and leave the Fund unable to play its role.



The tug of war between incremental reforms advocated by insiders and the more radical reforms demanded by outsiders stems from the protracted nature of the reform process. Autonomous reforms led by insiders have largely contributed to the ‘too little, too late’ problem currently plaguing debt resolution efforts. For example, the IMF emphasises marginal changes to make the Fund more agile without incurring additional risks (IMF 2024), which, in practice, may result in minimal impact. Without outsiders persistently knocking at the doors of the global financial architecture, insiders are likely to continue implementing only those reforms that align with their founding principles and articles. The history of reforms underscores their often unreasonably slow pace. Bräutigam and Huang (2023, p. 47) argue:

It took 32 years for the Paris Club to give its first net present value debt reductions. After Mexico defaulted on its sovereign debts in August 1982, it took seven years to develop the Brady bonds, 14 years to come up with the HIPC plan, and almost 25 years to get complete debt write-offs from the World Bank and the IMF.

It is also important to consider that fashionable calls for reform are not always practical in the eyes of the insiders, who emphasise pragmatic approaches. For instance, a key proposal from outsiders involves shifting sovereign debt issues to UN processes, as is currently being done with the international tax architecture. Similarly, there are debates about whether the G20 should expand to become a G50 or more and which countries should be included. Proponents of maintaining the current structure argue that the G20 is more efficient and represents a significant improvement over the G7.



Fitch Ratings is a global credit rating agency that provides credit ratings, research, and analytics for various types of debt instruments, London, 2024. Photo: Taljat David / Shutterstock.

## SOME CRITICAL REFORM POLICY AREAS

Debt distress challenges are familiar, and the limitations of the current debt resolution mechanisms have been thoroughly documented. Various proposals have been put forward recommending both incremental reforms from insiders and more radical, fundamental reforms from outsiders. As with many other policy areas, the real challenge lies in the implementation of the proposed solutions given the polarisation between insiders and outsiders. With recent financialisation and the growth of secondary markets, the debt architecture has evolved into a sort of 'debt-financial complex,' with numerous players, institutions, debt instruments, platforms and forums. The decoupling of credit and productive investment with a preference for

financial assets rather than developmental ones was an inevitable outcome (UNCTAD 2019, p. 71). However, the current focus remains on addressing the symptoms of a longstanding development crisis in Africa. Palliative treatment will never achieve debt sustainability for the continent. It is crucial to consider reforms in the real economic sector alongside reforms to the debt architecture, as will be discussed in the next section.

### **The important real sector issues**

An UNCTAD expert interviewed compared debt with crime statistics, noting that crime is not only a result of poor law enforcement but also a reflection of deeper socioeconomic problems such as unemployment, inadequate safety nets and limited education systems. Similarly, recurrent debt stress is a symptom of development crisis and no state of the art debt restructuring system can succeed without a fundamental commitment to the development of Africa's real economic sectors. It is concerning that debt forums seem to outnumber development forums. In this context, what is often seen as a debt problem in Africa is actually a symptom of a larger development issue that is not receiving the attention it deserves. African countries are not generating the necessary resources for development on their own, which forces them to rely on borrowing. A debt-driven development paradigm will likely fail. Below, some key issues are highlighted for the real sector.

- Value addition in strategic minerals that the world needs. When manufacturing and processing of raw materials occurs in Africa, employment is created, the business climate improves and the potential for higher tax revenues increases. Importantly, the balance of payments challenges that often lead to debt problems are addressed. As long as this does not happen, the current account and primary account deficits will persist and the virtuous cycle will remain unbroken. Debt-carrying capacity cannot be augmented without substantial economic diversification and growth (Blanchard 2022).
- Infrastructural development, the original goal of the World Bank in post-war Europe, has not been realised in Africa. There has been a reduction in hard infrastructure ambitions for softer, less costly issues. But sustainably addressing poverty requires economic growth. The AfDB estimates the annual infrastructure financing gap to be between USD 68-108 billion a year (Coulibaly et al. 2019, p. 7). Robust roads and rail transportation systems reduce production costs, and the accumulation of investment also helps attract more foreign direct investment (FDI). Discussions on National Development Banks (NDBs) deserve serious consideration, as they have provided patient, long-term capital for domestic

markets and national strategic sectors (Ocampo and Ortega 2022). Strong NDBs can stimulate local markets and provide landing zones for international capital despite potential challenges, especially in light of concerns over thin capital. More importantly, according to one expert interviewed, private sector investors do not always prioritise critical socioeconomic issues but are guided by profitability.

- African integration, as outlined in Agenda 2063, is essential. Aspiration 2 of Agenda 2063 specifically describes, 'An integrated continent, politically united, based on the ideals of Pan-Africanism and the vision of Africa's Renaissance' (African Union, 2015). African countries continue to forge numerous bilateral agreements with distant countries and donors (World Bank 2024), undermining the integration of the African continent to be a stronger global player. The implication is that a fragmented continent without economic integration will likely remain plagued by debt vulnerabilities.
- Human capital development remains a critical issue in Africa as the population is set to boom in the near future. By 2050 one in every four people in the world will be African, and one in every three young people will be African, also known as 'Africa's youthquake'.
- Climate resilience must be part of the agenda without shifting concessional resources for development programmes toward climate change mitigation, which mostly happens in middle-income and advanced economies. Most climate-vulnerable countries are also debt-vulnerable (Jensen 2022, p. 6). The LICs are then left to borrow their way out of adaptation challenges and other development issues. The diversion of resources from poverty alleviation to financing Global Public Goods (GPGs) risks making people pay twice for climate change (Ellmers 2023, p. 6).

### **The important debt architecture issues**

If not accompanied by real sector changes or prioritisation as outlined above, changes in the debt architecture will continue to follow an 'extend and pretend' approach. This does not mean, however, that certain areas do not require reforms to make them more effective and equitable. An expert at the Center for Global Development (CGD) made a strong point in an interview that even when debt restructuring mechanisms work, they fail to treat debt distress with equal urgency across all countries in Africa – prioritising those deemed systemically important due to potential spillovers that could threaten regional and international financial stability.

The recent 2024 summit of the future (United Nations 2024, pp. 30–33) highlighted several reform areas, including (i) Strengthening the voice and representation of developing countries; (ii) Mobilising additional financing for the Sustainable Development Goals (SDGs) and responding to the needs of developing countries, especially those most in need; (iii) Borrowing sustainably for long-term development; (iv) Supporting developing countries more effectively and equitably during shocks; and (v) Addressing the urgent challenges of climate change. The dimensions of reform, as outlined by Passarelli and Justino (2024), include space, speed, scale, sustainability, solidarity, and self-reliance. Below, I summarise some of the key proposals drawn from the literature, interviews, and reports, and link them to these reform dimensions.

- The need for a sovereign debt resolution body still dominates debates but continues to face resistance from the established institutions. It appears under various names as ‘a 21st-century global system’ (Gill 2024) and is sometimes linked to an absence of sound global governance, even a minimalist one (Stiglitz and Rodrik 2024). Preference for rules-based multilateral debt resolution through the United Nations is now commonly expressed (Fresnillo and Crotti 2023), especially after progress with the international tax system. There is currently ‘no bankruptcy court for sovereigns that can compel the debtor and its creditors to resolve the issue’ (Abbas and Pienkowski 2022, p. 61). This makes the characterisation of the current system as a ‘non-regime’ compelling (Fresnillo and Crotti 2023). Yet, the problem is similar to corporate insolvency: ‘a debtor’s inability to perform financial obligations as they become due’ (Hinrichsen et al. 2024, p. 3).

The critical reason this remains an important topic of discussion is because of the ad hoc nature of the current system guided mainly by collective action clauses (CACs) (Hinrichsen et al. 2024). Admittedly, resolving debt involves many players, rules, and considerations, leading to countless references to statements such as ‘it depends on the debt instrument,’ ‘it depends on country circumstances,’ and ‘it depends on what creditors are willing to do,’ making it a case-by-case scenario. The Common Framework (CF) itself has remained a case-by-case negotiation, making sovereigns to calculate what their specific case may entail and leading to delays (Setser 2023). The lack of comprehensive debt resolution and the preferred case-by-case approach pits one vulnerable country against a formidable army of creditors. The use of ‘moral persuasion’ or ‘good faith cooperation,’ sets the odds against debtor countries given the power structures of international economic systems (Roos 2019).

A sovereign debt resolution mechanism may provide a level playing field for debtors and creditors in terms of general guidelines. For instance, the delays with the Zambian debt were primarily due to perimeter issues surrounding the classification of official and commercial debt and how to treat regional International Financial Institutions (IFIs) to determine who gets preferred creditor status and who must participate in haircuts. Better comparability of treatment regimes is needed, since it is currently treated as ‘more of a gentlemen’s agreement’ (Fresnillo and Crotti 2023, p. 5). Trying to codify laws from practice is challenging in a fast-changing creditor landscape, especially since the grounds for new rules may follow a case-by-case approach. For instance, Ghana had to deal with domestic debt during its restructuring, a situation that did not occur with Zambia. Indeed, a balance will have to be struck between what such a sovereign body can do proactively and the lessons it learns from the case-by-case approach. The risk of fragmentation and zero-sum outcomes due to divergent policies at odds with each other from different sectors of the international architecture remains.

The Global Sovereign Debt Roundtable has emerged as another forum considered promising and perhaps a step towards comprehensive debt resolution. However, there is a risk that it will become just a talkshop, especially if it turns into a space for discussing the failures of the G20 Common Framework (e.g. the global sovereign debt round table GSDR), leading to an accumulation of governance or dialogue in the wrong places, in what one interview respondent called ‘endless summing and non-decision making multi-stakeholdersims’. It could be more useful if it were a roundtable focused on tackling the root causes of debt in the real sectors, and thereby move the needle towards lasting solutions for debt sustainability in Africa.

- An inclusive debt resolution system remains a top concern because those who sit at the table (Paris Club, Common Framework etc.) do so by invitation, and the criteria for inclusion are opaque. Debt has become more complex and creditors, both private and public, may feel less inclined to participate if they are not integrated as members. The fact that the majority of Chinese debt contracts include ‘No Paris Club’ and ‘no comparability of treatment’ clauses points to this (Gelpern et al. 2023, p. 6). The CF, being the Paris Club plus a few additional countries, may suffer the same fate. Representational gaps cannot be overcome merely by admitting guest representatives or observers.

- Debt transparency is a long-overdue pillar of the debt architecture. It is not only about sovereigns (the Zambian example shows sovereigns are on their way on this), but the entire system, including both private and public creditors. Again, without some guiding principles that can make this a general practice through legal frameworks, the Paris Club, the CF, and the IMF will continue to play catch-up and allow the market to lead, despite its known proclivity for secrecy and privacy. For instance, industry practices and market-led initiatives have brought about the current opaque system, which privileges well-resourced countries, perpetuating inequalities in access to markets.
  
- Concessional financing remains fundamental for the SDGs and climate change financing. Half of the debt services paid by African countries in 2024 were paid to private creditors, who lend at exorbitant cost. The push towards leveraging private sector lending makes sense, but to balance the debt mix concessional lending should constitute at least half of the total debt for debt sustainability to be achievable. The procyclicality of financing to low-income countries has continued to be acute (Alami 2021). While the neoliberal turn in the 1980s successfully convinced the world of the importance of Multilateral Development Banks (MDBs) and that National Development Banks (NDBs) were the ‘wrong type of institutions’ (Ocampo and Ortega 2022, p. 24), perhaps these NDBs require new consideration. This is especially true for (i) providing counter-cyclical financing; (ii) supporting social development; (iii) fostering financial inclusion; and (iv) investing in infrastructure.
  
- Public debt management systems are imperative. These should include early warning systems to trigger early dialogue and, where possible, pre-emptive restructurings. This implies that capacity development in developing countries remains crucial. The two components worth highlighting here are Debt Sustainability Analysis (DSA) and Credit Rating Agencies (CRA).
  - Debt Sustainability Analysis continues to be a debt crisis tool deployed when countries are in or nearing debt distress. This must change to become a regular practice for all sovereigns, including capacity development to make the DSA a regular exercise in Africa. Debt management departments can be equipped to develop local versions of the DSA so that they don’t wait too long to assess the state of debt affairs. Credit rating agencies, for example, conduct random/unsolicited assessments and downgrade countries, yet the DSA exercises are not frequent. Furthermore, it has become clear that the DSA needs to consider development, climate change, and shock indicators, as

these factors have become imperative for debt sustainability. Without these considerations the DSA will 'grossly underestimate' debt sustainability risks in developing regions (Zucker-Marques et al. 2024, p. 2).

- Credit rating agencies are critical to issues related to the cost of capital. Their reform is essential for ensuring fair and equitable access to capital. These agencies, too, should work with regular reviews that do not catch sovereigns by surprise but incorporate them into the process. The CRAs need to review the treatment of sovereigns during participation in debt swaps and initiatives such as the Debt Service Suspension Initiative (DSSI). For instance, Ethiopia, Cameroon and Senegal were put on review for downgrades when they requested the DSSI debt treatment (Bräutigam and Huang 2023, p. 29). South Africa's G20 presidency is taking this seriously with the establishment of a 'Cost of Capital Commission' to bring together experts from the public and private sectors to discuss the roots of high borrowing costs.







A coalition of groups, including Debt for Climate, Extinction Rebellion, Christian Climate Action and London Mining Network rally outside the Bank of England, London, calling for cancellation of debt held by nations in the Global South. The action was held to coincide with annual meetings of the World Bank Group and International Monetary Fund (IMF) taking place in Morocco. 2023. Photo: Ron Fassbender / Alamy Live News

## CONCLUSION

The persistent debt challenges faced by African countries highlight a fundamental misalignment between the international debt architecture and the continent's economic realities. While sovereign debt is critical for development, its contraction, management, and resolution mechanisms often exacerbate rather than alleviate Africa's development challenges. Polarisation over reforms remains a key obstacle: insider institutions such as the Bretton Woods institutions, the Paris Club and the Common Framework, argue for enhancing existing mechanisms, while outsiders, including Global South leaders and civil society organisations, call for a dedicated sovereign debt resolution mechanism since there is currently no bankruptcy court for sovereigns.

Debt distress challenges and their solutions extend beyond procedural inefficiencies and are deeply rooted in Africa's structural vulnerabilities. Heavy reliance on commodity exports, limited industrialisation, and weak domestic resource mobilisation creates an economic fragility that undermines sustainable debt management. Addressing these foundational issues is essential to breaking the cycle of debt distress. While procedural reforms – such as better debt sustainability analyses, equitable burden-sharing among creditors, pre-emptive debt restructuring, improved credit rating practices, enhanced debt management systems, and greater transparency – can offer short-term relief, they must be paired with long-term strategies to strengthen Africa's economic base. Without this goal, debt resolution will continue to be palliative.

Real sector development is the cornerstone of sustainable debt solutions. Focusing on value chains in agriculture and strategic minerals, promoting regional integration and investing in climate-resilient infrastructure can help establish the economic conditions necessary for debt sustainability. Furthermore, and despite the current emphasis on the role of the private sector, concessional financing and debt relief remain indispensable for achieving the Sustainable Development Goals (SDGs) and addressing climate challenges. Without concurrent procedural reforms and structural economic transformation, debt restructuring in Africa will continue to be located in the realm of 'pretend and extend', since the current mechanisms can only do too little, too late, undermining African development prospects.

# NOTES

- 1 It can get complicated due to factors such as the type of debt (domestic vs. external); debt instruments (primary vs. secondary market); currency denominations; creditor types (official vs. private); and various legal jurisdictional aspects, including potentially contradictory clauses used by creditors (Hinrichsen 2022; Fresnillo and Crotti 2023).

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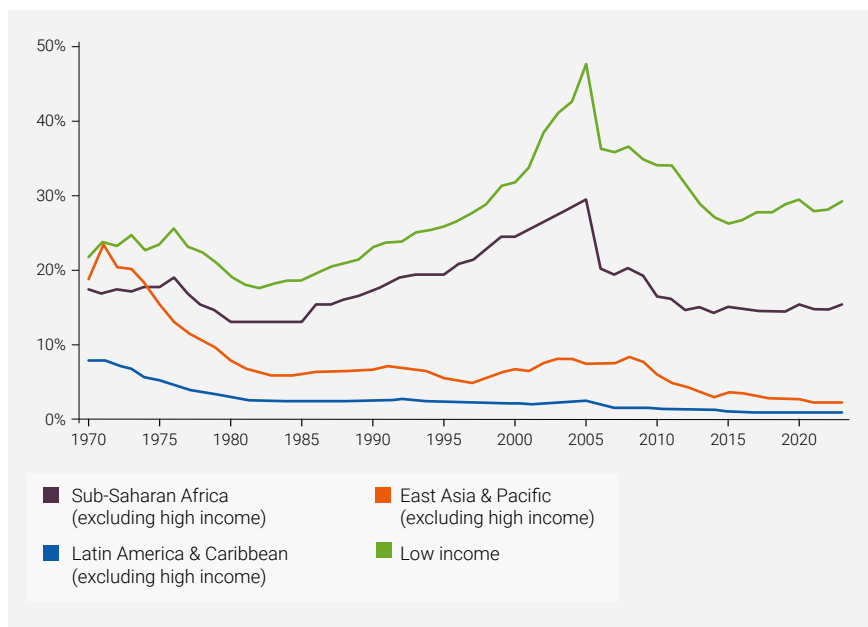
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# APPENDIX

**Figure A1. Concessional debt as share of external debt**



Source: Data from International Debt Statistics (The World Bank, 2025).

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