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Navigating the Debt Crisis: Reforming the Common Framework for African Countries

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Navigating the Debt Crisis: Reforming the Common Framework for African Countries

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Note: The purpose of this Working Paper is to bring the analytic work of UNDP-Ethiopia and its partners to a broad audience, as a contribution to the policy agenda and debate in Ethiopia. It does not represent the official policy or views of the UNDP.

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An earlier version of this paper was presented at the IDEAs Conference held in Accra, Ghana, in July 2024 on the African Debt Crisis and the International Financial Architecture.

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ACRONYMS

AfDB	African Development Bank
AIP	Agreed Indicative Parameters
AU	African Union
BRI	Belt and Road Initiative
CAC	Collective Action Clause
CF	Common Framework
COMESA	Common Market for Eastern and Southern Africa
CDB	China Development Bank
DOD	Disbursed Outstanding Debt
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
EAC	East African Community
ECOWAS	Economic Community of West African States
GDP	Gross Domestic Product
GSDR	Global Sovereign Debt Roundtable
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IFI	International Financial Institution
IMF	International Monetary Fund
MDB	Multilateral Development Bank
MDRI	Multilateral Debt Relief Initiative
MoF	Ministry of Finance
MOU	Memorandum of Understanding
OCC	Official Creditor Committee
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
RBA	Regional Bureau for Africa (UNDP)
RFSN	Regional Financial Safety Net
SDG	Sustainable Development Goal
SCDI	State Contingent Debt Instrument
Sinosure	China Export & Credit Insurance Corporation
SSA	Sub-Saharan Africa
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
USAID	United States Agency for International Development
WBG	World Bank Group

In the wake of multiple shocks, growing global macroeconomic uncertainty, and a slowing global economy, many African countries are facing debt distress in 2025. African external debt is more than US$1 trillion in 2024 compared to more than $500 billion in 2020. Most Sub-Saharan African countries are facing an increase in debt vulnerabilities. According to the UN, globally, over two thirds of low-income countries (many of which are in Africa) are either in debt distress or at a high risk of it. This includes at least 22 African countries. According to IMF, the average total public debt ratio in sub-Saharan Africa has almost doubled in just a decade—from 30 percent of GDP at the end of 2013 to close to 60 percent of GDP by end-2024, and the ratio of interest payments to revenue has more than doubled since 2010.

The trends are not positive. More money is going into debt servicing than priority expenditures for many countries. About 3.4 billion people globally are living in countries that spend more on interest payments than on either education or health. Higher borrowing costs, declining ODA, climate shocks, and commodity price volatility risk making the next ten years a lost decade for African development. On top of this, there are growing concerns multilateral money is being used to pay private creditors in several African countries. All these trends threaten a lost decade of development progress for many of the world's poorest nations.

The G-20 Common Framework (CF), which was envisaged to steer the process, has been slow in providing relief, and there is not a clear roadmap for countries. The journey for Ghana, Zambia, Ethiopia, and Chad has been complex and uncertain. The heterogeneous creditor landscape has led to the lack of a proper framework to assess comparability of treatment between creditors. Official creditors have favored maturity extensions with no principal reduction, while private creditors have tended to prefer upfront cash. There is insufficient consideration for debt relief via principal reductions. A lack of consensus between official and private creditors, as witnessed in the cases of Zambia and Ethiopia, have slowed the implementation of the CF.

This paper finds that the existing debt architecture under the CF should be more meaningfully reformed. Drawing on from in-country experience and UNDP's analytical and advisory work in Ethiopia on macro policy and debt management, the paper proposes several practical reform areas. Seven stand out: improve the analytics regarding solvency in light of protracted liquidity challenges; improve the realism of debt sustainability analysis (DSA) projections; ensure strong participation of China and more uniform treatment of Chinese loans; find a simpler formula for comparability of treatment; cap a country debt service by ringfencing social and pro-poor expenditures and propose a more gradual fiscal adjustment path for countries in IMF programs; bring in private creditors fully and early on in the restructuring process; and have stronger UN involvement during the process to help guide borrowers and mediate between debtors and creditors. With these reforms, African countries will be able to have deeper solutions to debt distress with the support of the international community.

1 CONTEXT: AFRICA'S CURRENT DEBT CRISIS

Sub-Saharan Africa is facing a very challenging debt situation. In the last decade, debt owed by African governments to creditors has increased significantly. African external debt is more than $1 trillion in 2024 compared to more than $500 billion in 2020. According to the UN, globally, over two thirds of low-income countries (many of which are in Africa) are either in debt distress or at a high risk of it. According to an assessment by the IMF, the average total public debt ratio in sub-Saharan Africa has almost doubled in just a decade—from 30 percent of GDP at the end of 2013 to almost 60 percent of GDP by end-2024, and the ratio of interest payments to revenue has more than doubled since 2010.[1] More money is going into debt servicing than priority expenditures for many countries. About 3.4 billion people live in countries that spend more on public debt interest payments than on either education or health. Due to expensive borrowing and the proliferation of shocks - pandemic, Ukraine war, climate shocks– sub-Saharan Africa is facing an unprecedented situation. In September 2024, United Nations Secretary-General Antonio Guterres has warned the international community that Africa's debt situation is unsustainable and a recipe for social unrest. In June 2025, UN Deputy Secretary-General Amina Mohammed warned at the United Nations that the debt crisis is a silent crisis.

The origins of this crisis date back many years, and there were several phases. First, in the 1970s and 1980s, a combination of political and economic factors, especially the oil shocks and an adverse global environment, led to an increase in debt in many African countries. In the second phase, the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) in the late 1990s and early 2000s, led by the IMF and the World Bank, led to a significant reduction of sub-Saharan debt of about $100 billion. In the third phase, starting after the global financial crisis of 2009, African governments borrowed significantly, taking advantage of the abundance of liquidity resulting from accommodative monetary policy in the advanced economies. There was a surge of lending at high interest rates from China and Eurobonds. In the period between 2008 and 2020, many sub-Saharan African governments borrowed heavily from China and Eurobond markets at non-concessional rates (usually at interest rates between 3 and 7 percent). The gap between the borrowing costs and the rates of return on the investments of many of the projects during this period also led to a debt buildup.

The problem has worsened in recent years. In the fourth phase, starting in 2020, the global pandemic coupled with the Ukraine war, led to a further increase in African indebtedness as countries tried to address these multiple shocks. Rising commodity prices, especially due to fuel and food price increases, widened count balances in sub-Saharan Africa. In the fifth phase, which was in parallel, many African countries are seeking debt relief under the Debt Suspension, the G-20 Common Framework and other avenues. At the same time, global financial conditions have deteriorated and borrowing costs have become expensive for African governments at same time as ODA and concessional lending have decreased.

An important development has been the structural shift in the global creditor landscape. During the last two decades, China became the largest bilateral lender to Africa. According to the Boston University Global Development Policy (GDP) Center, China loaned about $160 billion to African countries between 2000 and 2016.[2] China's two global policy banks - the China Development Bank and the Export-Import Bank of China—are rapidly becoming the largest sources of energy finance for governments around the world and eclipsing the multilateral development banks. China was awash with liquidity and had an ambitious vision to support African governments in infrastructure development, a sector that had been partially vacated by more traditional donors. There has been

1 IMF (2023), IMF (2025)
2 Gallagher (2017)

a growing relationship between China and sub-Saharan Africa in terms of macroeconomic, trade, investment, and aid links since the early 2000s. [3] Its search for natural resources to satisfy the demands of industrialization has led it to Sub-Saharan Africa.

In parallel, the Eurobond market has grown in leaps and bounds since 2000 as it is a promising source of development finance. There has been a convergence of interests between liquidity-constrained African governments with international investors chasing yield. Close to 20 countries appeared on international capital markets with Eurobond issuances as large as 3 percent of GDP, and Eurobonds have been used to finance infrastructure projects as well as recurring expenditure. The cumulative size of the Eurobond market is now more than $150 billion. After a period of decline in 2023, by 2024 there have been successful Eurobond issuances by Côte d'Ivoire, Benin and Kenya, raising close to $5 billion. However, the bonds have been costly, with an average interest rate of more than 8 percent. The rise of significant new lenders across the developing world, such as China, India, UAE, Saudi Arabia and other non-Paris Club actors is another interesting trend.

In the wake of this debt crisis, there have been several reform attempts in recent years. The Global Sovereign Debt Roundtable (GSDR) was launched in 2022 with participation of creditors, debtors, and international organizations to secure debt treatment for countries in default. It was co-chaired by the IMF Managing Director, the World Bank President, and South Africa, who is the current G20 co-chair. In 2025, the IMF and World Bank released a playbook to help countries that are considering debt restructuring with key steps and concepts. A flurry of initiatives to ask for debt cancellation have been floated.

However, from the African country perspective, none of these initiatives have delivered strong tangible results on the ground. On May 15, 2025 in Togo, the African Union issued a Lomé Declaration on Debt, advocating for a reform of the G20 CF focusing on faster relief and strong methodologies for comparability of treatment. There has been much interest in creating a regular institutional mechanism for sovereign-debt restructuring. However, despite many discussions, there has been no significant changes. It is time for a new approach that addresses ground level realities.

In the summer of 2025, several influential reports have come out urging reform. In June 2025, a new report was presented by UN Deputy Secretary-General Amina Mohammed expressing concerns about the silent crisis of surging debt service payments in low-income countries. [4] In the same month, a report was launched called the Jubilee Report. [5] Involving over 30 leading economists appointed by Pope Francis as a key initiative for the Jubilee year 2025, it was led by Nobel laureate Joseph Stiglitz and former Minister of Economy of Argentina Martín Guzmán calling for urgent action and systematic reforms. It is fast becoming one of the global issues of our times.

3 Zafar (2003)
4 UN (2025)
5 Stiglitz, Guzman et al (2025)

2 OBJECTIVE OF THE PAPER

Considering this, this paper attempts to provide concrete policy advice to African governments navigating a complex debt situation and ideas to the international community. It draws on considerable on the ground experience in Ethiopia, where the UNDP has advised the Government on debt restructuring. Ethiopia is an important case study because of recent macroeconomic shocks and pre-existing debt unsustainability ratios. It applied for debt relief treatment within the G20 Common Framework, one of the four countries, along with Chad, Ghana, and Zambia.

The paper has three key objectives:

> It highlights the difficult debt situations faced by African governments amidst a growingly uncertain and complex economic environment

> It provides an overview of the current Common Framework (CF) for debt sustainability, evaluates its track record, and examines the reasons for the slow performance of the CF.

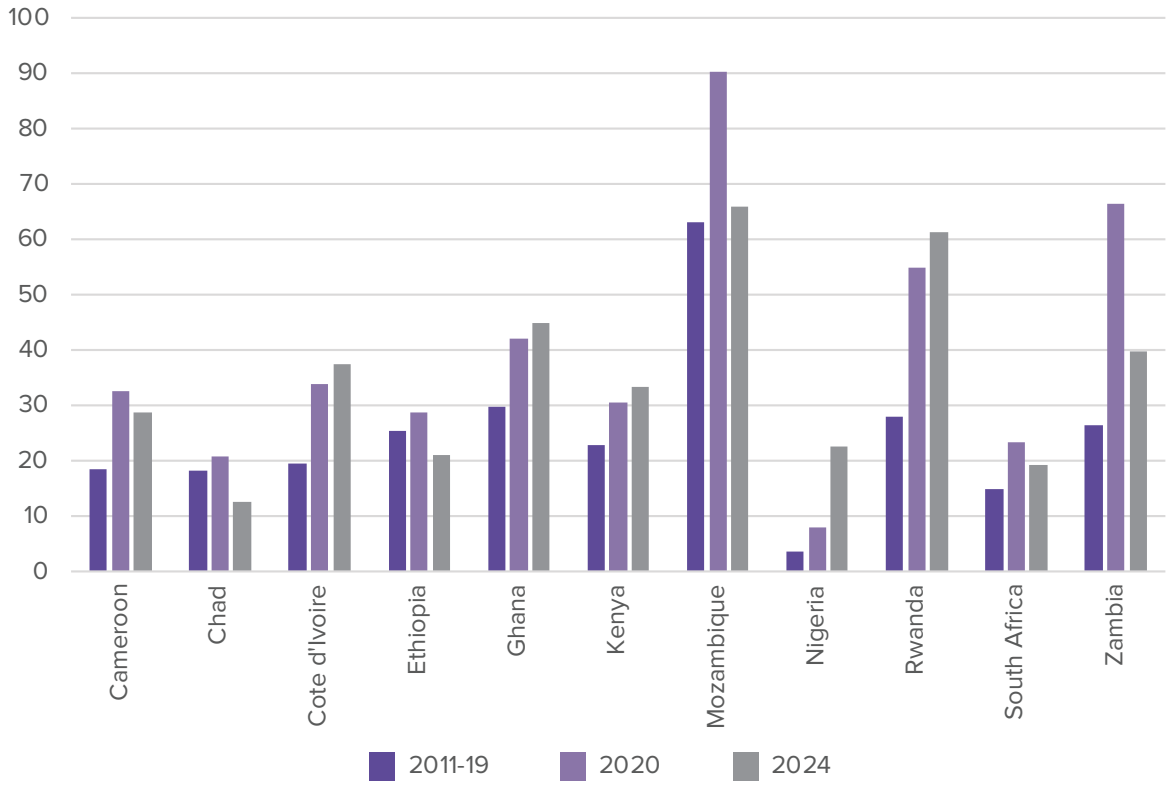
> It provides a seven-step practical roadmap for African governments to improve negotiations with creditors and for creditors to understand the dilemmas of debtors and ways to arrive at a win-win solution. It also presents ideas for reforming the international debt system based on the ground realities.

The empirics are stark, reflecting a major growing debt burden on poor African countries. As in many parts of the world, African debt has been on the rise, and debt servicing has increased. The countries' fiscal space is eroding at a time when they need to accelerate spending for the sustainable development goals (SDG's).

- In 2022, public debt in Africa reached $1.8 trillion, and its debt has increased by 183 percent since 2010, a rate roughly four times higher than its growth rate of GDP in dollar terms.[6]
- As of 2022, more than half of the low-income countries in sub-Saharan Africa were assessed by the IMF to be at high risk or already in debt distress. Since 2020, there have been several defaults, including Zambia and Ghana.
- The external debt for many SSA countries has increased in the past fifteen years (Figure 1). At the same time, the debt service to exports ratio is worsening for many African countries (Annex Figure 9).
- Total public debt in many of the African regional grouping is now close to 60 percent of GDP. Middle income and resource-intensive countries have higher debt than low income and fragile countries. SADC, ECOWAS, CFA Franc Zone, EAC, and COMESA all have debt close to 60 percent of GDP (Figure 2). More than 30 African countries have crossed 50 percent of debt to GDP (Figure 3).
- Interest payments are increasing significantly (Figure 4) and have more than doubled in the last fifteen years, partly due to increased cost of borrowing. According to the African Development Bank, Africa will pay out $163 billion just to service debts in 2024, up sharply from $61 billion in 2010.[7] On average, low-income countries (mostly African) are likely to allocate more than twice as much funding to paying net interest as they do to social assistance, and 1.4 times more than to healthcare, while debt servicing accounts for 60 percent of education expenditures in these nations.[8] In 2024, countries like Kenya spent more than 50 percent of their revenue on debt servicing.
- For 52 most debt-vulnerable economies, a 30 percent haircut of 2021 public external debt stock could lower debt service payments in 2022–2029 by between $44 billion and $148 billion, depending on creditor participation.[9]
- In certain respects, Africa suffers from a perception bias. African countries could save up to $74.5 billion if credit ratings, which provide a global assessment of a country's macro climate and ability to repay external debt, were based on more objective assessments.[10]

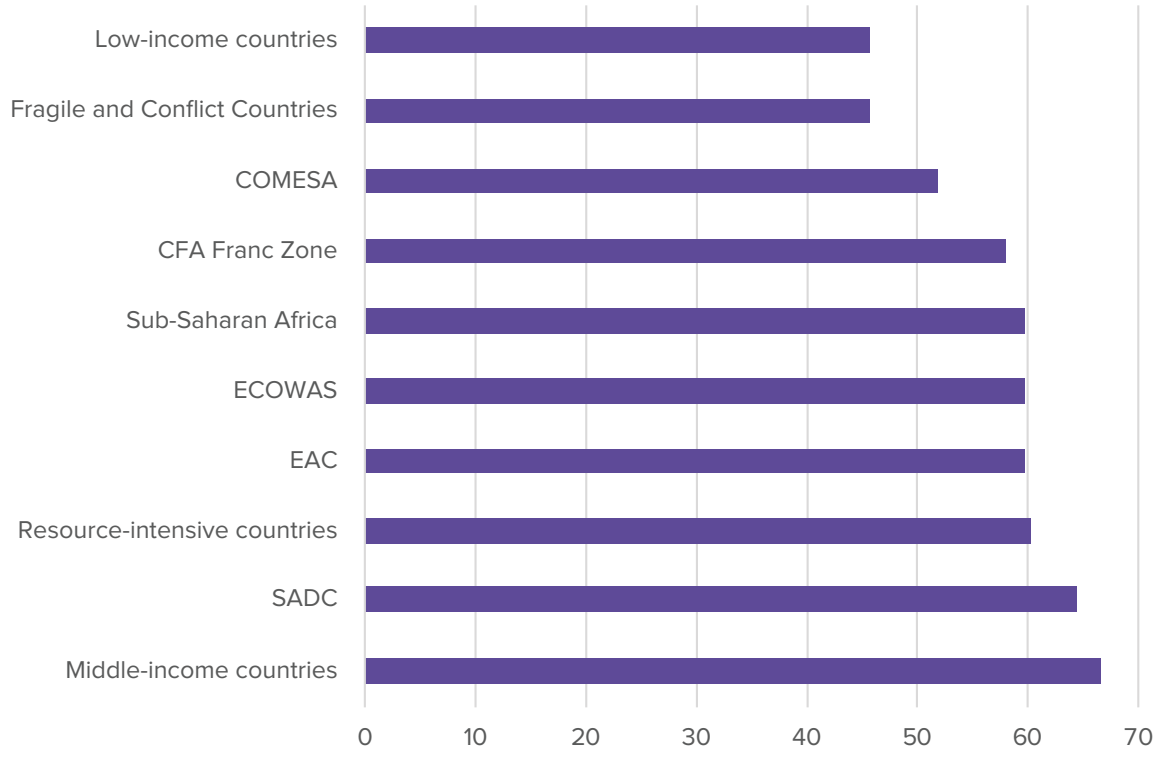
6 UNCTAD (2023)
7 AFDB (2024)
8 UNDP (2023b)
9 Molina and Jensen (2023)
10 UNDP (2023c)

Figure 1: Total External Debt to GDP of Selected African Countries (percent)



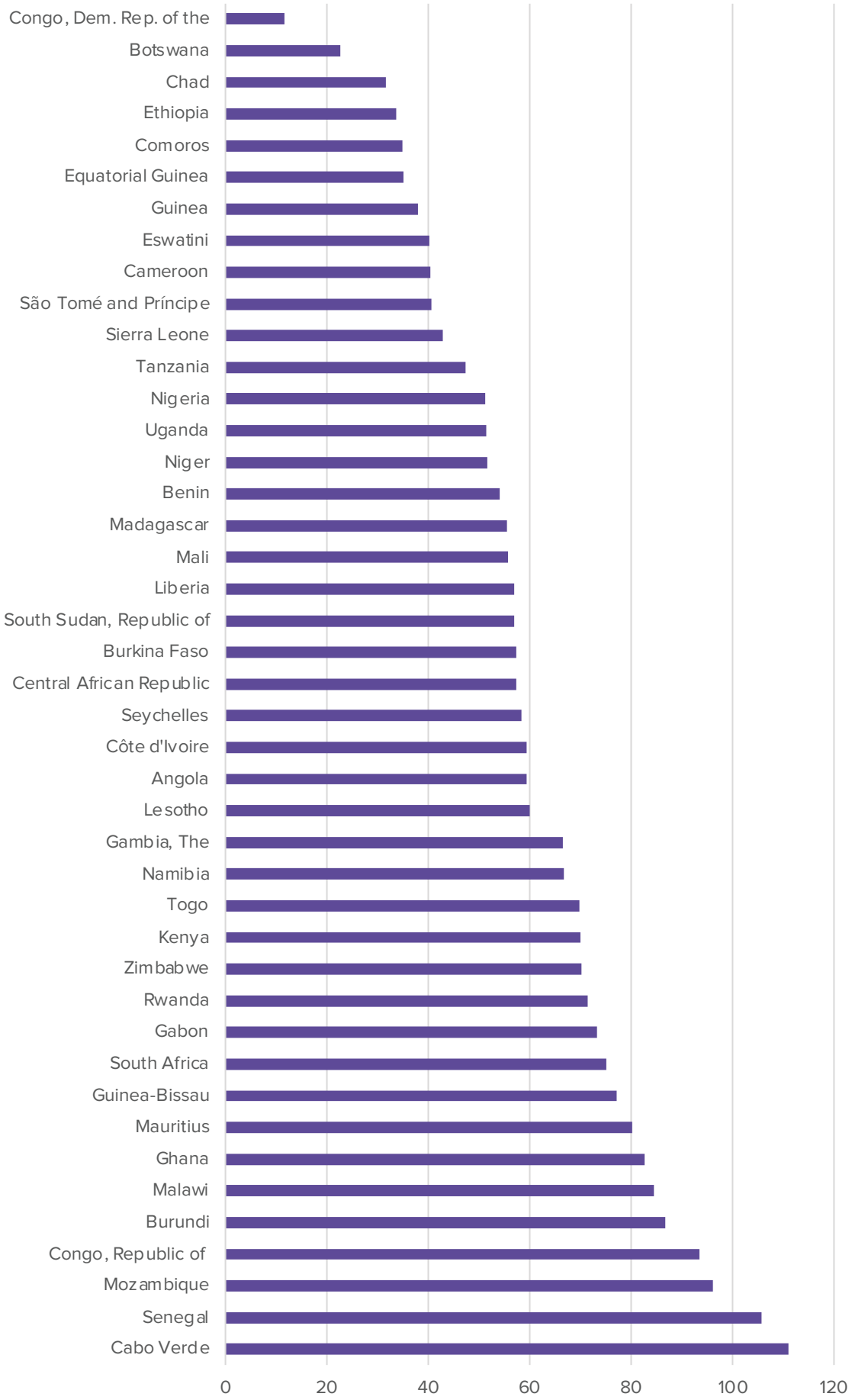
Source: IMF REO Africa

Figure 2: Total Public Debt by Region (percent)



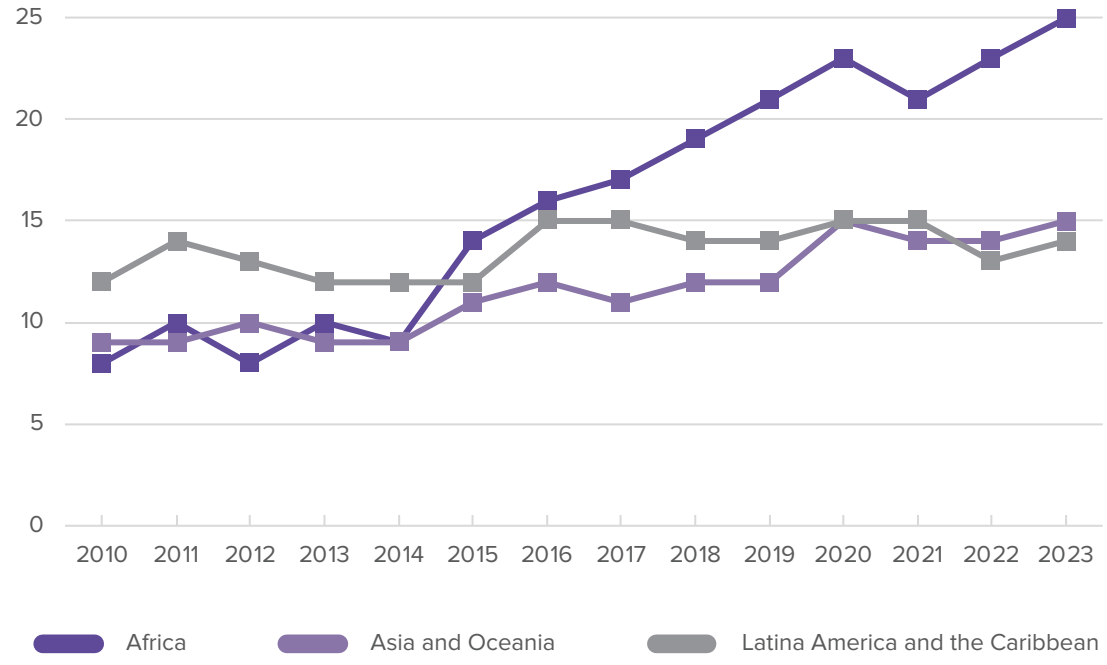
Source: IMF

Figure 3: Total Public Debt to GDP by Country in 2024 (percent)



Source: IMF; Senegal numbers have been updated to reflect recent audit

Figure 4: Number of Developing Countries with Net Interest Payments Exceeding 10 Percent of Revenue (2023)



Source: UNDP

As an international attempt to address the growing debt challenges, the G20 Common Framework (CF) for Debt treatment beyond the Debt Service Suspension Initiative (DSSI) was launched in November 2020. The framework was designed to facilitate a timely and durable debt treatment for countries facing a difficult debt situation, especially the more than 70 low-income countries in need of debt relief. Under the CF, the IMF would prepare a Debt Sustainability Analysis (DSA) to understand the level of debt distress and determine the financing envelope required to restore sustainability. The three key parameters of the CF include: (i) existing nominal debt service over the IMF program period (three years); (ii) where applicable, the required debt reduction in net present value terms; and (iii) the extension of the duration of the treated claims. One central feature of the CF is the comparability treatment with all creditors under which debtor countries will need to negotiate with all their non G20 creditors (except multilateral creditors) debt relief treatments comparable to the one provided under the CF.

The CF has not been a framework for debt cancellation. The CF is meant to restore debt balance. In principle, debt relief treatments will not be conducted in the form of debt write-off or cancellation. It is important to note that the option will only be available in most difficult and intractable cases, after an IMF-WBG DSA and the participating official creditors' collective assessment.

Unfortunately, the Common Framework has not performed as expected. The key challenge with the CF is that is has been a slow process and has not provided a quick road toward debt sustainability. Only four countries – Chad, Ethiopia, Ghana and Zambia – have applied for debt relief through the Common Framework, and the results have not been good. Ghana achieved a deal in 2024. Chad signed a deal, but it was with minimal debt reduction and lack of participation from major private creditors. Many years later, Ethiopia and Zambia still have been unable to complete the process and are still working to make agreements with private creditors that are accepted by official creditors. Other countries have not been interested in joining the CF.

There have been concerns about the CF. In 2021, the Managing Director of the IMF - Kristalina Georgieva argued that the G20 Common Framework must be stepped up as many low-income countries finding it increasingly difficult to service their debts.[11] Another expert has argued that the CF is a long, drawn-out process with an uncertain end and no interim relief, making it both challenging for participating countries and discouraging for other countries with serious debt problems."[12] Another perspective argues that almost three years after the initial agreement on the Common Framework, there still is no model for an internationally coordinated restructuring that both delivers significant debt relief and includes the Chinese policy banks.[13] It has also been unable to mediate between creditors and provide a minimum standard for debt relief requirements on private creditors. Ethiopian State Minister of Finance Eyob Tekalign has acknowledged the recent successes of some CF countries but noted that lengthy timeline arguing for a more streamlined process and efficient pathway to expedite the transition from the Agreement in Principle (AIP) to finalized bilateral agreements with creditor nations.[14] According to Indermit Gill, the World Bank Chief Economist, the CF has failed to provide a single dollar of new money.[15] Jason Braganza from the African Forum and Network on Debt and Development (AFRODAD) has argued that the G20 CF is creditor-led initiative with the objective of guaranteeing creditors get paid. Given the slowness in debt restructuring, multilateral financing is increasingly used to repay private creditors. Amid such criticism, it is important to think of ways to reform the system.

11 Georgieva and Pazarbasioglu (2021)
12 Ahmed and Brown (2022)
13 Setser (2023)
14 Capital News (2025)
15 Guardian (2024)

The paper proposes seven steps to improve the global debt system and CF framework based on the Ethiopia case study.

A. Rethinking Solvency

One of the weaknesses of the current IMF framework is the assessment of solvency. Currently, under the existing framework, countries' debt-carrying capacity is classified into three categories – strong, medium, and weak. The DSA framework for low-income countries is the guide, and there is a separate framework for market access countries. A range of indicators are given to assess solvency, and empirical thresholds are provided. [16] However, the thresholds have been defined relatively arbitrarily and they do not consider the changing global context of macroeconomic uncertainty, commodity price volatility, and high interest rates. While it may have been true that countries in SSA have been able to stabilize debt in the past without debt restructuring[17], it is becoming less likely due to shocks, higher borrowing costs, and social costs of strong fiscal contractions. Currently, many African governments are unable to repay Eurobonds and Chinese debt and are being forced to rollover at higher interest rates. Dollar-denominated debt is becoming a problem and has to be analytically separated from local currency debt, which is more manageable. There are growing risks that international financial institution capital is being used to pay back existing debt, especially of private creditors. Interest rates on debt are becoming higher than returns on investment in many African countries. Two experts argue that the entire DSF cannot ignore lessons from recent emerging market crises and must be reformulated to consider fiscal and growth fundamentals, international liquidity, market signals and private balance sheets. [18] From their perspective, it is important to develop a deeper understanding of underlying public debt dynamics by developing appropriate counterfactual scenarios. Moreover, IMF diagnostics for some countries sometimes tend to merge domestic and foreign currency debt, although the two are conceptually different, face different rollover risks and exchange rate impacts, and should be analytically disentangled. The existing thresholds are unable to predict future debt crisis since they are not well-equipped to address the changing global context for African countries. Overall, current assessments of solvency ignore a complex and changing world.

A rethinking of solvency can lead to an acknowledgment for haircuts to rescue insolvent African nations. In 2024, Harvard professor Carmen Reinhart has said that one must be careful of understanding insolvency in the disguise of liquidity. [19] In this context, it is important to have a more rigorous diagnosis of solvency vs liquidity and understand that protracted liquidity may become insolvency. As debt service to exports ratio is rising rapidly in sub-Saharan Africa (Annex Figure 9), and it is becoming increasingly hard to rollover debt, the liquidity shortfalls are becoming structural. Revising the DSA assessments with current and projected macroeconomic realities for sub-Saharan African countries would potentially show greater insolvency, rather than liquidity, across a range of countries. The case for debt relief is compelling, especially for some of the poorer countries of the world. In March 2025, eight former African Heads of State signed the Cape Town Declaration, calling for the critical need for debt relief for highly indebted nations and advocating for lower borrowing costs for all developing countries. A recent UNDP assessment finds that using the same 60 percent reduction of debt stock that was done in the HIPC/MDRI Initiative in the early 2000s were applied to countries at high risk of debt distress, the estimated debt service savings over seven years would be close to $78 billion, which is equal to ten percent of the group's GDP. [20] In sum, solvency assessments become critical for a lasting solution to the African debt crisis.

16 Currently for countries with medium debt carrying capacity, a present value of external debt to GDP at 40 percent and total debt service to exports at 15 percent are the thresholds.

17 Laws, Lemaire, and Spatafora, 2025

18 Gill and Pinto (2023)

19 Reinhart (2024)

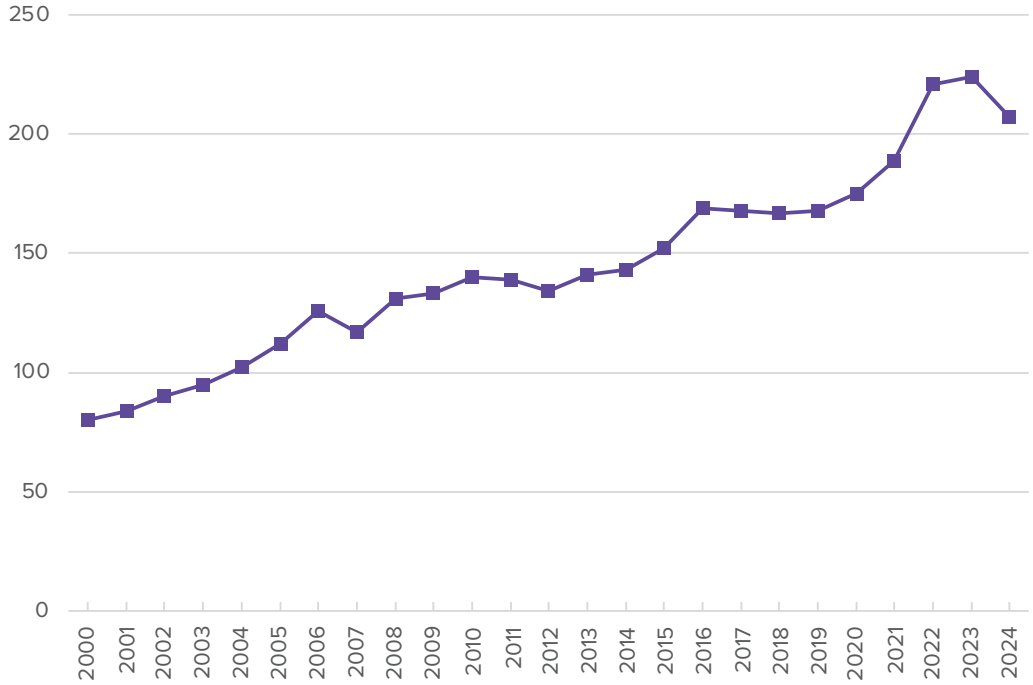
20 Jensen, Lars (2025)

Seven Inconvenient Truths

The continent may be facing a lost decade of development, with several clouds on the horizon. There are seven key truths.

> **First, ODA is in decline** due to cash constraints and competing priorities of donor governments. ODA fell by more than 3.5 percent for Africa, Asia and Oceania and least developed countries (LDCs) between 2021 and 2022. Recent donor reprioritization and cuts at USAID and UN indicate further challenges to the aid system. According to the OECD, international aid from official donors fell in 2024 by 7.1 percent in real terms compared to 2023, the first drop after five years of consecutive growth (Figure 5).[21]

Figure 5: Global ODA Trends ($ billions)



Source: OECD DAC

> **Second, there is a decline in concessional financing.** Concessional loans have represented close to 80 percent of multilateral debt in 2010 and are currently below 65 percent. Donor funding has been declining, making grant finance decline in percent terms. Linked to this is the risk that new debt from MDB's is being used to pay back old debt to MDB's and rescue private creditors, as was seen recently in Kenya, where in 2024, a World Bank budget support loan was used to help settle a Eurobond payment of $500 million.

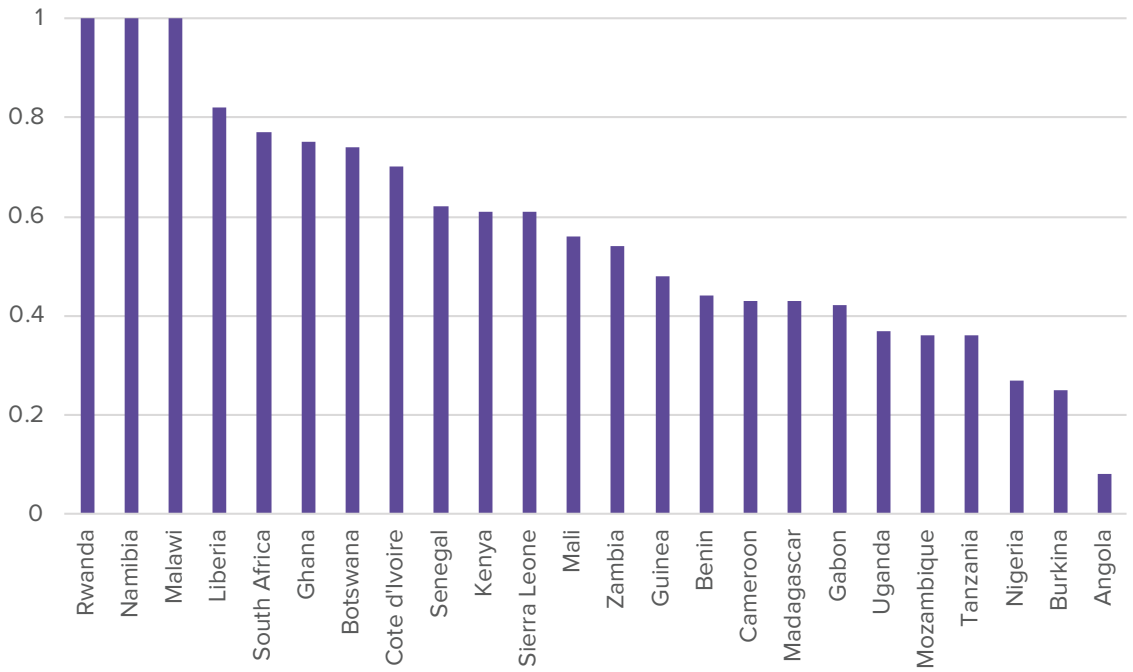
> **Third, borrowing costs have been increasing**. Compared to the past, borrowing costs have tightened considerably globally, especially due to tight monetary policy in many countries to fight inflation. As seen from the recent Eurobond experience of Kenya, Cote d'Ivoire, and Benin, the average interest rate on a Eurobond is 8.5 percent in SSA currently compared to closer to 5 or 6 percent a decade ago. It is important to note that as some African currencies have depreciated, external debt in dollar terms becomes costlier to serve. In the last five years, a significant portion of Africa's debt service increase has been due to currency depreciation.

> **Fourth, climate shocks will exacerbate in years to come.** Climate change is here to stay and will have a pronounced impact on developing countries. Africa is one of the continents that is most vulnerable to these shocks. It could lose between 5 percent and 15 percent of its GDP per capita growth due to climate change.

21 OECD (2025)

- **Fifth, geopolitical fragmentation is expected to persist in the medium-term.** US-China tariff tension has undermined the global trading system with multilateralism in retreat. Competition for resources, tariffs, trade wars, and actual works have worsened the economic horizon. IMF estimates that global losses from fragmentation can range from 0.2% of global GDP all the way up to 7 percent of global GDP.
- Sixth there is **fiscal consolidation** in many countries to address debt challenges. There is more austerity than stimulus in sub-Saharan Africa, partly due to the debt buildup. IMF economists have recently argued that most countries in sub-Saharan Africa region will need to reduce their fiscal deficits in the coming years with the amount of adjustment for the average country to be about 2 to 3 percent of GDP.[22] As public spending is cut, SDG and climate targets become more elusive.
- Seven, **governance will remain a challenge in Africa**, and moral hazard can happen if overborrowing resumes with new flows. Countries are spending increasing amounts on security given the waves of conflict in the continent. On top of that, public investment management in the continent faces governance challenges, although the results vary by country. Based on a sample of 32 African countries, African Development Bank estimates show that Africa has an average efficiency gap of 39%, which means that close to 39% of debt financing is wasted or spent on poor projects.[23] The assessment looked at institutional quality, implementation delays, coordination, and absorptive capacity. (Figure 6).

Figure 6: Public Investment Efficiency Index by sub-Saharan Country (Hybrid Indicator)



Source: AFDB (2020)

Note: Higher ranking indicates better management of debt-financed projects

B. Modernize the IMF DSA

The first step in improving the debt framework is to modernize the IMF-led DSA framework. The DSA has been the central intellectual anchor of debt diagnostics, and it provides a quantitative and empirical framework for debt sustainability. It defines the debt that is sustainable without risk of default. However, despite progress over the years, it is an imperfect analytical instrument and can

22 IMF (2023)
23 AFDB (2020)

be modernized to reflect the changing world, especially one where there is a growing role of shocks, especially climactic and commodity related. In the recent Jubilee Report presented in June 2025, it has been argued that rather than offering realistic tools for planning, the scenarios projected by DSAs can become tools in the hands of vested interests, who use overly optimistic projections to minimize the burden of debt restructuring.[24] The DSA framework and process faces three challenges.

First, there is a marked optimism bias in many of the DSA estimates, as they are based on overoptimistic projections of growth and exports. IMF real GDP growth forecasts for many African countries have often showed a tendency to exceed actual outcomes. This is significant as the quality of the DSA depends on the quality of macroeconomic projections. A recent assessment by the World Bank's Independent Evaluation Group previously highlights optimism bias in debt forecasts used in DSAs.[25] The IEG assessment notes that overoptimism reflected frequent underestimation of downside risks related to contingent liabilities of state-owned (SOEs) enterprises, or to shocks that were correlated with compounding results. Former Minister of Finance of Argentina, Martin Guzman, argues that the IMF has tended to underestimate the risks of terminal debt troubles in countries in distress and that many IMF DSA projections are biased.[26] There tends to be a systematic overestimation of the capacity of repayment of countries in distress due to the overestimation of the speed of recovery. World Bank Chief Economist Indermit Gill and consultant Brian Pinto argue that the fact that the World Bank and IMF cannot lend to countries with unsustainable debt situations should not be allowed to generate an optimistic bias that pronounces countries to be on a sustainable path when even a casual look at the dynamics suggests otherwise. [27]

A recent empirically rigorous review by the Finance and Development Lab notes a systematic tendency for large optimism bias in DSA's. Using a newly constructed database of 605 DSAs conducted from 2013 to 2024, the main finding is that there are significant forecast errors concerning public and external debt and that the optimism bias leads to a 10-percentage point underestimation of the trajectory of the debt-to-GDP ratio on average after 5 years. [28] The analysis shows that larger countries tend to be more affected by significant positive biases and that the main driver of forecast errors is the underestimation of primary deficits (largely due to overestimate fiscal revenues), followed by overestimated GDP growth. Biases have persisted over time. The study identifies institutional, structural, and cyclical drivers, including governance quality, economic diversification, and global economic conditions and notes countries reliant on commodity exports have optimistic projections for debt ratios, while countries with fragile governance have overly optimistic growth projections.

Second, the DSA does not incorporate climate shocks, which are growingly common and persistent in many sub-Saharan African countries. While the IMF's Climate Change Indicators Dashboard provides a clear platform for looking at climate change data for macroeconomic analysis, this has not been incorporated into the DSA. When shocks are incorporated into DSA models, there is a greater probability that sub-Saharan African countries will be assessed as facing solvency not liquidity problems. A recent study proposes an adjustment to the IMF Debt Sustainability Analysis methodology to incorporate climate risk and climate transition. [29]

Third, in terms of process, the DSA preparation process under the CF is not fully transparent. Official creditors conduct discussions with the IMF separately from and before the private creditors. The calculation of the debt restructuring parameter is shrouded in secrecy. A recent analysis from the

24 Stiglitz, Guzman et al (2025)
25 World Bank (2023)
26 Guzman and Heymann (2015)
27 Gill and Pinto (2023)
28 Gaudin, Antoine, Harnoys-Vannier, and Kessler (2024)
29 Maldonaldo and Gallagher (2022)

World Bank[30] shows that since private creditors are not given any indication of the Creditor Committee restructuring terms until the terms are confirmed in the CC's Memorandums of Understanding, it increases the likelihood of "light" restructurings (i.e., rescheduling of debt service with limited or no NPV reduction) and consequently the recurrence of debt distress, as official creditors are not likely to commit to a deep relief in the absence of any similar assurances from the private creditors.

C. Ensure Stronger Participation of China

China has emerged as the biggest lender and the largest bilateral creditor for sub-Saharan Africa, lending more than $800 billion in the last two decades, eclipsing the Paris Club. In recent years, it has increased its lending to many poorer developing countries, including Kenya, Ghana, Ethiopia, and Zambia. As part of its overseas push and the Belt and Road Initiative, China has become a major lender, providing loans for infrastructure, energy, transportation, and communications. It has a unique lending style, with many loans secured on commodity exports.[31] Its loans in Africa peaked in 2016 and now have been on a declining path (Figure 7). It now accounts for more than 10 percent of sub-Saharan African debt. Resource-rich countries such as Angola and Democratic Republic of Congo owe more than 40 percent of their debt to China. It is the major bilateral, non-Paris Club creditor for Ethiopia, accounting for 30 percent of total external debt.

It has been a major force driving the shifts in the creditor world, and it has a complex institutional landscape. One recent paper argues that by 2020, it has been essential to include China as a full member of international sovereign debt restructuring negotiations because of its significant new lending to developing economies.[32] Many of its loans involved unusual legal conditions (including confidentiality clauses and preference clauses vis-à-vis other bilateral lenders). China has been exposed to losses in its lending portfolio and got pulled into complex and messy sovereign debt restructurings since 2020. China has also been evolving in its positioning. In recent years, it has dropped its demand that multilateral development banks (MDBs) take a haircut along with other creditors in sovereign debt restructurings.

China has a unique mix of official and private creditors. Its institutional architecture is different from the Western countries. China has two major policy banks (China Development Bank (CDB) and China Eximbank), several large, state-owned commercial banks and an export credit and insurance agency Sinosure. Historically, China's foreign lending was historically provided by CDB and China Eximbank, who are also public creditors. However, since 2015 more than 40 commercial creditors have become involved, including state-owned commercial banks, state-owned enterprises and private companies, and Sinosure.[33] State-owned commercial banks include the Industrial and Commercial Bank of China (ICBC) and Bank of China.[34] This renders negotiations with the Chinese challenging for African governments and increases transaction costs of navigating the Chinese system.

30 Rivetti (2022)

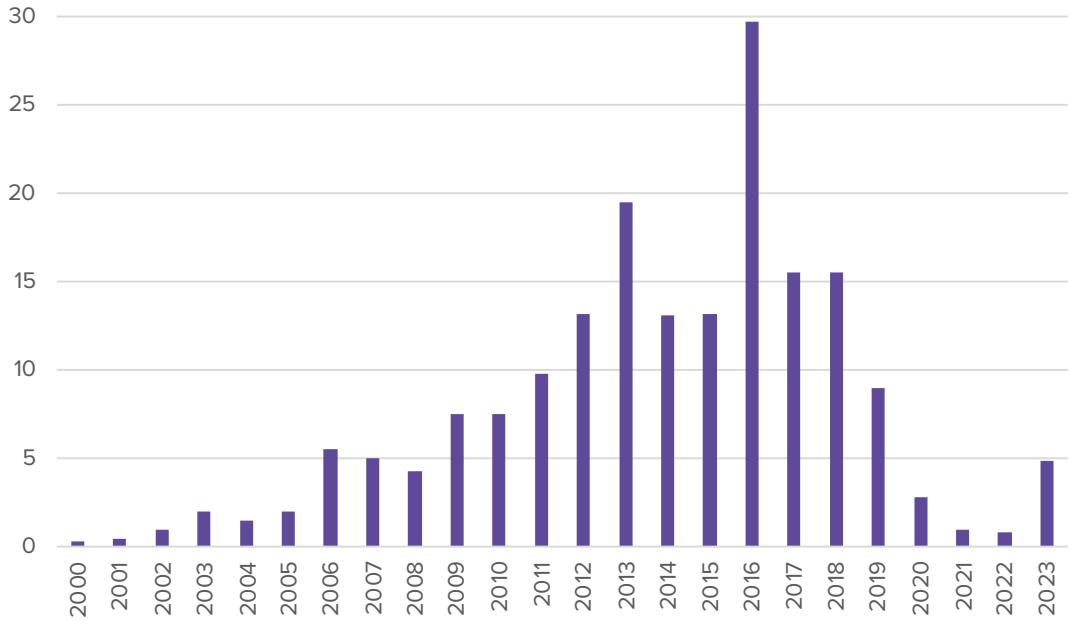
31 Chinese loans have been priced at between 3 to 5 percent, higher than less than1 percent for IDA and lower than the 6 to 8 percent for private Western creditors and Eurobond holders.

32 Makoff, Maret, and Wright (2025)

33 Wu and Chen (2024)

34 China's position is that China Development Bank loans are insured and guaranteed by Sinosure (China Export & Credit Insurance Corporation) and thus should be considered as commercial loans.

Figure 7: Chinese Loans to Africa 2000-2023 ($ billions)



Source: Chinese Loans to Africa Database, Boston University Global Development Policy Center, 2024.

There are several important characteristics of China's approach to debt. First, it has tended to take a commercial and pragmatic approach. Brad Setser, an expert, argues that Chinese official creditors are acting like old-fashioned commercial creditors and want to maintain both the par value of their claim and a coupon that covers their cost of funds (LIBOR plus a few hundred basis points). [35] Emergent empirical research indicates that China prefers a commercially oriented new-money approach over an interventionist haircut approach, even though the major Chinese banks are state-owned.[36] Between 2000 and 2019, China has cancelled at least $3.4 billion of interest-free loans but not commercial loans in Africa, and that rescheduling by increasing the repayment period is common, changes in interest rates, reductions in principal ("haircuts"), or refinancing are not.[37] An updated 2025 assessment finds that China has avoided recognizing losses in its international lending portfolio, and there is only a limited record of Chinese lenders agreeing to debt write-downs, which tend to be exceptional and involve a small percentage of its lending portfolio.[38]

From a practical standpoint, it would be preferable if China participates even more closely in the international debt restructuring system. First, since it is a great provider of creditor assurances to the IMF and a participant in the Official Creditor Committee, it could widen its engagement by negotiating multilaterally rather than bilaterally. China has increased its cooperation with the Paris Club as co-chair of some Official Creditor Committees, but it can increasingly formalize its participation. [39]Second, it could be represented as one official creditor. Since most of its loans are under the sponsorship of the Government and since they have operated under the auspices of the BRI, it would be more efficient for China to be one official creditor. One useful and innovative proposal is to have China evaluates the benefits of setting up a new asset management company who administrates its problem sovereign loans and whose team would represent China at all international sovereign debt negotiations.[40] Third, it would be good for China to be more transparent in terms of its loan terms as some loans have confidentiality clauses.

35 Setser (2023)
36 Chen (2023)
37 Acker et al (2020)
38 Makoff, Maret and Wright (2025)
39 China has recently been more flexible in its request for inclusion of multilateral development banks (MDBs) in sovereign debt restructurings under the G20 Common Framework. There had been questions by China about preferred creditor status of these lenders, but there has been an acknowledgement that these creditors are an important source of concessional financing to African countries.
40 Ibid

D. Find a Simple Formula for Comparability of Treatment

One of the pillars of the CF is comparability of treatment, but it has been difficult to define it. There has never been a clear formula presented as part of the CF on the fair allocation of burden-sharing among creditors. In a recent note, Lazard, an advisory firm specializing in complex sovereign debt restructurings, has noted that the uncertainty surrounding the definition, perimeter, and application of the comparability of treatment within the Common Framework, has been detrimental to the process.[41] The aspiration is that clear guidelines and incentives could motivate creditors to come forward early on to deliver their restructuring effort. The proposal is the use of a single metric that assesses comparable treatment. The operational challenge is that sovereign debt restructuring is a zero-sum game.

The fundamental problem with the standard NPV of debt/GDP is the lack of consensus on the discount rate. The standard discount rate used by Paris Club and multilaterals is 5 percent. However, private creditors who mark to market (an accounting method based on current market conditions not historical costs), find a discount rate of 10 percent more realistic as it reduces their losses. They want to achieve a higher discount rate of future payments rather than large haircuts on their cash flows. From Lazard perspective, a long maturity extension at low interest rates is relatively more painful for commercial creditors with fiduciary duties than for bilateral creditors with concessional programs. [42] Ensuring inter-creditor equity and a fair burden-sharing is a complex undertaking.

Another layer of complexity has been different mindsets and approaches among creditors. Paris Club and China prefer maturity extensions, while private creditors favor immediate cash flows with the possibility of debt write downs depending on the country case. [43]However, recent cases in Chad and Ethiopia have been interesting to note. In Chad, private commodities trader Glencore did not participate in the debt relief since it argued that oil prices were high. Similarly, in the case of Ethiopia, in February 2025, the Eurobond holders argued that since coffee and gold exports are strong, the country is facing a liquidity and not a solvency challenge. They had previously rejected an Ethiopian Ministry of Finance offer to pay $800 million out of $1 billion Eurobond that was due in December 2024.

One approach used by UNDP in advisory work in Ethiopia has been based on a proportional contribution from participating creditors during the restructuring. This approach is based on a simulated estimation **of** the distribution of debt relief by creditor type in Ethiopia and a calculation of the total debt relief needed to stabilize the debt services to exports ratio. (Annex Table 1).[44] This has the advantage of being a simple and transparent process. In the last fifteen years, collective action clauses (CACs) in bond contracts ensure restructurings are legally binding on all creditors. This prevents holdout creditors, as was prevalent during Argentina's restructuring.[45]

41 Lazard (2022)

42 ibid

43 From a technical standpoint, Paris Club and China favor reprofiling of interest rates and maturities but no principal haircuts, while commercial creditors want to achieve restructuring via a higher discount rates. By contrast, debtors want to achieve lower NPV debt by agreeing to a larger haircut with reduced cash flows to creditors. In some cases private creditors in both Ethiopia's case and Chad's case have not willing to consider debt write downs.

44 In its modelling, the UNDP assumed Ethiopia's debt carrying capacity is considered medium.

45 Recent draft legislation in Albany, New York is proposing reforms to the $ 70trillion global sovereign debt market by insuring private creditors obtain the same terms as official creditors in sovereign restructurings.

E. Cap the Debt Service by Ringfencing Social Expenditures amid Fiscal Adjustment

The central pillar of the IMF approach to debt restructuring is rapid fiscal consolidation, a view that has been challenged. The approach is that a combination of spending cuts and tax increases will help countries reduce their debt burdens and fiscal deficits. The core idea is that fiscal consolidation, especially thought a positive primary balance, will stabilize debt to GDP ratios. However, there are an alternate view based on slower fiscal adjustment and potential debt reduction.[46] From this perspective, if the assistance is accompanied by austerity measures, it would aggravate the economic situation of the debtor. Distressed debtors need a fresh start and not just temporary assistance. In a comprehensive review of the DSA, one academic has noted an over-emphasis on the role of primary balances in changing debt dynamics to the detriment on non-fiscal measures, such as non-primary balance reasons for the evolution of debt to GDP. These can be unfavourable debt dynamics such as a negative interest rate- growth rate differential, or stock flow adjustments arising out contingent liabilities.[47] Another view argues that for Africa to meet its development objectives, the IMF must change its pro-creditor and anti-growth approach to highly indebted/insolvent countries.[48] Martin Guzman has argued, the IMF also appears to have downplayed the potential for destabilizing, and ultimately self- defeating effects of fiscal contraction in economies in deep recession or depression.[49] Former IMF Chief Economist Olivier Blanchard and macroeconomist Daniel Leigh found that forecasters have underestimated the increase in unemployment and the decline in domestic demand associated with fiscal consolidation.[50]

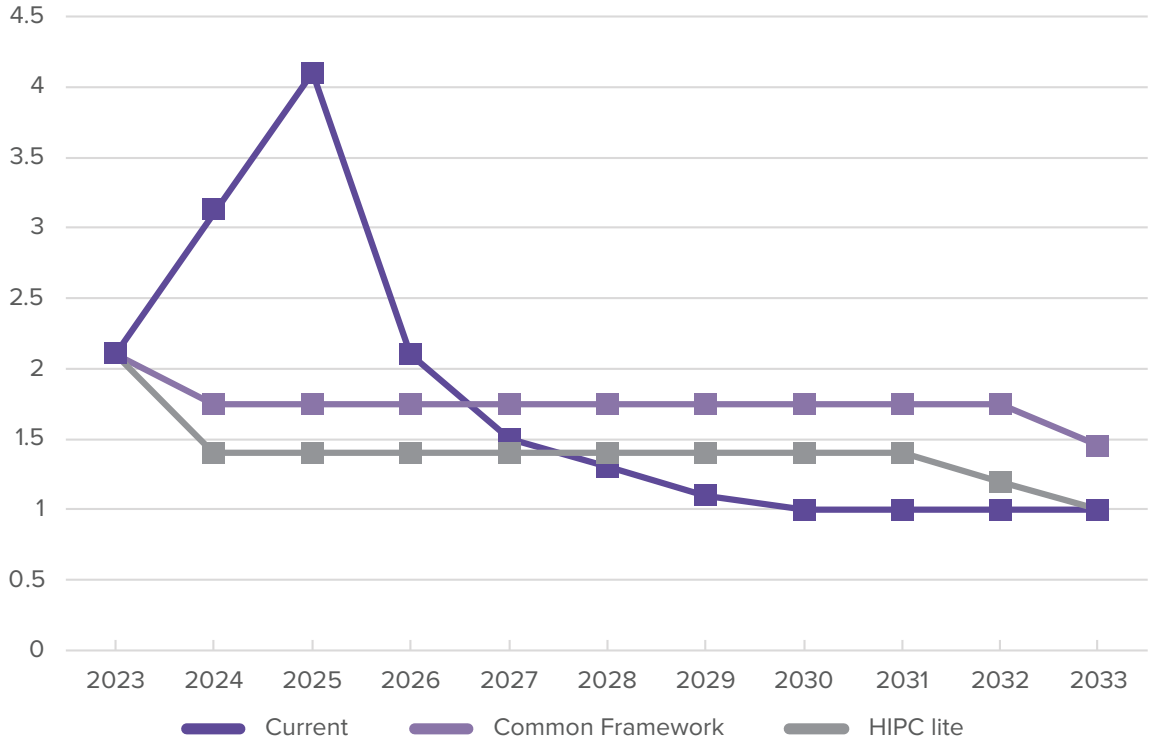
Case Study of Ethiopia

Based on its analytical models, UNDP policy advice to Government of Ethiopia has been that given its debt buildup and spending needs, rapid fiscal consolidation is detrimental to the fulfilment of SDG's. Ethiopia's application was filed in February 2021 and deliberations started in September 2021. However, the process for securing debt relief under this framework has been slow. The growth of debt and debt service has been high in recent decades. Unfortunately, in many countries like Ethiopia, the interest payments were crowding out social spending.

For Ethiopia, the approach has been based on five parameters to address the adverse distributional consequences of rapid fiscal consolidation. First, the proposal was for Ethiopia and other African countries to define an annual ceiling on debt service payments with a ringfenced social expenditure approach. Second, the fiscal adjustment should be gradual and at least five years. Third, to address bunching of debt service payments from 2023-2025, the required debt relief could be between $3 billion and $4 billion using debt service to export ratio. Ultimately, the Government negotiated a $3.5 billion debt restructuring with the IMF. Fourth, the UNDP Ethiopia analysis suggested a debt haircut can free up fiscal space for SDG investments. Finally, UNDP did a scenario analysis of different options: status quo, CF, and HIPC lite (Figure 8).[51] It shows that phasing the debt services payments over time provides fiscal space to the authorities. These scenarios can be applied to other African countries. [52]

46 Guzman and Stiglitz (2015)
47 Laskaridis (2021)
48 Sylla and Doyle (2020)
49 Guzman and Heymann (2015)
50 Blanchard and Leigh (2013)
51 UNDP (2023a) The three scenarios are: 1) no debt restructuring, 2) CF where the repayment is fixed at a ceiling of $1.75 billion per year with a payment extension until 2033, and 3) a HIPC lite involving debt relief and a reduction in the total volume of debt service payments between 2024 and 2033 by 20 percent.
52 The study did not assess debt management operations to address high interest rates or short maturities.

Figure 8: Ethiopia: Alternative Debt Service Payments under Alternative Scenarios ($ billion)



Source: UNDP (2023a)

F. Bring Eurobond Creditors Closely Involved

Private creditors should be more closely involved in the process. One of challenges of the CF process has been the lack of private investor willingness to participate in the process. In theory, countries using the CF must seek an agreement with private creditors at least as favorable to the borrowing country as that formally agreed in the MOU with official creditors. However, in practice, it has been complex. Bringing them to the table early on is therefore preferable to help build more buy-in and speed up the process [53]. This includes their participation in discussions with IMF and OCC at early stages. The current proposals around forming **Expanded Creditor Committees** with private sector creditors to smooth coordination challenges may also be useful. Inter-creditor disputes can be avoided with early coordination. According to Stiglitz and Guzman, it is important to have a legislated cap on recoveries by private creditors—linked to the terms accepted by official creditors—for the restructurings of low- and lower-middle income economies that would help avoid private creditors receiving more favorable terms than official creditors and foster greater private sector engagement in coordinated debt solutions. [54] It is important to note that they also propose vulture fund legislation and introduction of capital flow mechanisms to better regulate private creditors.

There are many options with Eurobond holders, but each has challenges. There can be payments to private creditors before payments to bilateral creditors. Countries can buy-back the debt on the secondary market, where investors buy and sell existing debt. Countries can refinance the bonds through new borrowing. However, given the high interests rates, this may further compound the problem. Perhaps the best option is to refinance the bond at lower rates and longer maturity, but it will have to be carefully discussed with private creditors and agreed with official creditors. Unfortunately,

53 Hagan (2023)

54 Stiglitz, Guzman et al (2025) They also propose vulture fund legislation and introduction of capital flow mechanisms to better regulate private creditors.

Zambia's recent debt restructurings have been derailed after official creditors rejected the deal of the bondholders.[55] A final option is to have creditors agree to a haircut in situations of debt distress. In 2024, Ghana reached a major agreement with bondholders, who accepted a 37 percent haircut on $13bn of debt. Ethiopia is investigating ways to pay the $1 billion Eurobond after private creditors rejected a $800 million payment, leading to a 20 percent loss from the original $1 billion payment. As in Zambia's case, the challenge is to find a solution that is acceptable to both private and official creditors. [56]

There are several innovative proposals out there to address both the private creditor debt as well as the official creditor debt. These are keys in terms of moving forward. The Spanish government is proposing the creation of a Multilateral Support Fund to reduce unsustainable debts. In essence, this is a trust fund at an IFI, backed by SDRs, to facilitate debt buybacks for countries facing unsustainable debt burdens. [57] There is an interesting proposal to set up of a well funded Regional Financial Safety Net (RFSN) for the continent.[58] Another option explored in the literature and policy world has been to use state contingent debt instruments (SCDI's) whose repayment terms are tied to specific indicators. Under strong leadership from the Ministry of Finance, Ethiopia is currently negotiating with both official creditors and private creditors to find a satisfactory formula.

G. Stronger role of the UN in Mediation

There must be greater involvement of the UN in the process. The UN Secretary General has called for a new debt architecture that supports debt relief for low-income countries. The UN's SDG Stimulus Plan calls for additional liquidity, effective debt restructuring and the expansion of development financing, has the potential to free up significant fiscal space in developing economies. The IMF is relatively strong on macroeconomic assessments, but it has been unable to mediate between China, bilateral creditors, and Eurobond holders. This difficult task is left to capacity-constrained African governments, who are navigating this imperfect landscape. Zambia and Ghana are two recent examples.

The UN could set up a dedicated office to guide and advise African debtors, manage creditor-debtor conflicts, and help ensure inter-creditor equity. Informal discussions between China and Eurobond holders can be conducted in the UN good offices, especially regarding CF countries, such as Zambia, Ethiopia, and Ghana. As a neutral party, the UN can provide a forum for African borrowers to share experience and expertise and also help bridge gaps between debtors and creditors. This could be in parallel with the Global Sovereign Debt Roundtable, a joint initiative by the G20, the IMF, and the World Bank, the global financial architecture reform agenda. The UN can provide analytical support in the form of work on mobilizing local currency financing in countries, increasing the channeling SDR's to Africa, and advising the G-20 on debt reform. Because of its neutrality, the UN may be well-suited to balance stakeholders. Unfortunately, the well-intentioned roundtables have been unable to break through a consensus among the varied actors. Thus, the UN can support African borrowers strategically and analytically as they try to guide the complex global landscape and provide a collective voice. Moreover, it can bring borrowers and creditors together as needed as the UN is a neutral space with institutional credibility and convening authority. Also, the UN can work in parallel with the African Union, which now has a permanent seat at the G20, together with UNECA, and emphasize solutions to rising debt vulnerabilites in SSA.

55 Zambia defaulted in 2020, but it reached an agreement with private creditors in October 2023 to extend maturities and forgive $700mn of post-default interest on bonds with an original face value of $3 billion. However, the official creditors, who had offered debt relief this year on $6.3bn of debt, rejected the offer as it was deemed too favorable to bondholders. Private creditors responded by arguing they were offering more relief in cash flow terms than official creditors. By March 2024, a deal was reached with private creditors that was endorsed by the OCC.

56 Ethiopia's case is interesting as China accounts for $7.4 billion of the $12.4 billion official bilateral debt, and chairs the official creditor committee with France.

57 Stiglitz, Guzman et al (2025)

58 Moreira (2025)

6 CONCLUSION: MOVING FORWARD

It is important to have a more systematic resolution of Africa's debt situation before the problem exacerbates in the years to come. The "pretend and extend" approach, which was used in the past did not lead to a favorable outcome. The Brady Bond approach of the 1990s, during which bank creditors were granted debt relief in exchange for greater assurance of collectability in the form of principal and interest collaterals and assurance of economic policy reforms may be a useful tool for addressing African debt. Under this process, there was a strong convergence of interests between governments and private sector lenders. The international community, with strong support from the UN, together with the IMF, World Bank, African Development Bank, China, Paris Club, and Eurobond holders can work in tandem with African governments to find creative solutions to debt restructuring. Creditor unity and reforms in the CF process as articulated in the paper can help countries make progress towards restoring debt sustainability. The end goal is to have timely and effective debt crises resolutions for SSA countries so they can move forward economically. In country cases where debt reduction is necessary, the international creditors must recognize the case for debt relief treatment. The future of Africa hangs in the balance as it is the time to push for greater fiscal space for development.

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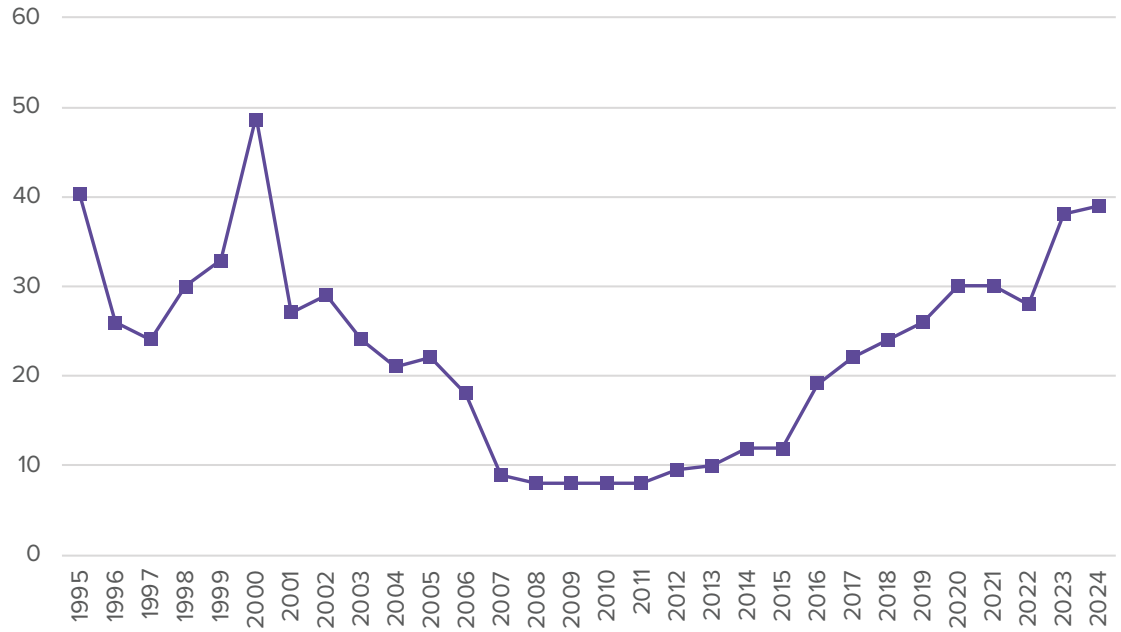
Annex Table 1 Total Debt Relief Necessary (with debt service over exports threshold)

Creditor	DOD ($ Million)	Share (percent)	Debt service relief for 3-year period
Paris Club	812.7	5	215.22
Non-PC	7,794.00	52	2,063.99
Commercial Banks	3,790.00	25	1,003.66
Suppliers	1,708.00	11	452.31
Eurobond	1,000.00	7	264.82
	15,104.70	**100**	**4,000.00**

Source: UNDP

Note: The debt service to exports threshold for countries is 15 percent.

Figure 9: Debt Service/Exports in SSA 1995-2024 (percent)



Source: Afreximbank (2024)

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