



Beyond a Blueprint

Reconciling Sovereign Debt Reform Proposals with Impact and Reality

MARY SVENSTRUP · MASOOD AHMED · CHARLEY WARD

Abstract

Many developing countries are experiencing high debt and debt service burdens, built up through repeated shocks, large fiscal deficits, and tighter external financing conditions. Despite these trends, the policy response remains fragmented. This is partly because there is not a single debt problem, but rather a set of overlapping liquidity and solvency pressures that affect countries differently. It is also due to rising geopolitical and financial constraints, including shrinking donor budgets, that make the conditions for ambitious debt reform especially difficult.

Recent reports have advanced a wide range of creative reform proposals, but these have not always been sufficiently differentiated by country circumstances or reconciled with current political and financial constraints. This paper seeks to organize and reconcile these proposals to identify what is both needed and achievable in 2026. It does so by identifying groups of countries that face similar issues based on their macroeconomic and financial positions, providing a taxonomy of existing debt proposals, and discussing underlying assumptions based on the current geopolitical landscape that will need to be factored into the feasibility and design of any proposal.

Beyond a Blueprint: Reconciling Sovereign Debt Reform Proposals with Impact and Reality

Mary Svenstrup, Masood Ahmed, and Charley Ward

Center for Global Development

Mary Svenstrup, Masood Ahmed, and Charley Ward. 2026. "Beyond a Blueprint: Reconciling Sovereign Debt Reform Proposals with Impact and Reality." CGD Policy Paper 395. Washington, DC: Center for Global Development. <https://www.cgdev.org/publication/beyond-blueprint-reconciling-sovereign-debt-reform-proposals-impact-and-reality>

CENTER FOR GLOBAL DEVELOPMENT

2055 L Street, NW Fifth Floor
Washington, DC 20036

1 Abbey Gardens
Great College Street
London
SW1P 3SE

www.cgdev.org

Center for Global Development. 2026.

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Introduction

In recent years, there has been a growing refrain in international forums and among development experts: we have a debt problem, and the current approach to addressing it is failing.

High debt and debt service burdens—built up through repeated shocks, insufficient concessional financing, high borrowing costs, and large fiscal deficits—have left many developing countries more vulnerable to new shocks while crowding out social spending and investment. On top of this, recent ODA trends foretell a new permanently lower level of grant financing. Together, these shifts mark a significant break in how countries, especially the poorest, will finance development going forward and necessitate a rethink of a development finance architecture that will rely even more heavily on borrowing and private finance.

There is not yet consensus on what more should be done beyond the limited measures that are already in place to assist high-debt countries. This is in part because there is not a single debt problem, but rather a set of overlapping problems that impact countries differently. As a result, there is not a single solution around which interest groups can coalesce that would restore debt sustainability across all—or even most—emerging markets and developing economies (EMDEs). A second obstacle is that past breakthroughs have relied on consensus among major economies and, in the most prominent cases, on creditors and donors accepting significant financial costs. Such a consensus is much harder to achieve at a time of heightened geopolitical friction and tighter financial constraints—resulting in limited action and settling for letting developing countries muddle through in low-growth, low-investment traps. Meanwhile, official sector forums that set momentum on debt relief, principally the IMF and the G20, reflect the sentiment of their members. In the current context, this leaves them focused on technical work—which is necessary but not sufficient—and falling back on the same incremental solutions that do not meet the moment of the current juncture.

Fortunately, there are a number of creative proposals on the table.¹ While recent reports accurately diagnose the development crisis underway, their proposed solutions have not always been (1) differentiated by the differing debt challenges and financing needs across groups of developing countries, and (2) reconciled with what is feasible in the current funding and geopolitical context.

This paper aims to organize and reconcile different proposals to filter for what is needed and will actually work in 2026. Section 1 describes the status quo. Section 2 identifies groups of countries that face similar issues based on their macroeconomic and financial positions. Section 3 provides a taxonomy of existing debt proposals. Section 4 discusses underlying assumptions based on the

¹ This analysis draws heavily from the following recent reports: the [Jubilee Commission](#) (Jubilee); the [G20 Africa Experts Report](#) (Africa Experts); the [Expert Review on Debt, Nature, and Climate](#) (DNC); the [UN Secretary General's Expert Report on Debt](#) (UN Debt); and the [IMF's 2025 Stocktaking on the Current International Architecture for Resolving Sovereign Debt Involving Private Creditors](#). Other proposals referenced will be noted.

current geopolitical landscape that will need to be factored into the feasibility and design of any proposal. Section 5 outlines next steps.

It is also important to clarify what this paper is not. Because its goal is to help narrow a wide range of proposals into a smaller set that is both impactful and politically feasible, the paper does not advance a specific policy proposal of its own. Instead, it is intended to inform discussion among policymakers and independent debt experts and to support convergence around a policy package that the international community could adopt and advance with urgency.

1. The status quo

Currently, a country in need of debt relief must negotiate with creditors directly through an entirely case-by-case process. Debt restructuring processes are painful and slow, including under the Common Framework, leaving distressed countries in prolonged economic limbo. Since the pandemic, the average duration for restructuring has [surged](#) to 2.5 years—up from just one year in the 2014–2020 period. While some stages of the process appear to have shortened in the most recent cases—notably time from application to approval of an IMF-supported program—overall restructurings remain lengthy and costly. Zambia serves as a stark warning; its four-year restructuring coincided with rising poverty and collapsing growth as negotiations stalled. Furthermore, the Common Framework excludes middle-income countries like Sri Lanka, forcing them into ad hoc negotiations with even less structure.

The IMF sits at the center of the restructuring process, acting as both the judge of sustainability and the enforcer of creditor participation. In practice, the Fund performs three critical roles:

1. A country will typically only initiate a restructuring once the IMF determines that further lending is contingent on debt relief.
2. The IMF provides the envelope for the debt restructuring through its debt sustainability analysis (DSA), done jointly with the World Bank.
3. The IMF enforces creditor participation through its lending into arrears policies to bypass holdout creditors and its requirement that creditors provide financing assurances.

Given the IMF's central role, a more forward-leaning and proactive IMF could be a big driver in achieving more debt relief. However, because the IMF's current policy frameworks allow for significant staff discretion and interpretation, the process remains vulnerable to political influence from major shareholders seeking to protect their own bilateral interests or domestic financial institutions from significant losses.

For countries with sustainable debt facing immediate liquidity pressures, the IMF and World Bank have introduced a “three-pillar approach.” While it rightly attempts to balance fiscal adjustment with growth, this approach largely rebrands standard institutional engagement,

combining austerity-linked reforms with external support and credit enhancements to lower the cost of external financing. However, the approach faces significant hurdles, including insufficient affordable long-term financing, the absence of a commitment from bilateral official creditors to provide net positive financing, and an incomplete toolkit to lower the debt service burden of private sector financing.

2. Borrowers' macroeconomic and financial circumstances

EMDE borrowers face a range of constraints that vary widely depending on their macroeconomic circumstances, access to financing, and creditor bases. Given this heterogeneity in debt profiles, there is no universal, one-size-fits-all solution to EMDEs' debt challenges. Any meaningful policy response must instead be tailored to the needs of a subgroup of countries that share similar contexts and constraints. The differences between countries can be understood along at least four dimensions:

Solvency versus liquidity

In recent years, even countries whose debt appears sustainable over the medium or long term have struggled with liquidity pressures. While debt-to-GDP ratios in many low-income countries (LICs) remain lower on average than they were in the pre-HIPC period, the financing environment has deteriorated sharply. Average borrowing costs have risen across the board as global interest rates climbed after the pandemic, affecting both market borrowing and non-concessional financing from the IMF and MDBs. As debt service absorbed a growing share of revenues, some countries found themselves unable to refinance maturing obligations on sustainable terms, forcing them to cut spending on essential social services. A recent IMF [analysis](#) finds that breaches of debt sustainability thresholds are increasingly driven by liquidity rather than solvency indicators.

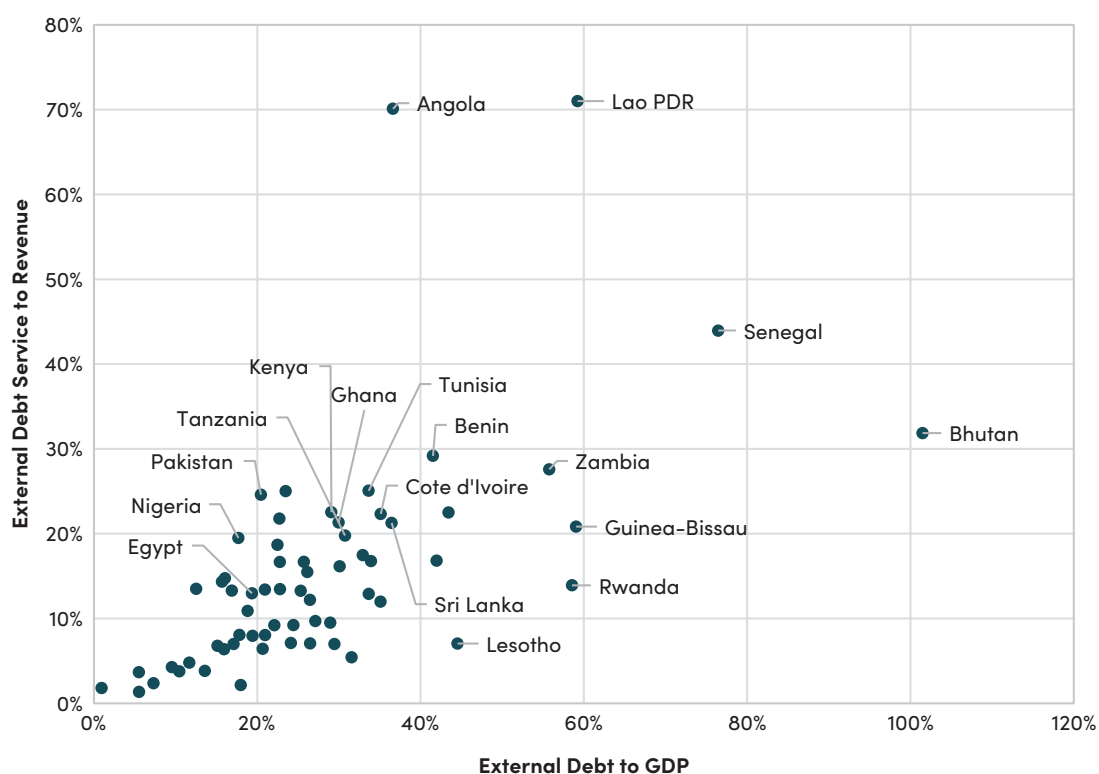
Other countries, however, still face more fundamental solvency problems, where debt burdens are no longer consistent with a sustainable fiscal path and restructuring is required. An excellent [note](#) from Finance for Development Lab (FDL) analyses individual country circumstances and categorizes countries as illiquid, insolvent, or lower risk.

In practice, the line between solvency and liquidity cases is often blurry, with protracted liquidity cases often slipping into insolvency, especially in the context of economic shocks. Governments are often reluctant to acknowledge insolvency—or even the need for a rescheduling for liquidity purposes—fearing that doing so will trigger credit downgrades with significant economic and reputational costs. No country wants to enter such a process if there is any plausible way to avoid it. This dynamic creates a strong incentive for countries to disguise deeper debt problems as liquidity challenges that can be solved with new financing, even if muddling through with expensive

financing and insufficient investment means sacrificing medium- and longer-term growth prospects. This distinction can also be obscured by weaknesses in the underlying data, including gaps in debt transparency, hidden or poorly reported liabilities, over-optimism in IMF projections, and shortcomings in debt sustainability analyses. These ambiguities make it harder to match countries with the right policy response and increase the risk that needed debt treatment is delayed.

Figure 1 plots countries by external debt-to-GDP and external debt service-to-revenue—common indicators of solvency and liquidity risk, respectively—illustrating how some countries face near-term financing pressures, others larger debt overhangs, and several confront both at once. The ongoing war in the Middle East will likely compound debt pressures for many EMDEs, especially net commodity importers.

FIGURE 1. LMICs face varying debt pressures



Source: World Bank IDS, IMF WEO • Debt/GDP and Debt Service/Revenue ratios for Lebanon and Mozambique exceed the display range. All values from 2024.

Market access versus non-market access

A second distinction is between countries with and without access to international capital markets. Countries that have regular market access, particularly those issuing eurobonds, face debt pressures primarily through rising global borrowing costs, rollover risks, and shifts in investor sentiment. By contrast, countries without market access (typically low-income countries) rely far more on official

and concessional financing and face debt pressures under tighter external financing conditions. This distinction is blurred, however, by several lower-income and frontier-market sovereigns that retain only intermittent market access. These countries may still be able to issue international bonds under some conditions (recently, Nigeria, Kenya, Côte d’Ivoire, and Republic of Congo) but can also be priced out of markets during periods of stress, as in the post-pandemic period. As a result, the fact that a country can issue debt does not necessarily mean it enjoys durable market access. This is especially true where borrowing costs become inconsistent with debt sustainability or where prohibitively expensive market issuances are used to delay recognition of a broader debt problem.

Access to concessional finance

Countries also differ in their access to concessional finance, often proxied by eligibility for the World Bank’s International Development Association (IDA). Financing on concessional terms—through lower interest rates and longer maturities—reduces debt-service burdens and rollover risks and, if deployed effectively, can help build future repayment capacity. For countries without access to concessional finance, hybrid instruments including blended finance may help but rarely provide comparable levels of subsidy. As a result, addressing debt vulnerabilities in these cases may require more fundamental changes to borrowing terms, rather than simply an injection of liquidity.

TABLE 1. Selected countries by World Bank lending institution and market issuance in 2024

	IDA	Blend	IBRD
2024 Market Issuer	Benin	Côte d’Ivoire	Angola
	Ghana	Cameroon	Jordan
	Senegal	Kenya	
	Sri Lanka	Nigeria	
	Zambia		
Did Not Issue in 2024	Bangladesh	Republic of Congo	Egypt
	Bhutan	Pakistan	Tunisia
	Central African Republic	Papua New Guinea	
	Comoros		
	Djibouti		
	Ethiopia		
	The Gambia		
	Guinea		
	Guinea-Bissau		
	Lao PDR		
	Niger		
	Mozambique		
	Tanzania		

Note: Includes all countries considered illiquid (light blue) or insolvent (gold) by Diwan et al., 2026.

Source: Bloomberg.

Composition of creditors

Countries vary widely in the balance between domestic debt, external commercial debt, and obligations to bilateral and multilateral creditors. A higher share of commercial bondholders can complicate restructuring negotiations, while domestic debt restructurings risk destabilizing domestic financial systems. Official bilateral creditors can be central to comprehensive restructurings, but coordination has become more difficult as the creditor landscape has grown more fragmented with the rise of new and non-Paris Club lenders. Debt owed to the IMF, MDBs, and other preferred creditors is typically treated as senior and excluded from restructuring, narrowing the scope for relief.

3. Typology for existing debt proposals

This section proposes a typology to organize the most highly debated proposals based on how they would help specific borrowing countries (i.e., which types of countries and in what circumstances). The objective is to impose structure on a crowded debate by linking reforms with specific debt problems and distinguishing between present and future solutions, creating a framework to subsequently assess which proposals are both impactful and feasible.

This paper focuses on proposals directly linked to debt sustainability and transparency. Of course, these proposals will need to be complemented by domestic reform efforts to strengthen growth and investment, alongside expanded financing, including through MDB and IMF concessional support.

Financing—solvency versus liquidity; present versus future

While the line between solvency and liquidity cases is often artificial, the tools available to countries differ based on this distinction.

Table 2 provides an illustrative framework for categorizing reform proposals according to whether they target liquidity or solvency challenges, and whether they are designed to address immediate crises or strengthen a country's ability to address these problems down the road.

TABLE 2. Illustrative framework for categorizing reform proposals

	Present Cases	Future Cases
Liquidity	<p>New concessional money that supports growth rather than debt service</p> <ul style="list-style-type: none"> • Create a refinancing facility to ease debt service burdens • Implement a new Debt Service Suspension Initiative (DSSI) • Improve the World Bank’s guarantee facility to lower the cost of new debt issuances • Expand and standardize debt-for-development swaps • Condition IFI support on securing positive net flows from other creditors, ensuring that new official financing supports country needs rather than repaying existing creditors 	<p>Rapid response to create liquidity when future shocks hit</p> <ul style="list-style-type: none"> • Scale standardized debt service pause clauses across creditor groups that automatically defer payments when there is an exogenous shock of a certain magnitude • Recapitalize and reform IFI trust funds to provide liquidity support during crises (e.g., the IMF’s CCRT)
Solvency	<p>Make creditor negotiations more predictable and timelier, reducing the burden of restructuring</p> <ul style="list-style-type: none"> • Make the Common Framework faster, more transparent, and user-friendly to incentivize countries that need it to seek debt restructuring • Create a fast-track Common Framework window for the poorest countries without market access • Expand the perimeter of the Common Framework to include middle-income countries • Reform creditor committees to hold parallel consultations and/or negotiations between official and private creditors • IMF provides technical support or use “good offices” to convene technical discussions • Enact reforms in New York and London to address holdout creditors and ensure equitable burden sharing between private and official creditors 	<p>New debt obligations are more flexible in future restructuring</p> <ul style="list-style-type: none"> • Scale contractual enhancements (e.g., Majority Voting Provisions)

There are well-known and widely discussed reforms that would improve the functioning of the Common Framework. These include expanding eligibility to middle-income countries (MICs), applying automatic debt standstills at the start of negotiations, clarifying and more consistently enforcing comparability of treatment, and strengthening transparency and information sharing among debtors and creditors during the restructuring process. The purpose of these reforms is to speed up the process and ease the burden on borrowers, reducing the cost of pursuing a necessary debt restructuring. Some creditors, however—including China, which is the largest bilateral creditor for many of these countries—have not supported explicit reforms to the Common Framework in G20 discussions.

Liquidity proposals seek to address a common problem: countries facing temporary financing pressures often lack adequate tools to create breathing room without falling into a more damaging debt crisis. The recent debt expert reports and commissions generally agree on the merits of some form of new liquidity facility to refinance or reprofile existing debt. While the liquidity facility proposal has gained traction among outside experts, there are still many details to be defined.

For example, additionality of refinancing versus new funds, the risk of adding additional senior debt, and how to treat domestic debt. A common core assumption is that a refinancing initiative requires creditor coordination in the form of a pause, formal commitment to maintain exposure, or refinancing while new funds are injected. Different proposals seek to secure that coordination in different ways, including through private sector incentives, high-level political agreements, class-based debt suspension, and/or IMF and World Bank conditionality designed to prevent new official financing from simply facilitating creditor exit. The aim is to ensure that new official financing supports adjustment, investment, or essential spending, rather than being used primarily to repay maturing higher-cost debt.

There is a separate category of liquidity proposals focused on making future debt more resilient to shocks. While these will not help with existing liquidity pressures, they build in automatic liquidity support into future debt contracts ex ante. For example, recent [proposals](#) for standardized debt service suspension clauses would embed shock-agnostic, automatically triggered payment deferrals in contracts across bilateral, multilateral, and private creditors, providing temporary breathing room when large exogenous shocks hit. If applied uniformly, these clauses would help address comparability concerns across creditor classes.

Enabling environment—proposals to improve underlying capacity to evaluate and manage debt

Beyond the financing solutions above, there are a number of proposals that would help strengthen the enabling environment around debt management. These proposals seek to help countries better manage their current debt burdens and ensure that financing solutions are effective and adequate.

The first set of proposals aims to improve the assessment of what constitutes a sustainable level of debt, considering a country's investment needs and the full picture of outstanding borrowing. This is critical both for determining the appropriate envelope of debt relief in a restructuring and for guiding countries as they take on new borrowing.

The IMF's debt sustainability framework is the key basis for analysis of debt sustainability. The Fund's frameworks differentiate between market access countries (MACs) and low-income countries (LICs). Both frameworks face criticism. The LIC framework for [excessive optimism](#) in economic outcomes, omitting [domestic debt](#), neglecting the level of [investment](#) required to drive growth, and [failing](#) to account for climate shocks and investment over a longer time horizon. The MAC framework has been criticized for insufficiently accounting for external debt risks and for implying that countries can carry higher levels of debt than experience has sometimes revealed, as was the case in [Sri Lanka](#).

Proposals in this space include:

- Reforming the IMF's LIC and MAC debt sustainability frameworks to address the problems mentioned above;

- Improving transparency and debt data reconciliation between debtors and creditors so that inputs into the debt sustainability analyses are more accurate (and coordination in potential debt treatment is easier);
- Reforming existing credit rating agencies (CRAs) to be more transparent and better incorporate developing country risk into their methodologies; and
- Establishing a new regional credit rating agency better suited to evaluating risks in EMDEs.

The key to these proposals is that creditors and debtors both view any analysis of debt sustainability as valid and make decisions accordingly. For example, it is unconvincing that international investors would rely on a [new regional CRA](#) if its assessment is different from the existing CRAs. A more useful role for such a regional CRA would be to challenge the methodology of existing CRAs where their methodology is faulty or based on incomplete or erroneous data.

The second set of proposals in this category focuses on how to enhance borrowers' capacity to manage debt and their collective ability to advocate for their interests. These proposals center around extending technical assistance in borrowing countries and increasing bargaining power and technical understanding through a [Borrowers Club](#).

4. Underlying assumptions

As highlighted above, there are a number of technically substantive proposals. Yet the lack of progress demonstrates that there are political barriers that need to be overcome. The key to unlocking solutions is to identify the subset of proposals that can both make a tangible improvement in the situation of borrower countries and also satisfy the political constraints in place. To this end, based on our assessment of the debt landscape and the prevailing geopolitical constraints, the following conditions must be met for any proposal to move to implementation:

1. **Must meet the demonstrated needs and interests of a specific group of countries.** An effective proposal must be tailored to the needs of specific countries, as discussed above (Section 2). Critically, the countries it is intended to benefit must recognize its value and be willing to support and utilize it. This means understanding the borrower incentives, as governments are often reluctant to pursue debt relief that could trigger default, reputational costs, or domestic political costs unless the package on offer is clearly superior to the status quo or IMF program conditions make debt treatment unavoidable. The same is true of liquidity solutions, which borrowers may also seek to avoid if they carry stigma, require burdensome adjustments, or fail to offer a clear advantage over muddling through. Ultimately, even technically sound reforms will have limited impact if borrowers do not view them as worth the political, organization, financial, and reputational costs of participation.
2. **Must not involve a large increase in bilateral donor grant contributions.** A key question for each proposal is who will pay. The OECD [estimates](#) that ODA from DAC members fell by

6 percent in 2024 and again by 23 percent—the largest annual decline on record—in 2025. There is no indication this trend will reverse given tightening fiscal pressures in donor countries and shifting geopolitical priorities. While advocates should continue to press donor countries to reverse ODA trends, new debt proposals should also be tailored to the reality that large new financing asks will be a dead end. This does not mean that proposals must be costless, but in a constrained funding environment, countries will need to rely more on creative financing approaches—such as guarantees, increased lending through IFIs, better use of existing funding pools, and pro-growth strategies to mobilize domestic resources. Reform proposals must also operate within resource constraints, emphasizing the more effective use and leveraging of existing public resources, while potentially layering on new features (e.g., grace periods, extending repayments periods) to add concessionality.

- 3. Must be acceptable to major stakeholders, including the US and China.** Solutions must be ones that both countries are at least willing to go along with, even if they are not leading them. This constraint reflects: (1) a US administration that is skeptical of multilateralism and less inclined to prioritize development concerns; (2) China’s unwillingness to make systemic compromises on debt treatment and creditor coordination issues; and (3) a broader hesitation among other official creditors to challenge the status quo. More specifically:
- **US:** Reform proposals likely to trigger US resistance include overtly climate-linked facilities or initiatives whose central objective is development financing without a clear US strategic or business interest. Proposals that exempt China from comparable treatment or risk shifting losses from Chinese lenders onto multilateral balance sheets are unlikely to gain US support. Further, influential Congressional Republicans have [long opposed](#) issuances of IMF Special Drawing Rights (SDRs), which played a part in Congress blocking US lending to the IMF’s Resilience and Sustainability Trust (RST). Future proposals must avoid, or at least remain neutral on, using SDRs as a source of financing.
 - **China:** Proposals likely to trigger Chinese resistance include wholesale overhauls of the debt architecture, major expansions of the Common Framework, or initiatives framed around debt transparency, which may be perceived as targeting Chinese lending practices. At the same time, China has been willing to engage with more limited refinancing and maturity-extension approaches on a bilateral basis and it is worth exploring whether this can be built upon for a limited number of debtor countries facing similar problems.

Policy proposals should be tested with the US and China early on, so that advocates can avoid sensitive design features that will deter their support in critical fora.

- 4. Must recognize that private creditor participation will be based on incentives.**

Private sector participation will be a key issue in any future debt relief initiative: official creditors will require comparability of treatment to make any new initiative politically acceptable, while borrowing countries are hesitant to take steps that threaten their

prospective market access. But new initiatives must also be clear that private creditors will not provide debt relief voluntarily given their fiduciary duty to maximize recoveries. This is illustrated by the experience the 2020 Debt Service Suspension Initiative (DSSI), where China Development Bank was the only so-called private creditor to participate. In practice, their meaningful participation is only likely when the incentive structure facing private creditors makes this the most attractive option for them.

- 5. Will require a clear and forceful push from key World Bank and IMF shareholders.** While the World Bank and the IMF have been champions of bold debt relief initiatives in the past, launching a major international initiative has always required the forceful backing of some key shareholders. This is even more true today when both institutions operate in a much more constrained political and funding environment. This explains why recent efforts have been focused on incremental consensus-based advances including the three-pillar approach—without specifying beneficiaries or a specific menu of support tools; the Global Sovereign Debt Roundtable (GSDR), which has improved dialogue but has limited power to overcome underlying political disagreements among creditors; and the World Bank’s expanded use of guarantees and other instruments, which remain constrained by the difficulty of mobilizing at sufficient scale.

The table in Annex 1 brings together the typology proposed in Section 3 with the constraints described in Section 4.

5. Next steps

The first step to advancing an effective debt reform agenda is securing political agreement that there is a problem in need of materially different solutions. Unfortunately, the [spillovers](#) from the Iran conflict may prove to be a tipping point for many vulnerable EMDEs, making the need for debt relief (liquidity or deeper stock relief) more urgent. It may also provide the political pressure for international action to bolster emergency support for affected countries—similar to what we have seen in response to other international crises. Bold initiatives that could garner political-level—even leader-level—support to cut through challenges may counterintuitively be easier to drive forward than incremental reforms that will toil away in expert channels.

The second step is figuring out what can and should be done. Some of the proposals discussed in this paper do not require broad consensus and can be advanced by a group of borrowers, IFI management, and/or like-minded creditors. Key in this category will be looking at how to strengthen IMF policies to add realism and speed to debt relief and pressing the World Bank to extend its guarantee platform to riskier countries that really need its support.

Notwithstanding recent tensions among the participants, the G20 remains an important forum for advancing major new debt initiatives. It will help set the overall tone and willingness to advance

new ideas, given that G20 action requires consensus from major economies. And many of the more ambitious proposals will explicitly require broader buy-in from major donors and creditors to press forward.

For the 2026 US G20 presidency, Treasury Secretary Scott Bessent [announced](#) plans to focus on reforming the Common Framework and enhancing debt transparency. These initiatives are welcome, though the US administration has not yet articulated specific plans or how they will break the political impasse on these two tough issues—especially with a highly limited G20 calendar and work program this year.

There will likely be the opportunity, appetite, and need to take a more comprehensive look at the sovereign debt architecture under the UK's 2027 G20 presidency. Success will require identifying specific proposals that are both effective and implementable, recognizing all the constraints laid out in this paper. Specifically, over the next 6–9 months, the following should take place to identify, develop, and build support for key initiatives:

- Analytical work to develop a more detailed understanding of what countries need and want.
- Development of more detailed proposals, including costing, for the most promising initiatives.
- Reconciling debt objectives with IMF policy reviews already underway, including on IMF program design and conditionality, and the debt sustainability framework for LICs.
- Broad-based consultation with borrowers and creditors to incorporate their perspective and build support.
- Identifying champions for promising initiatives and developing coalitions of stakeholders that will help build broader political support.

All of this work may need to be accelerated if the crisis in the Middle East proves to be a tipping point for a wave of countries. Even in this case though, the longer the international community waits to put forward implementable solutions, the more time is lost while countries remain unable to invest in their futures. We can continue to let countries muddle through the current debt challenges, or we can apply political realism and creativity to build support for actionable solutions that restore fiscal space.

Annex 1. Existing reform proposals and constraints

Initiative	Description	How this Gets Implemented	Key Constraint(s)	Source(s)
<i>Improve debt restructuring processes—focus on countries that are insolvent and seeking debt relief</i>				
Improve the Common Framework	<p>There are many proposals to build a multilateral sovereign debt resolution mechanism that is transparent, timely, and effective. The most straight forward path to do so would be improving the existing Common Framework. Possible reforms have been widely discussed and include:</p> <ul style="list-style-type: none"> • Add middle-income countries • Automatic debt standstill during negotiations • Clarify and enforce comparability of treatment 	G20 consensus	<p>China: China has resisted reopening the Common Framework in the G20 and may be even less likely to do so in the US-hosted year. Stakeholders would need to explore trade-offs that could incentivize China to agree to a broad opening of the Common Framework. Otherwise, it is possible to press for implicit improvements to the Common Framework and usage of similar processes in middle-income countries, though explicit changes are unlikely.</p>	Africa Experts, Jubilee, UN Debt
Scale contractual enhancements	<p>Building off the success of enhanced collection action clauses (CACs), extend the idea to syndicated loans through Majority Voting Provisions (MVPs). MVPs are clauses in a loan contract that would allow for a specified majority of creditors within the loan to bind the minority to the terms of a restructuring.</p>	Country pilot(s); backing from IMF and G20; build off success of enhanced CACs	<p>Borrower risk aversion: Need to overcome first-mover challenge to avoid investors charging higher interest rates.</p>	IMF Stocktaking, London Coalition
Enact reforms in creditor jurisdictions	<p>Major reforms are being debated in New York and London, the two jurisdictions that govern over 90% of all international sovereign bond issuances:</p> <ul style="list-style-type: none"> • Limit the ability of vulture funds to recover windfall profits from distressed debt, especially in cases where good faith restructuring efforts are underway • Introduce recovery caps to ensure comparability of treatment in debt restructurings, including appropriate differentiation between local and foreign currency debt • Reduce the punitive pre-judgment 9% interest rate in New York state 	New York state legislature; UK parliament	<p>Opposition from creditors: Politically influential creditors oppose these changes that limit their flexibility, warning of risk of flight from New York and London jurisdictions after changes are made</p> <p>Legislative capacity and risk aversion: Legislators in New York and London face a range of issues, raising challenges of finding champions. Difficulty arguing that intangible benefits accruing abroad outweigh local risks.</p>	Jubilee

(Continued)

Initiative	Description	How this Gets Implemented	Key Constraint(s)	Source(s)
Hold parallel negotiations between official and private creditors	Parallel rather than sequential negotiations, within or outside the Common Framework, would speed up the process. The IMF has proposed enhanced information-sharing at the different stages, including the idea of a debtor-convened meeting of all official bilateral and private creditors, very early in the process, to explain the context and goals of the restructuring, and further engagements, as appropriate, to facilitate information sharing as the process proceeds.	Borrower country decides and creditors agree; IMF provides technical support or use “good offices” to convene technical discussions	Limited barriers to involving the IMF in technical briefings with joint groups of creditors. China: Need to get bilateral official creditors to agree to hold parallel negotiations. Doing this systematically would require China to agree to amend the Common Framework and debt restructuring processes more broadly.	IMF Stocktaking, GSDR
Expand liquidity support—provide breathing room for countries that are facing liquidity pressures but are not insolvent				
Create a refinancing mechanism	There have been several proposals to provide concessional financing to refinance debt in distress. The idea is to provide countries that face liquidity constraints some breathing room to enact ambitious reforms and grow their economies. The key differences from the 2020 DSSI are that private creditors would be included and the initiative would focus on refinancing rather than rescheduling. Key questions include whether market access countries would be included and the role of bilateral official creditors.	G20 consensus plus financing	Money: Need a source of concessional funding to refinance debt. Geopolitics: Question if there is sufficient ambition among creditors and major shareholders, mainly the US and China, to do something new. An ambitious refinancing mechanism would likely need more than acquiescence from both—in the form of political support and financing.	Jubilee, Africa Experts, DNC, African Financial Stability Mechanism, Bridge Proposal, Buchheit & Lerrick
Implement a new Debt Service Suspension Initiative (DSSI)	Extend the DSSI, allowing low-income countries to suspend debt payments to bilateral official creditors. Expand to include middle-income countries. Also, given that DSSI was done on an NPV-neutral basis, it is unclear if a repeat DSSI is sufficient for many countries.	Bilateral official creditors (likely via G20); borrowing countries willingness to participate	Comparability of treatment: DSSI alone is unlikely as wide criticism was that the official sector was bailing out private sector. Would need to be paired with an initiative that brings in comparable treatment of private sector. Geopolitics: China needs to agree, which will be challenging unless private sector is included.	Jubilee

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Initiative	Description	How this Gets Implemented	Key Constraint(s)	Source(s)
Scale debt service pause clauses during crises	Pause clauses are “state-contingent” clauses embedded in bond contracts that automatically trigger a deferral of debt payments (usually for 1–2 years) if a predefined crisis occurs. Pause clauses provide instant liquidity when a country needs it most. By making the pause contractual, it avoids the default label, preventing credit rating downgrades during a crisis.	Further country pilots; adoption by G20 bilateral lenders and MDBs	Borrower risk aversion: Need to overcome first-mover challenge to avoid investors charging higher interest rates. Supporters could look to the rollout of enhanced collective action clauses and identify champions to pilot.	Jubilee, DNC, UN Debt, London Coalition, CGD’s Debt Shock Absorbers Proposal
Expand and standardize debt-for-development swaps	In a debt swap, a portion of a country’s debt is canceled or refinanced at a lower interest rate, typically based on a DFI credit enhancement. In exchange, the country commits those savings to development projects. Proposals include developing standardized structures that make pause clauses easier and cheaper to transact, and more aligned with national development strategies.	Borrower country decision to engage; World Bank and key DFIs to provide credit enhancements	Scalability: These deals are complex and expensive to negotiate, often resulting in relief that is too small to move the needle on a country’s total debt burden.	Jubilee, DNC, UN Debt, Tony Blair Institute Debt Swap Facility
End bailouts of private or bilateral official creditors from the IFIs	Related to the above proposals but framed as an overarching political commitment that would strengthen the IMF’s hand in pressing for debt treatment. IMF shareholders could press the institution to commit to no bailouts, meaning that funds provided in times of distress would not de facto be used for the payment of foreign currency debts.	G20 consensus; IMF management and Executive Board	Geopolitics: Major IMF shareholders need to agree. There is a challenge of their own interests as creditors (e.g., China) but also the broader issue of large countries wanting to preserve IMF flexibility to support strategically important countries (e.g., the US with Argentina, Ukraine, Jordan, Egypt, etc.). China: China needs to agree, which will be challenging unless private sector is included.	Jubilee
Recapitalize and reform IFI trust funds to provide liquidity support during crises	Proposals include leveraging the Debt Reduction Trust Fund (DRTF) at the World Bank, Catastrophe Containment Relief Trust (CCRT) at the IMF, and trust funds at regional development banks to provide liquidity support during crises (through extending maturities, financing loan buybacks, and reducing debt servicing). This would entail reforming the mandates of and recapitalizing the DRTF and/or the CCRT.	Donors for money; IMF/MDB management and Executive Boards for reforms	Money: Need significant grant money (either from grants or existing resources at the institutions) to pursue straight IFI debt forgiveness.	UN

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Initiative	Description	How this Gets Implemented	Key Constraint(s)	Source(s)
Improve how debt sustainability is assessed—helps countries that face liquidity OR solvency challenges because debt sustainability reflects true picture				
Evolve IMF DSAs to take into account sustainable development	Proposal is to shift the DSA frameworks for low-income countries and market-access countries from debt stabilization to growth and sustainable development, and use them as a tool for computing the debt repayment capacity that is compatible with sustainable development.	IMF management and Executive Board	Geopolitics: Need shareholders to agree given that these changes will imply greater financing needs, implicating both creditors/donors and borrowing countries.	Jubilee, DNC, UN Debt, G20 experts
Evolve IMF DSAs to take into account climate-related considerations	Proposal is to strengthen DSAs by identifying nature- and climate risks that can become macro-critical in each country; estimate the future impacts of those risks and their potential economic and fiscal losses; and calculate the potential returns on investments to mitigate those risks.	IMF management and Executive Board	United States: Will need to be framed carefully to avoid US opposition to the IMF scaling work on climate-related activities.	Jubilee, DNC
Debtor and creditor loan data reconciliation	Reconciling debt data between creditors and debtors helps clarify the full debt picture and makes any eventual relief simpler. For example, there is a proposal that all G20 creditors commit to participate in the World Bank’s Debt Data Sharing Exercise, by which debtor and creditors ensure the data in their respective books are reconciled. Also, proposal to advance the World Bank’s proposal for a digital platform to automate loan data reconciliation, building on the pilot launched with Indonesia.	Major creditors	China (and other non-Paris Club creditors): China does not participate. Their participation would fill a large gap in data and provide the political impetus for the G20 to pressure other remaining bilateral official creditors to fully participate.	GSDR
Enhance debt transparency	There are a range of initiatives to enhance debt transparency, helping to uncover hidden liabilities and facilitate faster restructuring. Some examples include: <ul style="list-style-type: none"> • Expansion of World Bank Debt Reporting System • Mandatory disclosure of confidentiality clauses in sovereign loan contracts, forcing borrowers to make their loan terms public • OECD voluntary private sector loan disclosure • Pass national legislation in borrowing countries that requires legislative involvement and public date of debt contracts 	Various; participation of creditors and debtors	Borrowing countries: Will need to see value in these initiatives to demand more transparency; or for local legislatures to demand action. Creditors: Support from creditors, including at G20 level, would help advance this agenda. Specifically, willingness by China to participate would add momentum.	World Bank Radical Debt Transparency Report ; #PublicDebtsPublic

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Initiative	Description	How this Gets Implemented	Key Constraint(s)	Source(s)
Reform credit rating agency processes and transparency	Improve the regulation of credit rating agencies by requiring full disclosure of rating assessment data, and reforming methodologies that recognize economic diversity and avoid procyclical rating actions.	Regulatory bodies in key jurisdictions		Africa Experts
Create a new, specialized credit rating agency	Create a global or regional public credit rating bureau that specializes in developing countries. Further, advance legislative reforms that allow this public rating body to serve as a substitute for the private rating for advanced economy investors.	Participating developing countries	Credibility: The new rating agency would need to establish credibility, particularly with advanced economy investors and when their assessments differs from existing major rating agencies.	Jubilee, Nigerian president
Enhance borrowing practices—strengthens capacity in borrowing countries to manage debt and navigate the international system				
Establish a borrowers club to increase bargaining power	Establish a Borrowers' Club to strengthen the collective voice of borrowers and coordinate peer learning, technical assistance, and research.	Borrowers	Effectiveness: Finance ministers need to have a central role in the club. The club needs to have a cohesive strategy and likely administrative support.	Africa Experts, UN Debt
Expand technical assistance and capacity development	Increase capacity in debt management offices, treasuries, and other related entities, ideally coordinated among donors and implementing institutions across the local system.	Select borrowers and donors, IFIs	Few constraints—borrowing countries need to be willing to increase capacity and there may be more incremental funds needed especially in LICs.	IMF Stocktaking, UN Debt
Establish a shared information hub on innovative financial instruments	Make information on innovative financial instruments (e.g., debt swaps, pause clauses) more accessible to borrowers.	Select IFIs with uptake from borrowers	Borrower uptake: Even if the information is collated, borrowers must deem the proposals to their advantage to make use	Africa Experts

Given the funding constraints outlined in Section 4, some of the proposals above are paired with creative funding ideas beyond relying on donor country budgets. The four main ideas, presented below, each carry significant hurdles.

Initiative	Description	How this Gets Implemented	Key Constraint(s)
Rechannel SDRs through the IMF	Several countries have lent their SDRs to the PRGT and the RST, though countries can also lend to these trusts in other hard currencies.	Individual donor decision	<p>IMF absorptive capacity: Without reforms to the PRGT and/or RST, the IMF does not need additional lending resources in these trusts.</p> <p>US: The US cannot technically channel SDRs to a multilateral institution; it can lend in US dollars with approval from Congress.</p>
Rechannel SDRs through the MDBs	Select MDBs have proposals for donors to channel SDRs to their hybrid capital accounts, unlocking more lending headroom. There has been little uptake over the last few years.	Individual donor decision	<p>ECB: Determined that channeling to MDBs is monetary financing and does not preserve the reserve asset quality of SDRs required by central banks. This position would need to be amended to enable euro area SDR channeling beyond the IMF.</p>
Build a rules-based approach to the issuance and allocation of IMF Special Drawing Rights (SDRs)	The IMF can issue up to \$650 billion in SDRs each five-year basic period, allocated to each member based on IMF quota share. A special allocation—i.e., not based on IMF quota share—requires a change to the IMF articles.	85% of IMF shareholders (US veto)	<p>US: The US currently can agree to an allocation of about \$650 billion per IMF basic period without approval from Congress. However, Congressional Republicans have fervently opposed SDR allocations, and it is unlikely that the current US administration would support an allocation in that context.</p> <p>Broader Board consensus: Given high threshold vote, other key Board members would need to be convinced (e.g., Germany, Japan).</p>
Sell IMF gold	The IMF holds gold worth over \$450 billion at today's prices. The last time the IMF sold gold was in 2009–10, mostly through off-market private placements to central banks. The IMF could sell a portion of its gold to fund the CCRT, the PRGT subsidy account, and/or the concessional portion of a new IMF-based refinancing facility.	85% of IMF shareholders (US veto); approval of shareholders to remit proceeds back to the IMF	<p>Board consensus: Any gold sale would require the backing of the IMF's major shareholders, including the US. The US needs authorization from Congress to support selling IMF gold. Given high threshold vote, other key Board members would also need to be convinced (e.g., Germany, Japan).</p>