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DIVERTING DEVELOPMENT: THE G20 AND EXTERNAL DEBT SERVICE BURDEN IN AFRICA

INSTITUTE FOR ECONOMIC JUSTICE RESEARCH POLICY ADVOCACY

BU Global Development Policy Center

Authors

Marina Zucker-Marques
Senior Academic Researcher, Boston University Global Development Policy Center.

Riccardo D'orsi
Economics Lecturer at the College of Accountancy, Finance, and Economics, Birmingham City University.

Kamal Ramburuth
Researcher in Debt and Development Finance and G20 Project Lead at the IEJ.

Patrick Njoroge
Served as the ninth Governor of the Central Bank of Kenya from June 2015 to June 2023 after a twenty-year career at the International Monetary Fund (IMF).

Kevin Gallagher
Professor of Global Development Policy at Boston University and Director of the Boston University Global Development Policy Center.

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ACRONYMS AND ABBREVIATIONS

ADBG	African Development Bank Group
CAT-DDO	Catastrophe Deferred Drawdown Option
CCRT	Catastrophe Containment and Relief Trust
CF	Common Framework
CRDCs	Climate Resilient Debt Clauses
CoT	Comparability of Treatment
DSSI	Debt Service Suspension Initiative
DSA	Debt Sustainability Analysis
EMDEs	Emerging Markets and Developing Economies
FfD	Financing for Development
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
INFF	Integrated National Financing Frameworks
LICs	Low-Income Countries
LIOA	Lending into Official Arrears
MDBs	Multilateral Development Banks
NDCs	Nationally Determined Contributions
NPV	Net Present Value
PV	Present Value
RST	Resilience and Sustainability Trust
SDGs	Sustainable Development Goals
SDRs	Special Drawing Rights
SSA	Sub-Saharan Africa

EXECUTIVE SUMMARY

In many ways, the African continent has been poised for take-off. The continent is home to many of the key ingredients for a successful 21st Century economy with 60% of the world's solar resources, 30% of proven transition mineral reserves, and enough wind potential to provide the entire continent with enough electricity to meet its needs 250 times over. Moreover, the population in the region is expected to almost double by 2050, reaching 2.5 billion. To tap into this potential, the African continent needs to increase investment levels in a stepwise manner by 2030 from both domestic and external resource mobilisation.

Because of an onslaught of largely external shocks over the last half decade, Africans have had to divert attention from their development prospects to servicing an unsustainable level of external debt payments. Africa's development prospect will be perpetually diverted if the continent does not receive significant debt relief through forums such as this year's G20 gathering in South Africa.

According to UNCTAD, approximately 57% of Africa's population — 751 million people — live in countries that allocate more funds to servicing external debt than to education or healthcare. While African countries continue to service their debt, the UN's latest assessment of progress toward the Sustainable Development Goals (SDGs) reveals that 85% of these goals are off track, stagnating, or regressing. Since 2020, chronic hunger has risen from 7.9% to 9.2%, affecting 750 million people. In Africa, 1 in 5 people face hunger — significantly higher than other regions of the world.

Currently, debt distress is widespread and largely not of Africa's own making. The causes stem largely from a combination of external macroeconomic and geopolitical factors which have been compounded by climate shocks. Because of the lack of a robust sovereign debt restructuring regime, African nations are not defaulting on their debt but are defaulting on the development prospects of their own people.

This situation is not inevitable, but reviving sustainable development pathways in Africa will require the G20 to display a new level of ambition in tackling debt. Since the onset of the Covid-19 pandemic, the G20 has emerged as the key forum for addressing global debt problems. The G20's Common Framework, established in 2020, was designed as a mechanism to provide coordinated restructuring for countries facing unsustainable debt levels. Despite its intentions, the Common Framework has faced significant challenges, that have hindered its effectiveness, forcing countries across the developing world to abandon despite their need for debt relief.

With the G20 being hosted in Africa for the first time in 2025, and with the African Union as a full-fledged member of the G20, there is a unique opportunity to address Africa's mounting debt crisis. This report highlights five core flaws in the Common Framework since its inception, and offers analyses of the current debt landscape and the vulnerabilities of African countries. Finally, the report recommends concrete policy reforms for the G20 that would improve the debt relief process and ensure sustainable growth in Africa.

Key findings:

- **Africa's Debt and Debt Service Payments:** Despite Africa's relatively low external debt stock ($746 billion, or 25% of the continent's Gross National Income), debt service payments are at their highest levels since the last debt crisis in the early-2000s. This increase is due to the rise in principal repayments and the higher cost of borrowing that result from Africa's growing reliance on commercial lending in addition to concessional finance.
- Compared to other developing regions, **the cost of borrowing in Africa is significantly higher.** In 2023, bond yields in Asia and Oceania averaged 5.3%, and in Latin America and the Caribbean, they averaged 6.8%. In contrast, Africa's bond yields averaged 9.8%, highlighting the region's unique challenges in accessing affordable financing.
- **Impact on Fiscal Space and Imports:** Africa's high debt cost is eroding fiscal space and reducing the capacity to import.
  - Debt servicing consumed 16.7% of African

government revenues in 2023, marking the largest increase among developing regions.
- 14.8% of African export earnings are devoted to debt service in 2023, up from 4.5% in 2011. In the same year, interest payments alone accounted for 4.7% of exports.

- **Debt Servicing vs. Development:**
  - On average, between 2024 and 2030, annual debt service will amount to 137.4% of Africa's annual climate finance needs.
  - At least 30 African countries allocate more funds to servicing debt interest — excluding principal repayments — than to public health.
  - In 2023, for the first time, Sub-Saharan African nations spent more on debt interest payments than on education.
- **G20 Common Framework is ill-equipped to deal with Africa's debt predicament, as the Common Framework:**
  1. Is slow, with prolonged negotiations on a case-by-case basis;
  2. Provides minimal debt relief, preventing countries from embarking on new development paths;
  3. Fails to ensure fair participation from all creditor classes;
  4. Lacks linkages between debt relief and future development goals;
  5. Excludes countries that need debt relief.

Policy Recommendations:

- **Streamline the Process:** Implement an automatic two-year debt service standstill when countries enter the Common Framework, and prevent interest accumulation during negotiations to incentivise all creditors to participate. During a widespread crisis, shift from case-by-case negotiations to a group-based approach for countries in debt distress.
- **Enhance the Debt Relief Envelope:** Adjust debt relief amounts based on an enhanced Debt Sustainability Analysis (DSA) that includes climate risks and investment needs to ensure adequate capacity for long-term recovery.
- **Strengthen Creditor Participation:** Create a simple "fair" Comparability of Treatment (CoT) rule that considers risk pricing and concessionality. Introduce relief formats to accommodate creditors' distinct preferences: reprofiling for official creditors, Brady-like bonds for bank loans, and buybacks for bondholders. Protect multilateral creditors' debt relief with fresh replenishments of MDBs from advanced countries.
- **Align Debt Relief with Development Goals:** Link debt relief to sustainable growth by conducting pre-feasibility studies during the debt standstill negotiations, focusing on countries' own priorities, Nationally Determined Contributions (NDCs) and SDGs identified by countries Integrated National Financing Frameworks (INFF). As part of the debt relief agreement and supported by International Financial Institutions (IFIs), countries would commit to investing in these identified projects.
- **Expand Eligibility:** Broaden the Common Framework's eligibility to include middle-income countries and emerging markets facing debt distress.

1

INTRODUCTION

In less than 25 years, Africa's population will reach 2.5 billion, when one of every four people on Earth will call Africa home (Stanley 2023). This demographic shift presents both unprecedented opportunities and urgent challenges in ensuring rapid, green, and inclusive growth. Africa's path will significantly impact not only its people's quality of life but also the global fight against climate change.

To achieve this, Africa, along with other emerging and developing economies, must urgently ramp up investments. According to estimates by G20 Independent Expert Group (2023) emerging market and developing economies (EMDEs) (excluding China) need to increase investments in resilience, human, physical, and natural capital by 10% of GDP by 2030 to meet the SDGs.

However, the continent's current debt burdens make it impossible to meet both future investment needs and current spending imperatives. On average, African countries spent 16.7% of their government revenues on interest payments in 2023 – compared to 6.5% in 2010. Approximately 57% of Africa's population — 751 million people — live in countries that allocate more funds to servicing external debt than to education or healthcare (UNCTAD 2024).

While African debt obligations continue to be served, the UN's latest assessment of progress toward the SDGs estimates that 85% of the goals are off track, stagnating, or regressing (UNDESA 2024). Since 2020, chronic hunger has risen from 7.9% to 9.2%, affecting an additional 750 million people. A significantly larger proportion of Africa's population faces hunger compared to other regions of the world — nearly 20%, in contrast to 8.5% in Asia, 6.5% in Latin America and the Caribbean, and 7.0% in Oceania (UNICEF 2023). The World Bank estimates that, under the current trajectory, only six of the world's 26 Low-Income Countries (LICs) are expected to achieve middle-income status by 2050.

Debt distress in Africa is systemic, driven by external macroeconomic, geopolitical, and climate shocks. The move by leading Central Banks, especially from the US Federal Reserve, to raise interest rates has made it harder for African nations to access affordable sustainable financing, undermining their economic growth (Hoek et al. 2021; Dryden and Volz 2024). Tightening global financial conditions, capital flight, and currency depreciation and inflation further exacerbate debt distress (Foreign Policy 2025). This is worsened by escalating trade uncertainty, fragmentation, and the related instability of foreign currency income.

This report analyses the current debt distress in Africa in the context of these systemic challenges and proposes concrete solutions to address these issues, focusing on policy reforms to alleviate the debt burden and enable sustainable investment.

The report is divided into three sections. First, it shows that many African countries are currently left with no option but to endure the high financial burdens of debt servicing while defaulting on their development prospects. This section provides a detailed analysis of the current debt landscape and vulnerabilities across the continent.

Section 2 summarises the key G20 efforts to address the post-Covid debt crisis, highlighting the 5 main flaws of the Common Framework: 1) it is slow, with prolonged negotiations; 2) it provides minimal debt relief, preventing countries from embarking on new development paths; 3) it fails to ensure fair participation from all creditor classes; 4) it lacks linkages between debt relief and future development goals; and 5) it excludes countries that need debt relief.

In Section 3, the working paper outlines a path forward for addressing Africa's debt distress. For each flaw of the Common Framework, we discuss concrete policy recommendations to the G20. Chief among these are: creating automatic debt standstills to incentivise creditor participation and provide quicker relief, negotiating debt relief for groups of countries in distress rather than on a case-by-case basis, enhancing existing Debt Sustainability Analysis to better assess the amount of relief needed, establishing fair comparability of treatment rules and designing tools to address varying creditor preferences, and linking debt relief efforts to development goals. Finally, an improved Common Framework should be available to all countries in distress, we recommend expanding its eligibility criteria.

This year South Africa will host the G20 — as the first African country to do so with the recent inclusion of the African Union (AU) — at a significant moment as faith-based organizations, invoking the Jubilee Year, amplify calls for comprehensive debt relief. Additionally, the United Nations Financing for Development (FfD) conference in Seville offers a critical platform to build global consensus and advance concrete solutions. South African President

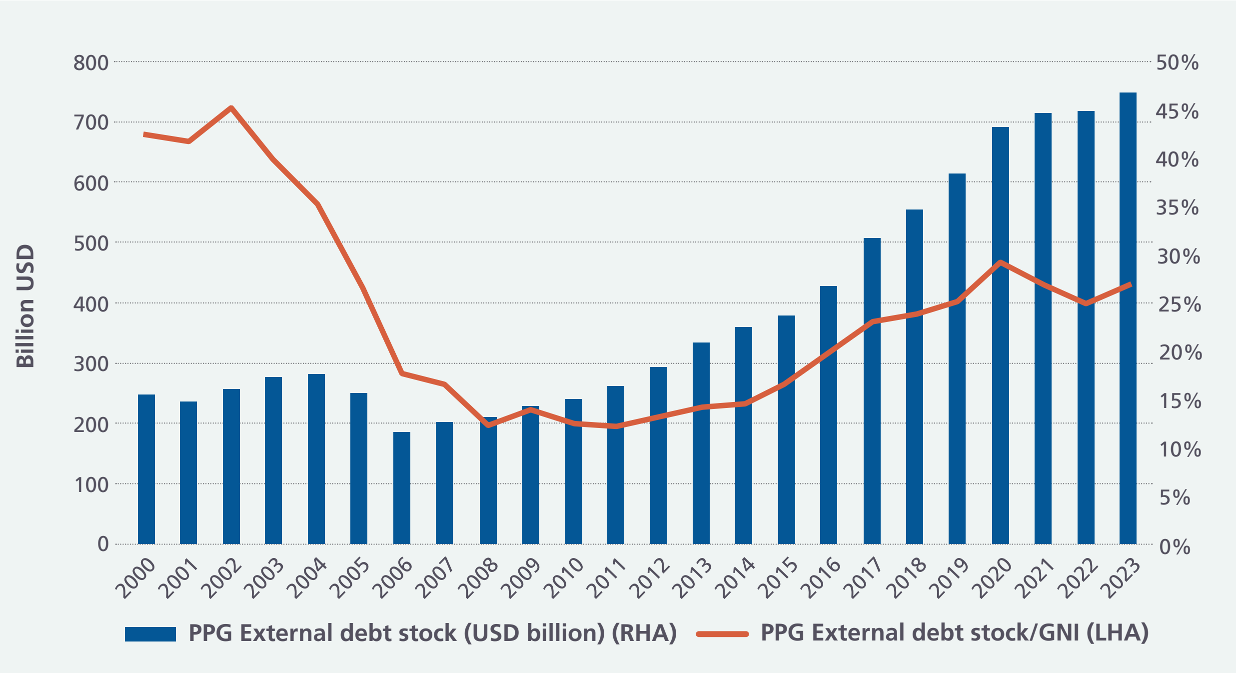
Cyril Ramaphosa has made debt sustainability a key priority, and eight former African leaders have publicly supported a comprehensive debt relief initiative (Ramaphosa 2025; African Leaders Debt Relief Initiative 2025). 2025 presents a unique opportunity to address Africa's mounting debt crisis with multiple converging factors that could catalyse action.

2 UNDERSTANDING AFRICA'S DEBT LANDSCAPE

There is ongoing debate about whether a comprehensive debt relief initiative, similar to the Heavily Indebted Poor Countries (HIPC) Initiative, is needed today. The HIPC Initiative, launched in 1996, along with its successor, the Multilateral Debt Relief Initiative (MDRI), which launched in 2006, provided debt relief to 39 countries, mostly in Africa, by reducing their external debt to sustainable levels and enabling them to redirect resources toward poverty reduction and development. Some analysts argue that debt distress indicators are not as severe as those instances and many countries have lower debt stocks compared to earlier periods (Chuku et al. 2023; Diwan et al. 2023). In Africa, although some countries are facing high external public and publicly guaranteed debt-to-gross national income (GNI) ratios (Senegal 133%, Mauritius 128%, Zambia 110%, and Cabo Verde 97%), the continent's average debt-to-GNI ratio was 26% in 2023. This is low compared to historical trends. In early 2000, before the completion of the HIPC Initiative, debt-to-GNI ratios were above 45%.

FIGURE 1

Africa's Public and Publicly Guaranteed (PPG) External Debt Stock (including IMF credits), USD billion and as a share of GNI, 2000 - 2023



Source: WB IDS (2024).[1]

1. Country inclusion in the analysis depended on the availability of data. External debt data is not available for Equatorial Guinea, Libya, Mayotte, Namibia, Réunion, Saint Helena, South Sudan, and Seychelles. To calculate the external debt-to-GNI ratio, we also excluded data from Nigeria (2000–2009) and Eritrea (2012–2023) due to the lack of export data.

Additionally, analysts have pointed out that current challenges are more of a cash flow issue, with a relatively large number of Eurobonds maturing between 2024 and 2028. Rather than focusing on debt relief, most African nations may require bridge financing to navigate the concentration of debt repayments during this period (Diwan et al. 2023).

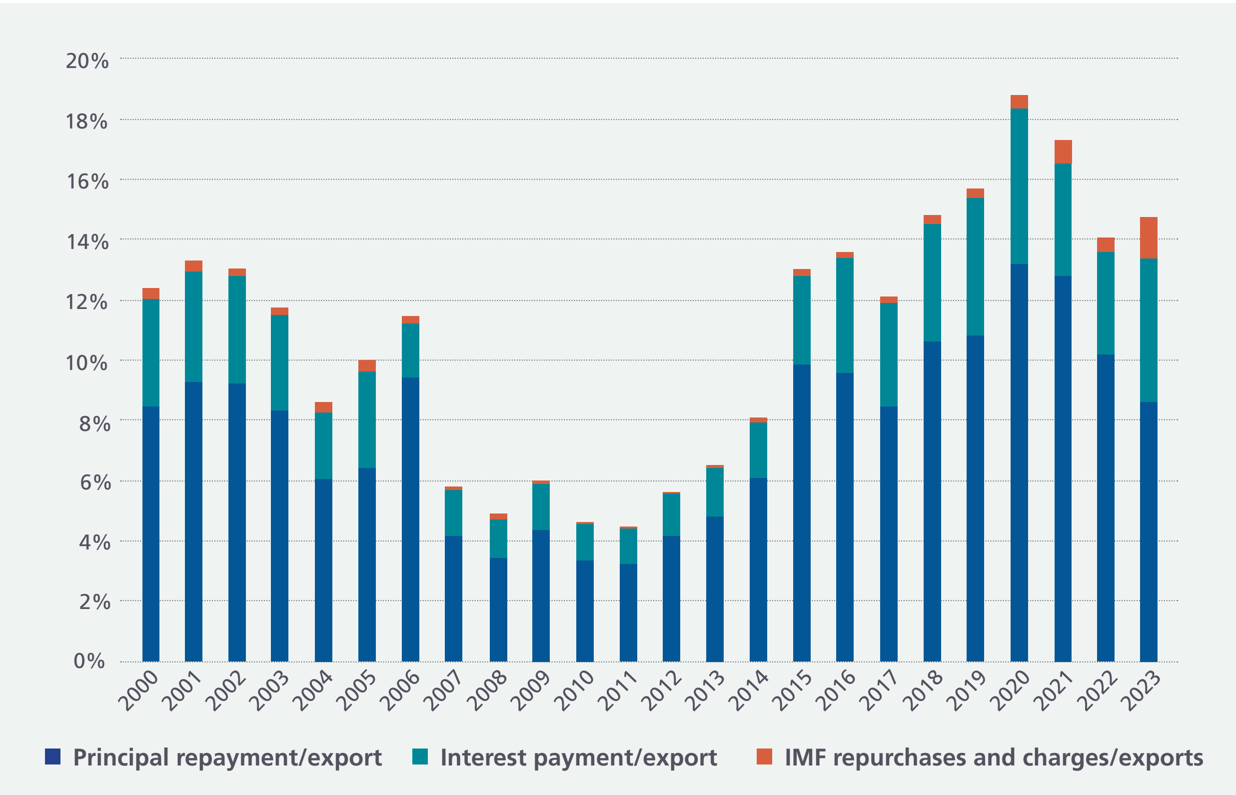
Still, since 2008, after the completion of HIPC, Africa's debt has more than tripled, rising from $208 billion in 2008 to $746 billion in 2023, as shown in Figure 1, outpacing GNI growth. Moreover, if we look beyond amortisation schedules and levels in the debt stock, we find that many African countries face two pressing challenges that justify debt relief. First, the high cost of contracted debt is squeezing both the current capacity to import and their fiscal space. Second, Africa urgently needs to boost investments in climate and development priorities. Investment is needed to generate growth and enhance debt-servicing capacity. However, for countries already nearing debt distress, debt-financed investments could push them into distress even sooner (Gallagher et al. 2024).[2] Therefore, to ensure a stable trajectory through 2030 and beyond, pre-emptive debt relief would help create a clean balance sheet and accommodate the necessary investment boom.

2.1. Africa's high cost of debt as a constraint to growth

On the external front, many African countries depend on imports of intermediate goods and technologies, as well as basic consumption and developmental needs. This makes it crucial that the use of export earnings is not dominated by external debt service. As shown in Figure 2, the latest 2023 data shows that African countries, on average, spend 14.8% of their export earnings on external debt service, up from 4.5% in 2011 and 13.3% during HIPC in 2001. The evidence shows that the burden of interest payments has increased. In 2001, amortisation accounted for 9.3% of exports, and interest payments for 3.7%. By 2023, amortisation decreased to 8.7%, while interest payments rose to 4.7%.

FIGURE 2

Africa's Total External Debt Service (including IMF repurchases and charges) as share of their Exports of goods, services and primary income, 2000- 2023



Source: WB IDS (2024).[3]

2. https://academic.oup.com/jae/article/33/Supplement_2/ii8/7929327?login=false
3. Country inclusion in the analysis depended on the availability of data.

This high cost of debt in the post-HIPC period shifted away from concessional lenders to an increased reliance on commercial creditors. As shown in Table 1, while the World Bank's share of Africa's debt has remained nearly constant at just under 20% and African Development Bank around 7% between 2008 and 2023, bondholders have become the dominant creditor group. In 2008, bondholders held 12% of Africa's external Public and publicly guaranteed (PPG) debt ($25 billion), a share that grew to 25% by 2023 ($186 billion). Another trend during this period is the rising prominence of China among bilateral creditors, with its share increasing from 4% ($7 billion) to 8% ($62 billion). In this time Paris Club members, who often offered highly concessional rates, decreased their lending significantly from 28% ($57 billion) to just 6% ($48 billion).

TABLE 1

Africa's Public and Publicly Guaranteed External Debt Stock by creditor class, share of total, 2008 and 2023

	2008	2023	2008	2023
Creditor Class	**Share Total (%)**		**$ Billion**	
Paris Club (Bilateral)	28%	6%	57	48
China (Bilateral)	4%	8%	7	62
Other Bilateral	7%	6%	14	45
World Bank	18%	19%	37	138
African Development Bank	7%	6%	15	45
Other Multilateral	10%	9%	21	64
Bondholders	12%	25%	25	186
Other Private Creditors	13%	14%	26	101
Use of IMF Credit	2%	8%	4	56
TOTAL	100%	100%	208	746

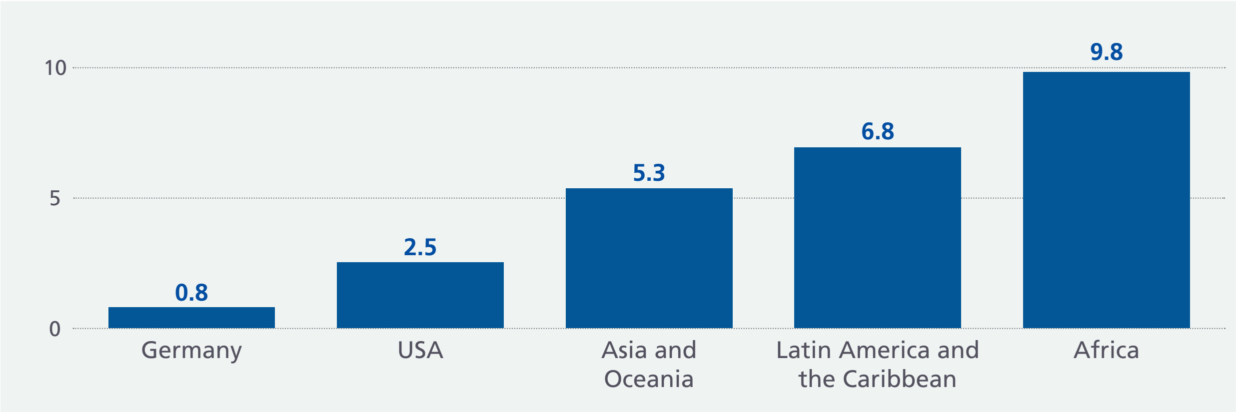
Source: WB IDS (2024).

Even the poorest African nations have increased their reliance on commercial lenders. Among the 36 countries eligible for World Bank International Development Association (IDA) funds, with per capita incomes below $1,335 (WB 2025), reliance on bondholders grew from 3% to 17% between 2008 and 2023. While significant, this increase is still below the non-IDA pattern, where reliance on bondholders rose from 21% to 35%.

Between 2000 and 2020, borrowing from multilaterals and the Paris Club by low- and middle-income countries averaged around 2% per year, while borrowing from China ranged from 3.2% to 3.7%, and borrowing by issuing bonds averaged 5.6% (Gelpern et al. 2023). Thus, the shift towards commercial creditors alone would increase the interest payment burden for Africa. But on top of that, Africa has the highest borrowing costs compared to other developing regions. As Figure 3 shows, developed nations have substantially less of a cost of borrowing burden from private markets, with Germanys' bond yields averaging 0.8% between 2000-2024, while for the US this is 2.5%. But even compared to other developing regions, Africa faces higher costs. While Asia and Oceania bond yields were on average 5.3% and Latin America and the Caribbean 6.8%, Africa's was 9.8%, highlighting the region's unique challenges in accessing affordable financing.

FIGURE 3

Sovereign Bond Yields (average 2020- 2024) in Germany, US and different world regions, in percentage

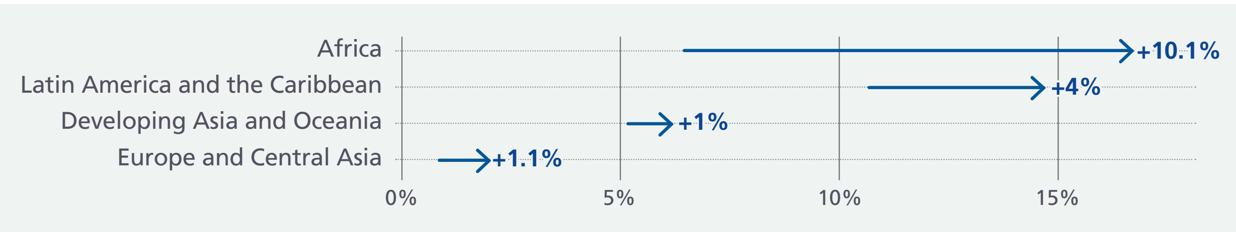


Source: UNCTAD, World of Debt (2024).[4]

In addition to the external debt service burden, Africa's fiscal space is shrinking faster than in other developing regions. Figure 4 shows a sharp rise in public debt (domestic and external) interest payments (excluding amortisation) as a share of government revenues, which increased by more than 10 percentage points between 2010 and 2023 — the largest increase among all regions. By 2023, interest payments alone accounted for 16.7% of government revenues in Africa, compared to 14.7% in Latin America, 6.2% in Developing Asia and Oceania, and 2% in Europe and Central Asia. Overall, the African Development Bank Group (ADBG) estimated that in 2024, African governments spent $163 billion on debt servicing, a sharp increase from $61 billion in 2010 (ADBG 2024).

FIGURE 4

Public debt (domestic and external) interest payment as a share of government revenues, by region, 2010 vs. 2023



Source: UNCTAD, A World of Debt Database (2024).

Several factors explain why interest payments are consuming Africa's fiscal space. After the Covid-19 pandemic, many African countries were unable to borrow externally at sustainable rates (Dryden and Volz 2025). This led many countries with no option but to increase reliance on domestic market borrowing (S&P 2023) that left some countries unable to offset the decline in external financing without increasing their interest rates or increasing pressure on capital outflows (S&P 2023).

The Bloomberg AFMI African Bond Index tracks trends in the marginal costs of issuing local currency debt. Figure 5 highlights recent volatility in the index, showing a sharp increase in yields between 2020 and 2024, indicating higher cost of issuing local currency debt for governments already burdened by external debt. Global financial conditions have worsened since 2022, as advanced economies raised interest rates to combat inflation, further complicating African nations' ability to issue new debt or refinance existing obligations.

4. Average JPM EMBI Global Diversified USD bond yields per region and 10-year bond yields of Germany and the US from January 2020 to May 2024.

FIGURE 5

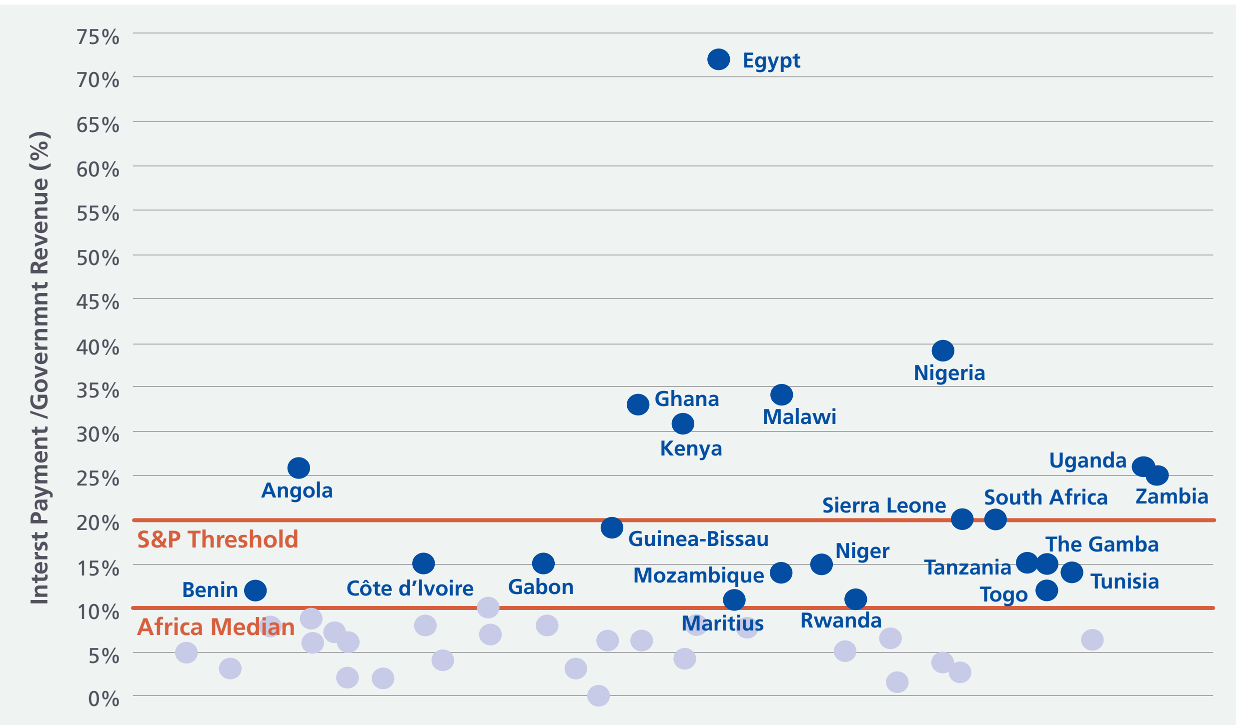
AFMI African Bond Index (inverted)

Source: Bloomberg (2025).[5]

Figure 5 highlights African countries with the highest shares of government revenues consumed by interest payments in 2024. Egypt tops the list, where over 70 cents of every dollar paid by taxpayers goes toward servicing interest payments. It is followed by Nigeria, where nearly 40 cents is allocated to interest payments, and Malawi with 33 cents. Even after restructuring, Zambia and Ghana continue to face high burdens, with 32% and 25% of government revenues, respectively, going toward interest payments. A recent study by Standard & Poor's (S&P 2024) highlights that one of the early warning signs of sovereign debt default is when interest payments approach 20% of government revenues. While several countries are nearing this benchmark, as seen in Figure 6, most African nations continue to service their debt. This is a choice not to default on debt but leads African countries to default on their development.

FIGURE 6

Interest payments as share of government revenues (%), 2024



Source: own elaboration based on WEO (2024)

5. Y-axis associated with index points (inverted). A rising value suggests higher yields and lower bond prices.

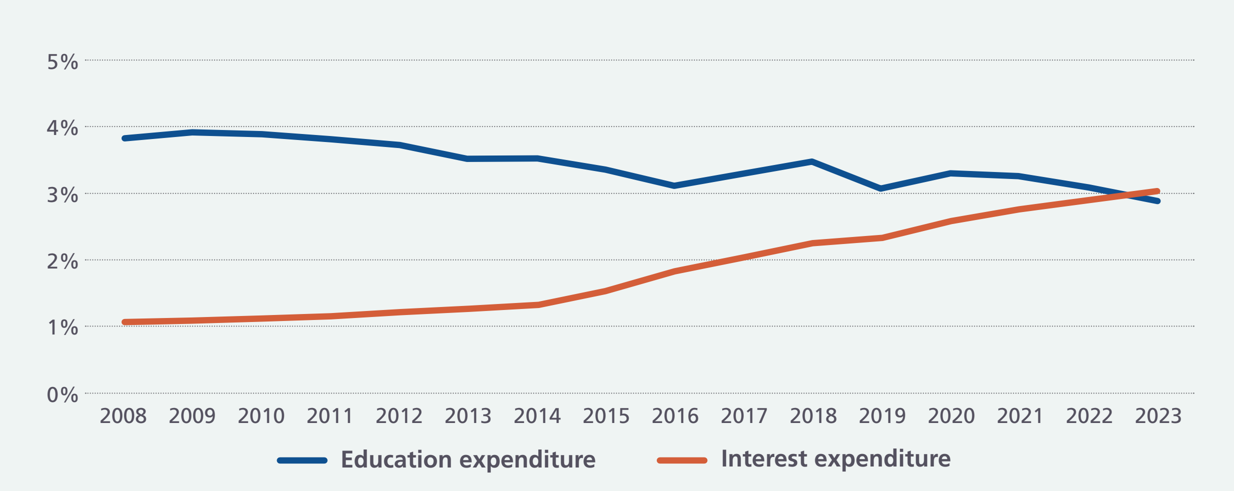
2.2. Defaulting on development

High debt servicing strains public finances, crowding out spending in key areas. For example, Figure 7 shows that interest payments in Sub-Saharan Africa (SSA) increased from 1.3% of GDP to 3.2% between 2008 and 2023, while education spending decreased from 3.9% of GDP to 2.9%.

SSAn nations are now spending more on interest payments than on education. A similar trend is discernible for health expenditure (UNCTAD 2024). On average, African nations spent 27% more on interest payments than on healthcare. Out of the 49 countries for which data is available, 30 of them allocate more to servicing debt interest than to public health (excluding principal repayments) as shown in Figure 8.

FIGURE 7

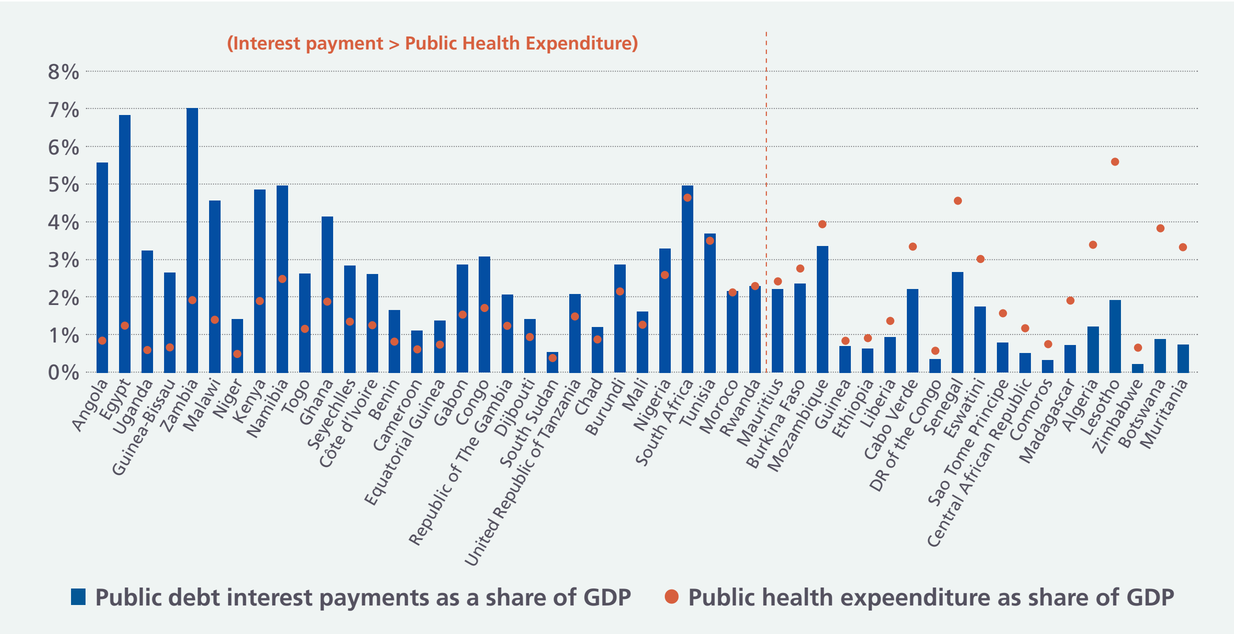
Government spending on education and public interest payment as a share of GDP in Sub-Saharan Africa, 2008-2023



Source: WB, World Development Indicators; IMF, World Economic Outlook

FIGURE 8

Interest payments on public debt and health expenditure as share of GDP for African countries



Source: UNCTAD, A World of Debt Database (2024).[6]

6. Public debt interest payments refer to 2023; annual values for public health expenditure refer to the 2020-2022 average

Based on countries' NDCs — climate action plans under the Paris Agreement outlining targets for emissions reduction and climate adaptation — the Climate Policy Initiative estimates annual climate finance needs between 2021 and 2030 outlined in Table 2 (CPI 2024). Despite the urgent need for climate adaptation investment and insufficient finance, African nations are projected to spend more on debt servicing than climate adaptation until 2030. On average, debt service will account for 137% of Africa's annual climate finance needs. Table 2 highlights the countries with the largest gaps between debt service payments and climate finance needs.

TABLE 2

Africa's External Debt Service and Climate Finance Needs

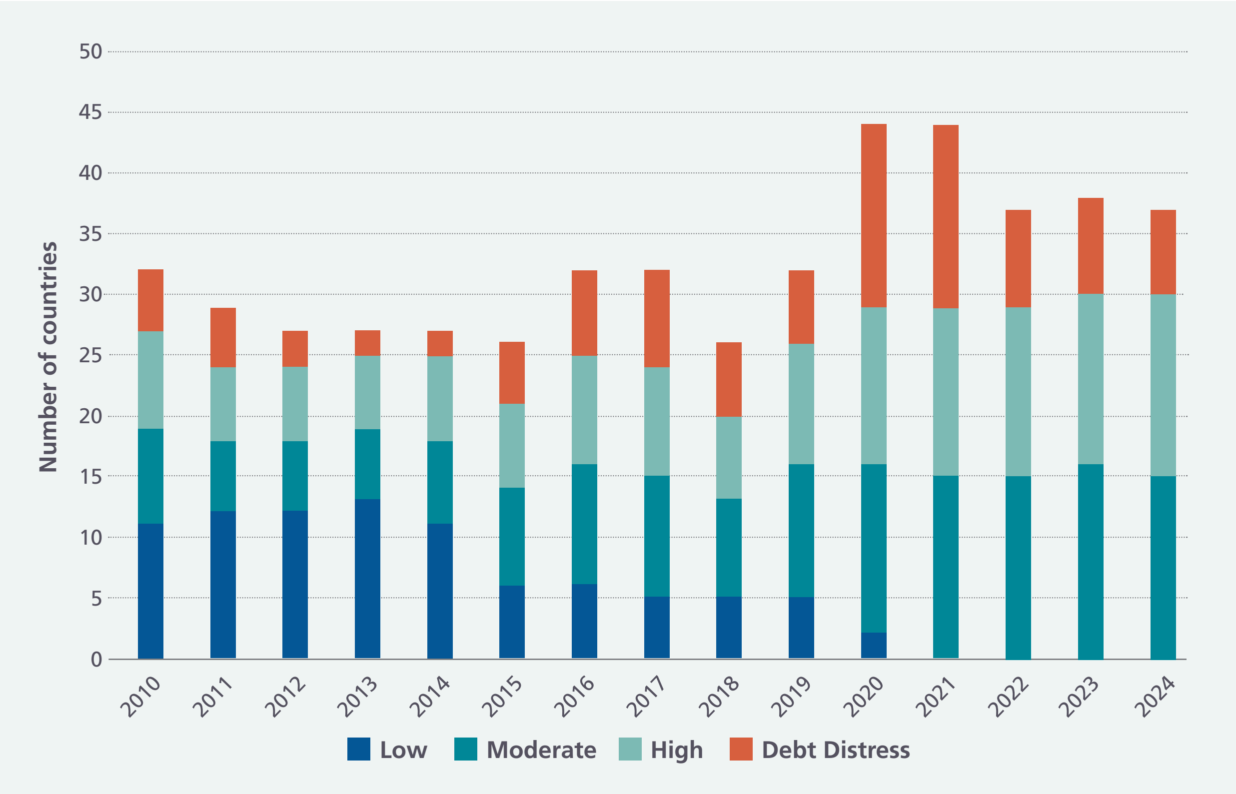
Country Name	(a) External debt service yearly average 2024-2030 (in $ millions)	(b) Climate needs yearly average 2021-2030 (in $ millions)	C=a/b Yearly average Debt Service/ Yearly average Climate needs
Gambia	103.6	3.2	3259.5%
Gabon	706.5	253.8	278.4%
Ghana	3395.3	1314.9	258.2%
Senegal	2369.5	1262.2	187.7%
Cote d'Ivoire	3744.1	2000.0	187.2%
Sao Tome and Principe	22.1	14.7	150.1%
Angola	8815.2	6912.2	127.5%
Guinea-Bissau	82.5	68.1	121.1%
Liberia	56.5	48.2	117.3%
Burkina Faso	442.9	401.6	110.3%
Uganda	1217.6	2545.5	108.1%
Mozambique	779.2	819.3	95.1%
Benin	989.4	1072.7	92.2%
Eswatini	116.3	147.3	79.0%
Congo, Rep.	774.0	4788.3	78.0%
Mauritius	481.6	638.2	75.5%
Zimbabwe	316.7	474.7	66.7%
Cabo Verde	152.1	232.3	65.5%
Morocco	4842.2	7448.4	65.0%
Kenya	3924.3	6374.7	61.6%
Egypt, Arab Rep.	13243.1	23616.0	56.1%

Source: WB IDS (2024); CPI (2024).

Currently, many African countries are in a financial armlock with little hope of release. Among those African countries eligible for concessional finance, none are considered to have a low probability of debt distress since 2021 as Figure 9 shows. Many countries that borrow commercially and have access to credit ratings have experienced credit downgrades. Particularly during periods of high economic uncertainty, a perceived risk of default can prevent new investments. This perpetuates a vicious cycle of under-investment and financial distress.

FIGURE 9

Number of African Countries by Risk of Debt Distress Classification



Source: IMF, replicated from AFDB & AU (2025).

As Figure 9 shows, 14 countries in Africa are currently in debt distress or with high risk of debt distress – a figure that could be underestimated, considering the flaws of the IMF-DSA. An enhanced DSA that incorporates investments needs in development and climate could indicate that a larger number of countries need debt relief. Given the development challenges low-income nations face, it is crucial to analyse the burden ratio dynamically, accounting not only for its current state but also for future investment needs and its impact on economic growth. The G20 Independent Expert Group (2023) estimates that by 2030, EMDEs, excluding China, will need an additional $3 trillion in investments to meet climate and development goals aligned with the United Nations 2030 SDGs and the Paris Agreement. Of this amount, $1 trillion would need to come from external financing. By incorporating these external financing needs into an enhanced DSA, Zucker-Marques et al. (2024) find that, despite the positive growth spillovers, an increasing number of countries are expected to breach external debt sustainability indicators within the next five years. As a result, the number of African countries exceeding debt thresholds will rise from 14 to 33 (Figure 10).

Africa deserves a fresh start, with a clean slate, enabling it to break free from the constraints of excessive debt service burden and unlock new opportunities for growth and development.

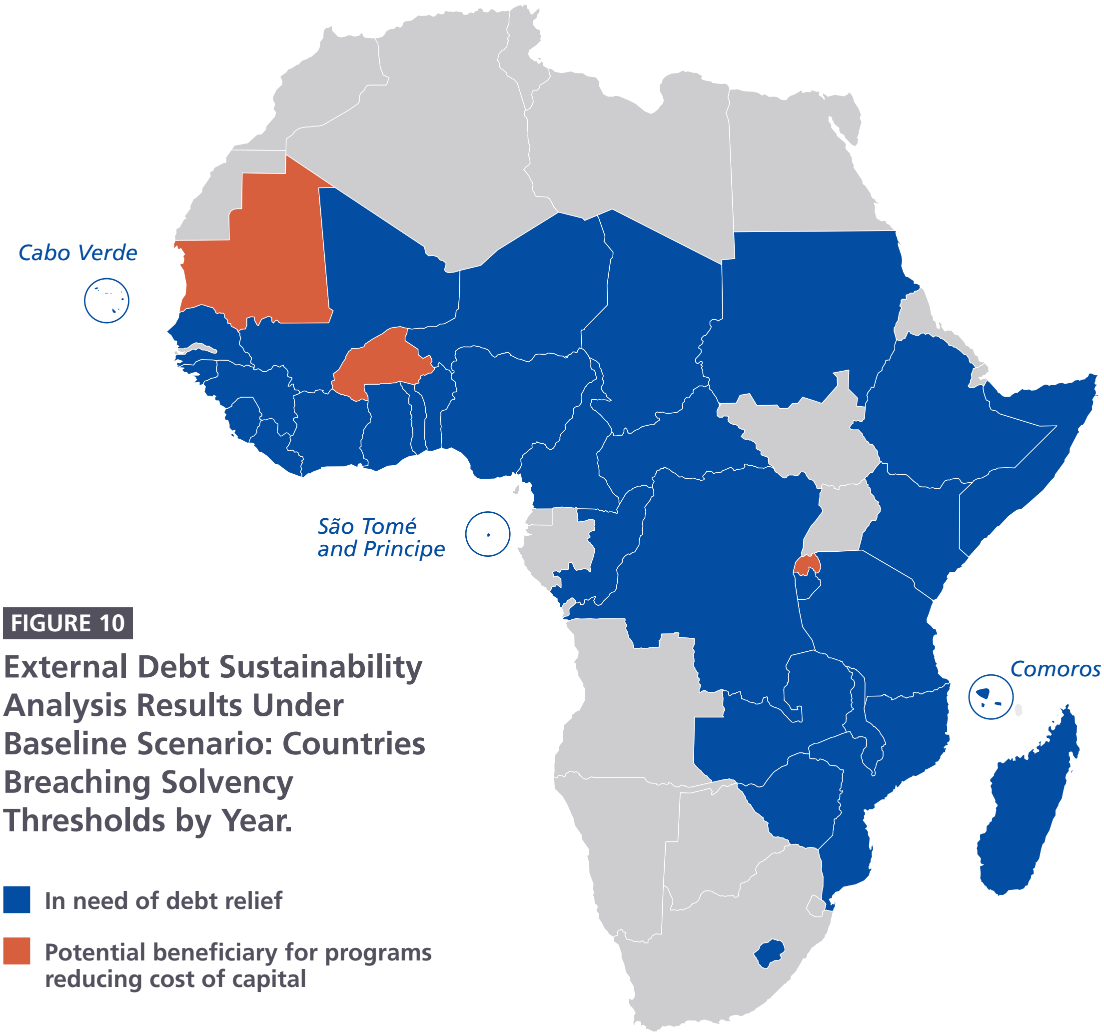


FIGURE 10

External Debt Sustainability Analysis Results Under Baseline Scenario: Countries Breaching Solvency Thresholds by Year.

- In need of debt relief
- Potential beneficiary for programs reducing cost of capital

Year	Country Name	PV/GDP	PV/ Exports
2022	Guniea-Bissau	2022	2022
2022	Mozambique	2022	
2022	Somalia	2022	2022
2022	Sudan	2022	2022
2022	Zambia	2022	
2022	Cabo Verde	2022	
2022	Cong, Rep.*	2022	
2022	Djibouti	2022	
2022	São Tomé and Principe	2022	2022
2022	Ethiopia		2022
2022	Burundi	2025	2022
2022	Central African Republic	2025	2022
2022	Gambia	2026	2022
2022	Niger	2026	2022
2024	Sierra Leone	2024	2025
2024	Comoros	2026	2024
2024	Malawi	2027	2024

Year	Country Name	PV/GDP	PV/ Exports
2025	Lesotho	2025	
2025	Kenya		2025
2026	Chad	2026	
2026	Madagascar	2026	
2026	Benin	2026	
2026	Ghana	2026	
2027	Congo, Dem. Rep.	2027	
2027	Mali	2027	2027
2027	Zimbabwe	2027	2027
2027	Liberia	2027	
2027	Tanzania		2027
2028	Cote d'Ivoire	2028	
2028	Guinea	2028	
2028	Togo	2028	2028
2028	Cameroon	2028	
2028	Senegal	2028	
2028	Nigeria		2028

Source: Zucker-Marques, Gallagher and Volz (2024).[7]

7. Under the baseline scenario, the Republic of Congo is projected to fall below the threshold in 2028, while Dominica is expected to drop below it in 2027. Once breached, all other countries remain above the threshold. Note that current methodologies do not account for domestic debt accumulation, outcomes may change when domestic debt is also considered. Details are only available for Lower Income Countries (LICs) in Africa.

3

DEBT DISTRESS SINCE COVID-19: HAS THE G20 DELIVERED AN EFFECTIVE SOLUTION?

Historically, discussions on debt relief have taken place across multiple forums. The Paris Club, established in 1956, has been a key platform for restructuring sovereign debt owed to mostly Organisation for Economic Development and Co-operation (OECD) official bilateral creditors. In the 1970s, UNCTAD's Trade and Development Board offered a negotiating forum and the United Nations has since been a key space to establish principles, norms and build consensus.[8] During the 1980s, the Baker and Brady Plans were led by the U.S. Treasury and advanced through the IMF to contain the Latin American debt crisis. The HIPC, which aimed to provide comprehensive debt relief to eligible countries, was launched by the IMF and World Bank in 1996.

After the Covid-19 pandemic the dominant forum for debt relief discussions has become the G20. The G20's key responses included the creation of the Debt Service Suspension Initiative (DSSI) and the Common Framework in 2020. However, both efforts have fallen short of the needs of developing countries, especially in Africa.

3.1. The Debt Service Suspension Initiative

The DSSI, launched in May 2020, aimed to suspend debt-service payments for poor countries until December 2021, allowing them to redirect resources toward the pandemic response (World Bank 2022). However, the initiative faced significant limitations, including a narrow scope and lack of comparable participation from all creditors. Debtors had concerns about potential unintended consequences such as short-term ramifications from subsequent credit downgrades that prevented them from applying. Following the DSSI, repayment pressures increased once again.

During the DSSI only a fraction of total debt service — from bilateral creditors — was eligible for suspension as participation was not mandatory for MDBs (which provided positive net flows to countries) or private creditors (who abstained entirely, except for one private lender) (World Bank 2022). Beyond the limited volume of debt that could be suspended, many countries chose not to apply for the DSSI (or delayed their application) due to concerns about potential credit downgrades. As a result, only $12.9 billion was suspended across 48 of the 73 eligible countries. For SSA, the average savings amounted to just 0.4% of the countries' individual GDP — an amount far too small to meet the resources needed to address the pandemic and support development (Fuje et al. 2021).

The unequal participation of creditors in the DSSI raised questions of fairness, as official creditors participated to different degrees. For instance, while China held just 30% of total bilateral claims, it suspended 63% of total eligible payments while MDBs with 18% of total claims, rescheduled just 1% (Brautigam and Huang 2023). This disparity raised concerns about free-riding that complicated subsequent debt negotiations.

Despite ever rising payment levels, the DSSI sunsetted in 2021, and challenges persisted beyond the suspension period. From January 2023, when repayments resumed after a one-year grace period,

8. See, for instance, UNCTAD Principles on Sovereign Lending and Borrowing, 2012; General Assembly Resolution on sovereign debt restructuring process 2014; Financing for Development (FfD) process).

participating countries began repaying the suspended debt with accrued interest, as the DSSI was designed to be Present Value (PV) neutral – meaning that after suspension, the total value of future payments, adjusted for time, would stay the same for the lender. To make matters worse, DSSI-eligible countries experienced an average currency depreciation of 22.5% against the US dollar between the end of 2019 and January 2023 (Brouwer 2023), making repayments even costlier in domestic terms and deepening their financial distress.

3.2. The Common Framework

Although the DSSI was established to help countries facing short-term payment walls, it became increasingly apparent that waves of defaults could result from Covid-19 and subsequent shocks. In October 2020, the G20 endorsed the creation of the Common Framework Beyond Debt Service Suspension Initiative (Common Framework) to provide a more comprehensive solution to countries in need of restructuring unsustainable debt (G20 2020). The Common Framework, which adopted a case-by-case approach to restructuring, introduced an institutional innovation by expanding the negotiation table beyond Paris Club creditors to include countries like China and Saudi Arabia who are not Members of the Paris Club of OECD creditors.

However, the Common Framework had several major flaws that undermine its stated purpose "to support borrowing countries to promptly achieve debt sustainability," (G20 2024). These flaws include, that: 1) it is slow, with prolonged negotiations; 2) it provides minimal debt relief, preventing countries from embarking on new development paths; 3) it fails to ensure fair participation from all creditor classes; 4) it lacks linkages between debt relief and future development goals; and 5) it excludes countries that need debt relief.

These flaws make the Common Framework an difficult option for developing countries facing debt distress that are in need of restructuring. It comes as no surprise that, although 14 low-income African countries are either in debt distress or with a high probability of debt distress (IMF 2024), to date, only four countries — Chad, Ethiopia, Zambia, and Ghana — have applied for restructuring their debt under this framework. Malawi, which is restructuring its sovereign debt, opted not to pursue negotiations under the CF (IMF 2023).

The first of these flaws is acknowledged by IMF Managing Director Kristalina Georgieva and the G20 during Brazil's Presidency, noting that the Common Framework delivers too slowly, with unclear steps, insufficient information sharing, and unpredictable timelines. (Georgieva and Pazarbasioglu 2022; G20 2024). Zambia is a case in point, where the debt restructuring process left the economy stagnant for over 3.5 years, with limited access to much-needed finance (Grigorian and Bhayana 2024). This prolonged process ultimately deters countries in need of relief from seeking restructuring. As a key policy to speed up the restructuring process the IMF has reformed its Lending into Official Arrears (LIOA) policy. This now permits lending to countries that still owe payments to other official creditors, as an attempt to solve the slow process of the Common Framework (IMF 2024). However, the source of lethargy in the Common Framework goes deeper and can also be put down to its failure to coordinate its diverse set of creditors that have varying political interests, institutions, and propensities to take haircuts (Diwan et al. 2023).

Even when debt restructuring is provided, there is no guarantee that it is sufficient to put countries on a path toward development. The second flaw of the Common Framework is its unsound approach to determining the size of debt relief. To do so, it relies on the DSAs conducted by the IMF which have been repeatedly criticised for forecast errors that overestimate growth, leading to overly optimistic projections of debt-to-GDP reduction and underestimating the need for debt relief. (Estefania-Flores et al. 2023; Raga 2024). Moreover, the DSA does not adequately address climate vulnerabilities nor macro-financial risks affecting nature and biodiversity (Maldonado and Gallagher 2022; Kraemer and Volz 2022). Finally, IMF DSAs have failed to adequately account for the financing needs required to help countries meet their SDGs and have exhibited an anti-investment bias (Zucker-Marques 2023, Gallagher and Volz 2024; Ball et al. 2021). As a consequence of these flaws, the need for debt relief has been underestimated, directly impacting countries and their populations. Ghana, for example, despite restructuring its debt, will need to service $8.7 billion over the next four years — equivalent to 10.9% of its current GDP — leading the government to announce the need for a "shock therapy" of spending cuts (Akorlie 2025), which is widely documented in economic literature to undermine growth, exacerbates unemployment, and worsens poverty levels. Another example is Zambia, which, in the post-restructuring period, has faced a drought that increased import needs, pressured inflation, and devalued its domestic currency (Goko-Petzer 2025). Despite these challenges, Zambia will still need to pay nearly $2 billion to external creditors in 2025 (WB IDS 2024), equivalent to about 6% of its GDP as projected by the IMF.

A third fundamental flaw of the Common Framework is its failure to ensure the participation of all creditor classes in a fair and comparable manner. This includes the problem that the Common Framework lacks effective tools to encourage and enforce comprehensive participation, particularly from private creditors who often are paid earlier and bear less cost than official creditors (Schlegl et al. 2019). Although private creditors price the risk of default "ex ante", they have not assumed the costs in case of default, as the case of Zambia demonstrates (Zucker-Marques 2023). Without incentives for private sector involvement, these creditors can benefit from any financial recovery of the sovereign at the expense of those creditors that participated (Munevar 2021; UNCTAD 2023).

Another factor that jeopardises participation of all creditor classes is that the Common Framework lacks a predictable and enforceable system for ensuring comparability of treatment (CoT) among creditors. The Common Framework does not introduce any new mechanisms to promote CoT beyond the outdated Paris Club principles, which have often failed in the past. The main indicators used in making a calculation of CoT include three indicators (G20 2024). The first is the change in debt stock's net present value (NPV). The second is the change in duration, and the third is a change in nominal debt service over the IMF program period. However, the assessment of CoT is not based on rules, but rather based on a flexible assessment of the CoT using these indicators, balancing the size of the relief made by various creditors on their preferences, and the time horizon (G20 2024).

Fourth, the Common Framework also fails to offer a vision for a more sustainable International Financial Architecture because it does not solicit the commitment by creditors and debtors to use any new fiscal space created by the debt restructuring for their development and climate transitions (Volz et al. 2020). Part of this failure lies in the absence of principles to guide debtors and creditors towards equitably meeting their environmental, social, and human rights commitments as an envisioned outcome of negotiations. The Common Framework is, therefore, not adequately linked to goals for development and ecological sustainability despite that all members of the G20 have signed on to the SDGs and the Paris Climate Agreement [9].

Finally, the Common Framework takes a piecemeal approach by offering limited coverage to too few countries, too late (UNCTAD 2023). The eligibility model of the framework is flawed because it has not extended restructuring opportunities to many highly indebted countries that are excluded despite needing relief because they are classified as middle-income countries (Volz et al. 2020; Georgieva and Pazarbasioglu 2021).

Discussions about extending the framework to middle-income countries or introducing standstills remain hypothetical without first addressing the enforcement of comprehensive creditor participation. The threat of default is supposed to act as an enforcement mechanism for CoT, but the architects of the Common Framework have not used this powerful mechanism to protect debtor countries (Rehbein 2022).

The shortcomings of an effective Common Framework prevents countries from receiving timely and necessary debt relief. While sovereign default risks remain high the sustained investment necessary for sustainable development on health, education, infrastructure and green transitions declines. This is compounded by increasingly unaffordable imports and shrinking fiscal space that undermines long term growth prospects. The cost of borrowing thus remains high, itself a constraint to current and future investment. A vicious cycle plays out as this further constraints growth and increases the cost of capital. The Common Framework is thus a crucial mechanism in the global financial architecture to achieve the G20's aim to achieve strong, sustainable, balanced and inclusive growth. The Common Framework needs urgent reform to make it fit for purpose.

9. With the exception of the USA that retracted from the Paris Climate Agreement, and their commitment to the SDGs in 2025 (USA 2025).

4

DEBT RELIEF PROPOSAL AND ROADMAP FOR THE G20

Several recommendations have been put forward to address the current challenges developing countries are facing. For instance, the Bridgetown Initiative emphasises the need for a broad reform of the international financial architecture, including increasing funding for MDBs, enhancing concessional funds, addressing loss and damage, reforming the governance of international financial institutions, mitigating financial risks, and improving carbon pricing mechanisms. Regarding debt distress it suggests inserting clauses into debt instruments that pause payments during climate and other external shocks (Bridgetown Initiative 2025). While these reforms are fundamental, they should be seen as complementary to debt relief initiatives.

Analogous to the DSSI, a few proposals have been advanced to ease the debt burdens of countries perceived to be predominantly facing liquidity problems (Diwan et al.2023; Diwan et al. 2024; IMF/WB 2023). Such proposals identify the "liquidity" problem, as stemming from creditors' difficulty to roll over debt at sustainable prices and propose measures for countries to build a 'bridge' until payments can be more sustainable. Like the DSSI these proposals advocate a case-by-case approach, where the IMF and MDBs scale up support with hopes that such support will ease creditor concerns such that they roll over debts at more sustainable rates. While there is indeed a category of countries that face this problem and would not necessarily need to restructure their debts if their liquidity crunch could be alleviated, these proposals have been seen as having some limits. First, the limited accuracy and forecasting errors in current approaches to DSAs make it hard and unclear to decipher the extent to which a nation suffers from a liquidity or pending solvency problem (Sobel and Gallagher 2024). Assuming that such a designation was more clear cut, a significant growth-enhancing financing and fiscal reforms would take time to work, when countries need immediate relief and the problem is widespread (UNDP 2024). Anchoring such approaches in IMF fiscal consolidation programs is also seen as problematic given that such programs further erode fiscal space, are not growth enhancing, and further detour nations away from development prospects (Kentikelenis and Stubbs 2016). Amid global macroeconomic uncertainty, higher interest rates in advanced countries, and despite ongoing reform programs, many creditors remain unwilling to roll over debt unless highly compensated. Such as in Kenya, where refinancing costs reached 9.75% per year, which worsened their immediate debt position and heightened the need for subsequent relief (Zucker-Marques et al. 2023).

A new and comprehensive approach is needed. To achieve this, the G20 should address the five flaws of the Common Framework through concrete policy reform.

4.1. Create incentives to participation and streamline negotiations

To address the prolonged and opaque debt relief process under the Common Framework, the G20 should first establish an automatic debt service standstill for any country that applies to participate. For instance, a two-year standstill for all creditors could be implemented during which no claims would accrue interest. This approach offers two key benefits: first, it would encourage creditors to expedite the resolution process by removing incentives to delay; second, beyond giving some breathing room, it would give a clear incentive to debtors to pursue debt relief without bearing the burden of negotiation delays alone.

A debt standstill or moratorium may be easier to implement among official creditors. However, without the agreement of private creditors, a standstill could be considered a default, potentially triggering legal

TABLE 3

Summary of Flaws in the G20 Common Framework and Proposed Reforms for the G20 South Africa

Flaw		Description	Proposed reforms to G20
1	**Slow and Unclear Process**	CF negotiations take too long, are case-by-case, with unclear steps and timelines, deterring countries from applying.	• **Create Incentives to participation**: Automatic 2 years debt service standstill, with no accumulation of interest arrears. • **Streamline negotiations** by applying a group solution to all countries in debt distress during systemic crises, rather than a case-by-case approach.
2	**Insufficient Debt Relief**	Reliance on IMF Debt Sustainability Analyses (DSAs), underestimates the need for relief due to optimistic growth forecasts, and failure to account for climate risks and SDG financing needs.	• **Tailor Debt Relief to Investment Needs and Climate Risks**: Adjust debt relief amounts based on enhanced version of existing IMF DSAs in order to incorporate: 1) projections of investment needs, 2) climate risks.
3a	**Weak Enforcement of Comparability of Treatment (CoT) rules**	No clear rules of Comparability of Treatment, neither tools to enforce them	• **Create a simple "fair" comparability of treatment rule** that accounts for "ex-ante" risk pricing in lending practices of private creditors and "ex-ante" concessionality of multilateral lenders
3b	**Lack of Creditor Participation**	No mechanism to ensure all creditors participate fairly.	• **Create modalities of debt relief** to accommodate different lenders' preferences, while respecting comparability of treatment rules. Some examples could include: - *For official creditors*: 10/ 20 years reprofiling with reduced interest rates - *For Banking Institutions*: Brady-like bonds. - *For bondholders:* Buybacks at deep discount - *For multilateral creditors*: back-stop their potential losses with replenishment of Debt Relief Trust Fund and selling a fraction of IMF gold
4	**No Link to Development Goals**	CF does not account for debt relief to be used for development, climate transition, or social commitments, missing an opportunity to align debt restructuring with sustainable growth.	• **Design a country-owned, growth-enhancing, investment-led plan** based on countries' Nationally Determined Contributions (NDCs) and SDGs priorities for post-restructuring sustainable development. • Identify and conduct pre-feasibility studies during debt relief negotiations, so priority investments can be financed by debt relief.
5	**Limited Country Coverage**	CF does not include many indebted middle-income countries that also need relief.	• **Expand CF eligibility** beyond PRGR-eligible countries to include middle-income countries.

Source: authors' own elaboration

action. Therefore, securing private sector agreement is crucial to avoid legal costs, this was the case with bondholders in Ukraine who agreed to a two-year moratorium between 2022 and 2024 (Krasnolutska and Do Rosario 2024). Additionally, advancing legislative reforms in key jurisdictions like New York State and London, where sovereign debt is usually issued, could facilitate the creation of a debt standstill mechanism (Conelly et al. 2024).

The distinction between whether a country is facing liquidity challenges or solvency challenges is often blurred. However, with a standstill period in place and a more effective tool (such as an enhanced DSA discussed below), it would be possible to determine whether a country requires comprehensive debt relief or if liquidity support to bend the cost of capital downwards would be sufficient to restore a path toward growth and development.

The IMF, World Bank, MDBs, official bilateral, and private creditors need to facilitate early discussions based on fuller information for greater transparency and clear implications of a default. This includes an enhanced DSA, information on the scope of debt treatment needed, a cut off date for bilateral creditors, the status of new disbursements from contracts signed before the cut-off date (G20 2024). This should be accompanied by the publication of the steps involved in Common Framework on the G20 Website, and greater transparency of sovereign obligations through a global sovereign debt repository (UNCTAD 2023). Finally, to enhance the efficiency of debt relief efforts, the G20 should streamline negotiations by adopting a group-based approach rather than relying on case-by-case negotiations, which are prone to delays and lower participation rates. Many countries are often reluctant to apply for debt relief programs due to the stigma associated with them. By establishing a standardised group solution (for instance, considering all IDA-eligible countries), the stigma would be minimised and broader participation would be encouraged.

4.2. Tailor debt relief to investment needs and climate risks

Debt relief under the G20 Common Framework should use an enhanced DSA to assess which countries need relief and the amount required. Currently, DSAs conducted by the IMF and World Bank fail to account for the urgent need for climate-resilient investments and the long-term costs of climate inaction, leading to an underestimation of debt relief needs.

Specifically, five key considerations for an enhanced DSA are to:

1. Incorporate fiscal spending for climate and development. This could include countries' NDCs in the projections and their plans to invest in SDGs, following their Integrated National Financing Framework instead of focusing on fiscal consolidation (Zucker-Marques 2023, Gallagher, and Volz 2024; Ball et al. 2021).
2. Address the DSA's anti-investment bias and consider the positive growth spillover effects of public investments.
3. Integrate climate risks with more granular data to use advanced climate risk scenarios, and tailor them to individual countries' characteristics (IMF Task Force; Maldonado and Gallagher 2022; Kraemer and Volz 2022).
4. Adopt more realistic growth trajectories, correcting the IMF's overoptimistic bias (Estefania-Flores et al. 2023; Raga 2024).
5. Ensure that recent relief efforts reduce the risk of debt distress to a lower level.

In recent interactions, the IMF Debt Sustainability Framework for Low-Income Countries (LIC-DSF) has shown important improvements. A key innovation in the IMF's recent DSA reform is the integration of climate considerations into debt assessments, especially for countries seeking support from the Resilience and Sustainability Trust (RST) or the World Bank's Catastrophe Deferred Drawdown Option (CAT-DDO). If climate change is deemed macro-critical — though the specific criteria for this determination remain undefined — countries are required to incorporate climate risks into their DSA. The reform also calls for embedding both the risks and benefits of climate investment into baseline scenarios, including how climate shocks may affect growth, fiscal paths, and debt trajectories. Additionally, the updated framework allows for analysis of climate-linked debt instruments, such as Climate Resilient Debt Clauses (CRDCs), enabling a more realistic understanding of how such instruments may impact debt sustainability over time (IMF 2024). However, further adjustments noted above are fundamental to ensure it is a tool that can guide decisions on debt relief.

4.3. Create a simple "fair" comparability of treatment rule and distinct formats of relief

In previous Common Framework negotiations, a contentious issue centered around whether to include or exclude different classes of creditors. Since countries have varying levels of exposure to different creditors (for instance, Malawi borrows mostly from MDBs, but Zambia has more lending from bondholders and bilateral official creditors), the Common Framework should include all creditor classes in negotiations as a standard procedure. However, the extent of debt relief provided should depend on the cost of lending from each creditor. The format of debt relief could be tailored to the preferences of different creditors.

Regarding the burden sharing of losses, creditors, likely in the private sector, charging higher premiums to compensate for the chance of default, would bear a larger share of the burden compared to MDBs offering significant grant elements (understood as an "ex ante" debt relief). In cases where total debt relief is relatively small, creditors with high grant elements may not need to contribute further, but for larger relief efforts, all creditors will need to share the burden more equally.

Following Zucker-Marques et al. (2023), in Table 4 we estimate different debt relief scenarios. One scenaria is based on the 'fair' CoT that considers levels of concessionality of lending. The second scenario considers a 'flat' rate CoT rule where all creditors receive the same discount on the net present value claims. The table uses the 33 low-income African countries identified as needing debt relief as an example.

TABLE 4

Debt Relief: Intercreditor Burden Sharing for 33 Low-Income African Countries in need of Debt Relief

	Nominal Value (outstanding debt as of 2023)	Grant element	Present Value	39% haircut					64% haircut				
				Flat Rate CoT		Fair CoT			Flat Rate CoT		Fair CoT		
				Rate	USD bn	Rate	USD bn	Diff. CoT rules	Rate	USD bn	Rate	USD bn	Diff. CoT rules
All Private creditors	79.8	-6%	84.5	39%	33.0	53%	44.8	11.9	64%	54.1	72%	61.1	7.0
China	44.8	19%	36.4	39%	14.2	39%	14.1	(0.1)	64%	23.3	64%	23.2	(0.0)
Mutilateral excl WB IDA	59.7	27%	43.6	39%	17.0	32%	13.9	(3.1)	64%	27.9	60%	26.1	(1.8)
IDA	91.0	28%	66.0	39%	25.7	31%	20.7	(5.1)	64%	42.2	59%	39.2	(3.0)
Other Official Bilateral	20.1	28%	14.5	39%	5.7	31%	4.5	(1.1)	64%	9.3	59%	8.6	(0.7)
Paris Club	20.0	39%	12.3	39%	4.8	19%	2.3	(2.5)	64%	7.9	52%	6.4	(1.5)
Total/Average	**315.3**	**18%**	**257.3**	**39%**	**100.4**	**39%**	**100.4**	**-**	**64%**	**164.7**	**64%**	**164.7**	**-**

Source: Authors calculations, based on WB IDS (2024) and Zucker-Marques et al. 2023.

According to their position in December 2023, these 33 countries have a total nominal debt stock of $315.3 billion, or $257.3 billion in net present value terms. With a 39% haircut, consistent with historical debt relief levels, we estimate that this group requires a reduction of $100 billion. Under the 'flat rate' CoT, private lenders would bear $33 billion, while the 'fair' CoT suggests they should bear $44.8 billion, reflecting their higher cost of lending which reflected an "ex ante" charge of default risk. China's concessionality is slightly above average for this group, leading to a minor reduction of about $0.1 billion in its contribution under the 'fair' CoT. The World Bank's IDA, with a high level of grant element ("ex ante" debt relief), would see its contribution reduced by $5.1 billion. The right side of Table 4 summarises the results for a HIPC-scale debt reduction of 64%, requiring collective debt relief of $164.7 billion. The pattern is consistent with the previous case, where creditors charging premiums bear a comparatively larger share of the debt relief burden.

Once the debt relief effort by different creditors is agreed, it is possible to create different formats of debt relief, respecting preferences from distinct creditor groups. As an illustrative example:

- For official creditors: a long-term (10 to 20 years) amortisation reprofiling with reduced or zero interest rates can provide debt relief equivalent to a 'haircut.' For example, a 39% forgiveness would have the same net present value reduction as a ten-year extension with a reduced interest rate, from 6% to 2%.(Wang and Qian 2022)
- For bondholders: an upfront repayment rather than long-term reprofiling for bondholders who prefer this, particularly in periods of high interest rates. The establishment of a buyback facility (potentially financed by rechannelled Special Drawing Rights (SDRs)) could purchase bonds at a discount and refinance them for countries with lower interest rates and longer maturities (Bradlow 2024; Gallagher 2024; Zucker-Marques 2024; Stiglitz and Rashid 2020).
- For banking institutions: a Brady-like approach where existing claims at banks would be turned into tradable financial instruments like bonds, in a process known as securitization. These new bonds would be issued in exchange for significant reductions in the amount owed (haircuts) or reduced interest rates. Commercial creditors willing to purchase these new bonds would receive an assurance that their claims are protected. The assurances could be financed by rechannelled SDRs (Volz et al. 2021; Qian 2021).
- For multilateral creditors: reprofiling (as bilateral official creditors do), direct relief, or new lending, by MDBs to support countries in distress. This will require additional backing through replenishments from advanced economies to offset the financial burden. According to S&P (2023), MDBs can absorb the costs of small-scale restructurings involving smaller economies without jeopardizing their credit ratings or preferred creditor status. However, to enable larger-scale relief and continued lending, donors would need to replenish the Debt Relief Trust Fund or recapitalise the banks. Given the high concessionality of MDB financing, supporting debt relief under a fair comparability of treatment rule would likely entail a smaller cost for MDB donors.
- Maintaining lending to developing countries in prolonged debt distress is costly to MDBs' concessional windows, which would be better spent in some circumstances on debt relief. For example, IDA grants based on debt sustainability criteria rose from $0.6 billion (8% of IDA-only commitments) in 2012 to $4.9 billion (36%) in 2021, as more countries fell into distress (Zucker-Marques et al. 2024). Restoring countries to low debt-risk status would allow MDB concessional funds to be used more efficiently, especially in times when donor replenishments are scarce.
- International Monetary Fund: could sell its abundant gold reserves. Given the record-high prices of gold at over $3000 per ounce, the IMF could sell a small fraction of its idle 90.5 million ounces of gold reserves (currently recorded as only $45 dollars ounce on its balance sheet) to support debt relief efforts (Zucker-Marques and Bhandary 2024).[10] The IMF could create a new endowment that would accrue interest over time and serve as a sustainable source of funding for subsidies.

4.4. Design a country-owned, growth-enhancing, investment led plan

During the standstill period, the applicant country, in collaboration with international financial institutions such as the World Bank and the African Development Bank, could conduct pre-feasibility studies for a country's own priority projects to be pursued after the debt relief negotiations are concluded. Countries' NDCs could serve as a guide to assess priority projects. A clear investment portfolio would offer two key benefits: first, creditors providing debt relief would be assured that the proceeds are directed toward socially and environmentally sound projects; second, it would facilitate growth-enhancing investments, accelerating the applicant country's recovery under the Common Framework.

10. https://www.bu.edu/gdp/2024/11/13/a-golden-opportunity-selling-small-share-of-imf-gold-reserves-replenish-catastrophe-containment-relief-trust/

It is fundamental that debt relief is not hooked to an austerity program, which constrains public spending in critical services under the belief that these policies will restore market confidence and spur growth (Kentikelenis et al. 2016). This 'confidence fairy' approach has proven to be poorly supported, as numerous studies show that such conditions often increase poverty (Biglaiser and McGauvran 2022), inequality (Stubbs et al. 2022), and social unrest (Reinsberg et al. 2023), rather than fostering economic stability and future growth.

4.5. Expand the "enhanced" Common Framework eligibility

Finally, the eligibility criteria for the Common Framework should be expanded. Currently, eligibility mirrors that of the DSSI, covering 73 low-income countries. However, several middle-income countries undergoing debt restructuring, such as Sri Lanka and Suriname, were excluded from the Common Framework. Additionally, other EMDEs facing debt distress could benefit from an enhanced Common Framework.

The proposal made here can serve to address the immediate challenges faced by the African continent but is no panacea. Rather, the proposal should be intended as a stepping-stone towards establishing a new global debt architecture that is fair, transparent, efficient, and responsive to the needs of counties in a financially subordinated position. Deeper reforms are required to create a more permanent sovereign debt workout mechanism and to overhaul the global financial architecture (Zucker-Marques and Gallagher 2024).

5 CONCLUSION

Africa faces a pressing challenge as it grapples with the high cost of debt that severely hampers its development prospects. By 2050, Africa's population is expected to reach 2.5 billion, demanding significant investments in resilient human, physical, and natural capital. However, high debt service payments, which often exceed spending on vital sectors like education and healthcare, are squeezing fiscal space and reducing the capacity to invest in the continent's future. Despite these challenges, African nations are committed to servicing their debt, but the slow and inefficient international debt architecture prevents them from securing meaningful relief, leaving the development of their people at risk.

The G20's Common Framework, although established with the intention of providing coordinated debt relief, has not lived up to expectations. It remains a slow, case-by-case process that provides insufficient debt relief, failing to address the depth of Africa's crisis. The framework struggles with ensuring fair participation from all creditor classes and lacks alignment with long-term development goals. These issues, combined with the exclusion of some middle-income countries, leave much of Africa in a perpetual state of debt distress. Without reform, the Common Framework risks perpetuating a cycle of debt dependency rather than fostering sustainable growth.

To address these issues, this report recommends key policy reforms to the G20. First, streamlining the debt relief process by introducing automatic debt service standstills and shifting from case-by-case negotiations to a group-based approach will encourage broader participation. Second, adjusting debt relief to better account for climate risks and investment needs will ensure that the support provided is adequate for Africa's long-term recovery. Third, improving creditor participation through a fair CoT rule will create a more equitable framework for all stakeholders. Additionally, aligning debt relief with development goals, particularly through pre-feasibility studies focused on NDCs, will link debt relief to sustainable growth.

Debt relief will be no panacea for Africa. The level of relief needs to free up fiscal and borrowing space to make sound investments in growth enhancing structural change to break the insidious cycle that many countries in the continent endure. Africans and international institutions will have to invest in institutional building and domestic capacity not only to make investment work for development but also to prevent and mitigate external shocks going forward. This requires reforms of the international financial architecture that can deliver larger and more affordable levels of development and liquidity finance. In particular, Africa will need more long-term, affordable, and productive capital, and MDBs can play a key role in providing this type of finance. For this, MDBs with strong capital bases and rechanneled SDRs are fundamental. Moreover, Africa will need better access to short-term finance. A new issuance of SDRs and a revamped Global Financial Safety Net could provide sufficient liquidity in times of financial turmoil. Debt relief is not a silver bullet for Africa, but it must be considered as part of a global effort to set the continent on a path to development. This moment in history offers a unique chance to reshape the global debt architecture and deliver on the promise of a prosperous future for Africa. A continent of 2.5 billion people is too big to fail.

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