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OCTOBER 2026

The Debt Toll Booth: A Modular Solution to Addressing Sovereign Debt Crises

David McNair

Global Order and Institutions Program

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TABLE OF CONTENTS

Introduction	1
A Recent History of Sovereign Debt	2
Fragmentation of the Creditor Landscape	4
Shifting Incentives and Challenges Facing Creditors	6
Shifting Incentives and Challenges Facing Borrowers	8
A Siloed International Policy Community	11
A New Approach to Sovereign Debt Challenges	13
A Modular Approach to Debt Challenges	14
Centrifugal Forces to Embed Core Principles of Effective Debt Management	15
Conclusion	17
Methodology	17
Notes	18



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Acknowledgments

Thank you to Stewart Patrick, Gustavo Romero, Adil Abadou, Jamie Drummond, Jeff Hall, and Sara Harcourt for comments on previous drafts.

Global Order and Institutions Program

Carnegie's Global Order and Institutions Program identifies promising new multilateral initiatives and frameworks to realize a more peaceful, prosperous, just, and sustainable world. That mission has never been more important, or more challenging. Geopolitical competition, populist nationalism, economic inequality, technological innovation, and a planetary ecological emergency are testing the rules-based international order and complicating collective responses to shared threats. Our mission is to design global solutions to global problems.

Introduction

For the past decade, think tanks, policymakers, and activists have been sounding the alarm on a new sovereign debt crisis facing developing countries.

The statistics are now familiar: Almost half of humanity lives in countries spending [more on debt service than on health or education](#). Thirty-two countries are in (or at high risk of) [debt distress](#). The cost of borrowing for African countries [increased by 91 percent](#) from 2020 to 2024, leaving governments with limited fiscal space to respond to crises and invest for the future. Many countries are now borrowing at rates greater than their growth.

The urgency around finding a solution to the sovereign debt challenge has only increased following recent significant cuts to official development assistance (ODA)—which [declined by 23 percent globally in 2025](#)—and the knock-on effects of the Iran war, which is projected to lead to an additional [45 million people around the world going hungry](#) as a result of food price inflation.

The problem is clear. But the gap between analysis and action has also become predictable and familiar.

Biannual meetings of the International Monetary Fund (IMF) and World Bank, as well as the Group of 7 (G7) and Group of 20 (G20) summits, come and go in a flurry of headlines warning of the urgency of the crisis, only to culminate in communiqués that recycle familiar language and endorse modest innovations that—while welcome—plainly fail to meet the scale of the challenge.

Consensus-dependent international organizations have grown increasingly hamstrung in the face of diverse challenges, ranging from domestic political pressures to a fragmenting debt landscape to deepening geopolitical tensions.

Finding a workable solution to the sovereign debt crisis requires moving beyond sounding the alarm or presenting technical reform proposals. It also requires carefully examining the political economy of sovereign debt to understand why progress has been so elusive. Doing so will help to ensure that future policy proposals both match the scale of the challenge and are capable of being implemented within existing political constraints.

This paper analyzes the factors contributing to the policymaking stasis and suggests a potential path forward capable of mobilizing coalitions of actors around specific treatments depending on country circumstances. Rather than grand solutions requiring consensus among multiple actors—something likely to be elusive in the current geopolitical context—it proposes two ideas:

1. The creation of a modular system that offers specific solutions to countries facing particular debt challenges, mobilizes the minimum number of stakeholders needed for each solution, and offers greater speed and certainty than the current case-by-case approach
2. The establishment of a set of core principles that can underpin each debt solution and align incentives in ways that make adherence more likely

A Recent History of Sovereign Debt

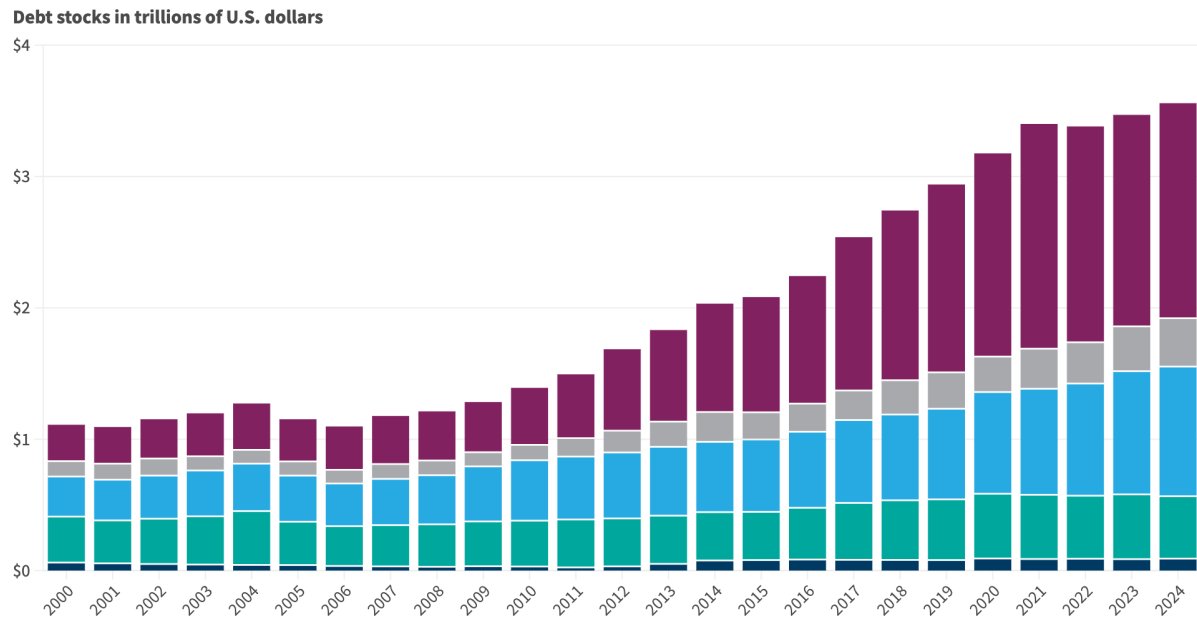
At the start of the twenty-first century, a series of IMF and World Bank initiatives—principally the Heavily Indebted Poor Countries Initiative ([HIPC](#)) and the Multilateral Debt Relief Initiative ([MDRI](#))—offered debt relief to low- and lower-middle-income countries. These initiatives followed a global mobilization, [Jubilee 2000](#), which was spearheaded by religious groups and civil society movements. The core idea—rooted in the biblical concept of Jubilee—was that illegitimate debts accrued during the Cold War by unaccountable borrowers and lenders should not become the responsibility of future generations of people living in poverty.

These initiatives delivered over [\\$100 billion in debt relief for the thirty-seven participating countries](#). In their aftermath, countries that received debt relief [spent about five times more on health, education, and other social services](#) than on debt service, and development outcomes from [child and maternal mortality to education improved significantly](#). From 2000 to 2010, sub-Saharan African countries – two thirds of which received debt relief - achieved average growth rates of [5.4 percent per year, compared to just 1.4 percent for G7](#) countries.

Following the 2008 global financial crisis, interest rates declined significantly, making sovereign borrowing a low-cost option. Low- and middle-income countries—buoyed by the commodity supercycle and facing growing populations, increased demands for infrastructure, and high transaction costs from the Multilateral Development Banks (MDBs)—increased their borrowing from bond markets, from China, and from domestic banks. Between 2000 and 2024, long-term external public and publicly guaranteed debt held by these countries more than tripled from [\\$1.11 trillion to \\$3.56 trillion](#) (see figure 1).

Since 2020, moreover, low- and middle-income countries have experienced several successive shocks, from the COVID-19 pandemic to the energy price spikes following Russia's invasion of Ukraine in 2022 and, most recently, the closure of the Strait of Hormuz in 2026. From 2020 to 2024, Africa's borrowing costs [increased by 91 percent](#), and are likely to continue their upward trajectory.

Figure 1. Total Debt Stocks Held by Developing Countries



Source: Luca Picci, Sara Harcourt, Liliana Hertling. "Sovereign Debt: External Debt Stock, Low and Middle Income Countries." ONE Data, accessed May 2026. <https://data.one.org/analysis/sovereign-debt>. Underlying data: World Bank International Debt Statistics (2024).

A number of international initiatives have sought to respond to these shocks. While each has had some impact, collectively they have fallen short of delivering a comprehensive solution to the debt challenge.

- In 2020, at the height of the COVID-19 pandemic, the G20 established the [Debt Service Suspension Initiative](#) (DSSI), which offered low-income countries a temporary reprieve from \$12.9 billion in debt service payments. The DSSI secured support from official bilateral creditors (and ultimately did not require any real financial effort from them), but it struggled to secure buy-in from private creditors.
- Also in 2020, the [G20 Common Framework for Debt Treatments](#) (hereafter the "Common Framework") was established to provide a coordinated approach to sovereign debt restructuring for low-income countries. To date, it has delivered only modest relief, equivalent to just [7 percent of the external debt of at-risk lower-income countries](#). Only four countries—Chad, Ethiopia, Ghana, and Zambia—have sought restructuring under its auspices, due to a broadly shared perception of the framework as being slow, inefficient, and unpredictable.
- In 2022, the [Bridgetown Initiative](#) and the [Pact for Prosperity, People and the Planet](#) helped advance the concept of debt pause clauses. These allow for debt service suspensions following exogenous shocks such as extreme weather events, as well as

debt swaps to reduce high-cost borrowing. These initiatives have been successful but at a relatively small scale.

- In 2024, the G20 under the Brazilian chair coalesced in support of a joint World Bank–IMF scheme known as the [three-pillar approach](#), based on domestic structural reforms and resource mobilization, external financial support, and actions to reduce debt servicing burdens. Nearly two years later, it has yet to demonstrate tangible success, in part because the resulting financial flows went mainly to repay creditors rather than to support growth and reform. Lacking sufficient funding on reasonable terms, indebted governments had little fiscal space to pursue the ambitious policy changes the new framework demanded.

Fragmentation of the Creditor Landscape

The debt challenges countries face today are not only of a much greater scale than previously but also qualitatively different. Twenty-five years ago, the majority of debt (particularly for African countries) was held by bilateral or multilateral creditors—principally the Paris Club of wealthy Western nations and the IMF and World Bank. The solution to debt crisis in that era lay in an agreement among a small group of governments who were largely aligned in interests and values—and who held a majority of shares in the fund and the bank.

The debt challenges countries face today are not only of a much greater scale than previously but also qualitatively different.

In contrast, by 2024, bondholders had become by far the largest creditor grouping, [holding \\$1.6 trillion](#) in debt to low- and middle-income countries, and bilateral creditors had become much more significant. For example, China—heretofore not a major player in this space—held \$147.6 billion in bilateral lending and \$19.5 billion from its commercial banks. Globally, commercial banks and other multilateral institutions such as the Asian Development Bank, the New Development Bank, and the African Development Bank had also increased their share of total lending.

This fragmentation of the sovereign debt landscape exists both domestically and internationally, and it presents numerous coordination challenges for lenders and borrowers at a technical level. For example, China, which is Africa's largest bilateral creditor, is not a monolithic lender: Its lending is dominated by two policy banks—the Export-Import Bank of China (Exim Bank) and the China Development Bank (CDB)—as well as several state-owned commercial banks and insurance providers, each with distinct incentives and requiring distinct treatment. During the COVID-19 pandemic, Zambia's government and state-owned firms collectively owed money to [eighteen different Chinese lenders](#).

This fragmentation of the debt landscape is compounded by the geopolitical tensions within groupings such as the G20, where achieving consensus positions is increasingly difficult. Coalitions of states sometimes resist offering relief because they fear that it will offer opposing powers or groupings an advantage. Complicating matters, Chinese entities often view bondholders and multilateral development banks as an extension of the West that benefit from more favorable terms.

Such dynamics have taken center stage in Ethiopia's debt restructuring negotiations, which took more than three years to complete. [Successive proposals were rejected by official creditors](#), bondholders, and an ad hoc committee of creditors, thanks to a low level of trust in the IMF's forecasts as well as controversy over the application of the "comparability of treatment" principle (which holds that all creditors are to be given similar treatment).

Such tensions are reflected in the shifting language of G20 and G7 communiqués, including from leaders, finance ministers, and central bank governors, from 2020 to 2026. Using Claude Sonnet 4.6, the author found that the strength of donor commitments to addressing sovereign debt peaked in 2022 and has since softened (see Methodology section for a full explanation). The analysis identified four broad phases:

- **Crisis response (2020–2021):** Language was initially focused on creating fiscal space for countries weathering the COVID-19 pandemic. Subsequently the Common Framework was presented as a new tool with the potential to offer solutions for countries requiring debt relief.
- **Pressure and accountability (2022):** The DSSI expired and the language of communiqués shifted toward providing political support for the implementation of debt restructurings under the Common Framework using phrases like "accelerated implementation" and "comparability of treatment."
- **Reform and innovation (2023–2024):** The communiqués addressed country-level progress (such as in Ghana, Zambia, and Sri Lanka) and introduced policy innovations (such as climate resilient debt clauses and debt-related reform of the MDBs). The G20 launched the [Global Sovereign Debt Roundtable](#) as a forum to discuss debt issues without a decision making mandate. This phase highlighted incremental technical proposals rather than structural change.
- **Retrenchment (2025–2026):** Debt language thinned in the G7 leaders' 2025 statement at Kananaskis, Canada (where there was no full communiqué), and the sense of urgency weakened in the finance ministers' declaration. South Africa's presidency of the G20 enhanced the voice of borrowers but achieved no major diplomatic breakthrough on debt restructuring or the cost of borrowing. The September 2026 G20 Finance Ministers meeting resulted in a dispute between the United States and China, including over language related to implementation of the Common Framework and the three-pillar approach, meaning a communiqué was not published.

Throughout this period, G7 and G20 governments stressed the need for “predictable, timely, orderly and coordinated” debt workout mechanisms. But that same phrase, included in nearly every G7 and G20 communiqué addressing the Common Framework from 2022 onward, seemed increasingly ritualistic.

Shifting Incentives and Challenges Facing Creditors

The political incentives for bilateral sovereign creditors and multilateral creditors have shifted dramatically in the past decade. Within advanced economies, a combination of de-industrialization, aging populations, and declining productivity have heightened competitiveness concerns and sharpened [zero-sum domestic political debates regarding the use of government budgets to support other countries](#). This debate has played out loudly in cuts to ODA in 2025 in Europe and North America.

G7 countries themselves have also become highly indebted following the 2008 financial crisis and the COVID-19 pandemic. Debt-to-GDP ratios for G7 members increased from an average of 74.6 percent in 2001 to 123.7 percent in 2026 (see table 1). Notably, the United Kingdom’s ratio tripled in this period, and the United States’ more than doubled. The U.S. [Congressional Budget Office](#) anticipates a net increase in the U.S. budget deficit totaling \$3.4 trillion over the 2025–2034 period and that [U.S. sovereign debt will exceed \\$52 trillion by 2035](#). Interest payments on this debt already exceed annual spending on Medicare, [as well as national defense](#).

Table 1. G7 and China: Gross Government Debt as a Percentage of GDP, 2001 and 2026

Country	2001	2026
Japan	126.8%	204.4%
Italy	108.5%	138.4%
United States	53.5%	125.7%
France	59.3%	118.4%
Canada	81.5%	110.7%
United Kingdom	34.8%	103.6%
Germany	58.1%	64.6%
G7	74.6%	123.7%
China	24.3%	106.9%

Source: International Monetary Fund, “World Economic Outlook Database,” April 2026, <https://data.imf.org/en/datasets/IMF.RES.WEO>.

These domestic political challenges have inevitable implications for donor positions in the G7 and G20 as well as in multilateral development institutions, which [hold more than a quarter](#) of low- and middle-income countries' sovereign debt. Currently, the G7's vote share is 41.2 percent in the [IMF](#), 39.7 percent in the World Bank's [International Bank for Reconstruction and Development](#), and 32.5 percent in the [International Development Association](#), meaning these countries hold considerable sway in debt conversations.

As for China, commentators from the United States and Europe frequently fail to understand Beijing's own domestic challenges and constraints, painting it as an inflexible villain in the sovereign debt story. There is also a common misconception that China owns the majority of Africa's debt. This fuels a perception that if non-Chinese creditors offer relief to African countries, this will effectively be a resource transfer to China, as the recipient countries will simply use their additional fiscal space to service Chinese debt.

In truth, while China is Africa's largest *bilateral* creditor, it owns just 11.6 percent of the continent's overall debt (and 4.8 percent of the external debt stock of all low- and middle-income countries). In China, moreover, state-owned entities are reluctant to offer relief if others, such as multilateral development banks and private creditors, do not offer similar treatment.

Following the largesse of the Belt and Road Initiative, which provided [an estimated \\$1.34 trillion](#) in grants and loans to low- and middle-income countries between 2000 and 2021, China has significantly scaled back its lending. China's [net flows to developing countries](#) went from \$48 billion between 2010 and 2014 to *negative* \$24 billion between 2020 and 2024, as debt service payments exceeded [new lending](#).

While China is not a democracy, it nonetheless faces significant domestic political pressures related to its increasingly precarious economic situation. The country is grappling with a crisis in the real estate sector, high levels of youth unemployment, a limited social safety net, and a deceleration in economic growth (from [a peak of 14.15 percent GDP growth in 2007 to 5 percent in 2024](#)). Thanks to these factors, domestic support for countries overseas is now largely seen in a zero-sum way—not unlike within the G7.

China's major financial institutions have shifted their focus accordingly. China's property collapse eliminated local government land revenues, producing a local government debt crisis. In response, China's overseas infrastructure lender—the China Development Bank—has [reoriented toward managing this domestic crisis](#), including by financing debt swaps, supporting local stimulus, and managing domestic restructuring.

While negotiations over debt restructurings abroad are inevitably linked to broader foreign policy objectives—including access to trading relationships, military and development aid, and technology and digital services—weak domestic demand in China has produced surplus industrial capacity in the steel, solar, electric vehicle, and construction sectors that cannot be absorbed at home.

As a result, China's international investment push today is partly driven by Chinese firms' efforts to expand into international markets on [commercial rather than concessional terms](#) to ensure their survival. At the same time, by 2022, [60 percent of China's overseas lending was owed by borrowers in distress](#)—creating incentives for China's banks to prioritize bilateral restructuring loans (so-called rescue loans) to preserve the existing portfolio. Accordingly, Chinese lending for infrastructure declined from [75 percent of its loan portfolio to 25 percent in 2023](#) and has been replaced by liquidity support facilities. The [Forum on China-Africa Cooperation in 2024](#) emphasized trade and investment rather than lending.

Given these dynamics across the G7 and China—which limit their domestic incentives and capacities to take action on sovereign debt—and low levels of trust at the international level, it is unsurprising that donor governments have not deployed the political capital required to build coordinated solutions to the global debt crisis.

Shifting Incentives and Challenges Facing Borrowers

Importantly, the current debt crisis is unfolding in a fundamentally different context than in the past. During the HIPC and MDRI processes, the priority of developing countries was to reduce crippling debt burdens taken on by preceding governments. Today, priorities have shifted. Faced with the need to create jobs for burgeoning populations and to invest in infrastructure for economic transformation, some low- and middle-income countries have come to see debt restructuring as a last resort and are focusing instead on accessing capital markets. But to do so successfully requires transparency and addressing domestic mismanagement of debt.

In recent years, many low- and middle-income countries have become increasingly attracted to both eurobonds (a bond issued in a currency different from that of the country or market where it is sold) and to Chinese borrowing—and the speed and flexibility they offer. For example, Kenyan President William Ruto has highlighted the primacy of [increasing access to capital markets at lower borrowing costs](#) (though paradoxically he has also called for a [ten-to-twenty-year stay on debt repayments](#)). Since defaulting on sovereign debt can undermine access to capital markets and increase costs, some countries have chosen to implement [domestic austerity measures](#) rather than default on their loans.

The challenge is that eurobond loans are often of poor value in the long term; in addition to higher headline rates, they tend to have shorter maturities and more stringent terms than borrowing from the MDBs.¹ Raising debt on international markets also introduces currency risks for borrowing countries, because most external emerging market sovereign debt is denominated in U.S. dollars.

As a result of these factors, many developing countries have turned to domestic debt, which has tripled in African governments from \$150 billion to nearly \$500 billion between 2010 and 2024. Indeed, domestic borrowing in Africa has [overtaken all other sources of public finance](#).

Many developing countries have turned to domestic debt, which has tripled in African governments from \$150 billion to nearly \$500 billion between 2010 and 2024.

While this is a positive development, signaling the development of domestic debt markets and reduced dependence on volatile external finance, it comes with downsides. Domestic debt has shorter maturities, tends to be more expensive than external debt, and is harder to restructure without systemic effects on [domestic banking sectors](#). In short, countries have chosen to pay a [sovereignty premium](#), assuming higher costs in return for reduced vulnerability to exogenous shocks (see table 2).

Table 2: Typical Loan Maturities and Mean Interest Rates to African Sovereigns from a Range of Creditors

	Typical Loan Maturity	Mean Interest Rate for African Countries
Multilateral loans	25–50 years	0.72% (2024)
Paris Club loans	25–50 years	0.60% (2019)
Non-Paris Club loans	N/A	2.00% (2019)
Chinese loans	10–20 years	2.85% (2019)
International bonds	7–15 years	8.36% (2024)
Domestic bonds	7–15 years	12.84% (2024)

Source: Mark Manger, David Mihalyi, Ugo Panizza, Niccolo Rescia, Christoph Trebesch, and Ka Lok Wong, “Africa’s Domestic Debt Boom: Evidence from the African Debt Database,” Kiel Institute, October 2025, <https://www.kielinstitut.de/publications/africas-domestic-debt-boom-evidence-from-the-african-debt-database-18911>.

Exacerbating each of these challenges is a transparency deficit that makes it difficult to assess the true scale and nature of sovereign debt obligations. The World Bank’s June 2025 [Radical Debt Transparency](#) report found that while the share of low-income countries publishing some form of debt data has grown from below 60 percent in 2020 to more than 75 percent, only one in four countries discloses loan-level information on newly contracted debt.

In some cases, these countries have mismanaged their debt, creating greater burdens with no productive investments to generate earnings to service them. These debts need to be restructured.

One such example is the Mozambique “[tuna bond](#)” scandal, in which the government secretly borrowed over \$1.5 billion in loans and bonds, ostensibly to fund a state tuna fishing fleet and maritime security, with employees of Credit Suisse and VTB Bank involved in arranging the deals. In the end, much of the money was misappropriated or went missing.

As sovereign borrowers confront higher interest costs and tighter market access, many are turning to off-budget financing and opaque instruments—such as private placements, central bank swaps, and collateralized loans—whose legal and financial complexity can leave governments themselves uncertain about the true extent of their obligations.

The case of Senegal is illustrative: An audit published in [February 2025](#) revealed substantial revisions to fiscal deficits and public debt from 2019 to 2023, triggering a sharp increase in sovereign spreads and cutting off market access at a moment of acute fiscal pressure.

The common practice of partial and confidential bilateral debt restructurings, conducted without coordinated creditor committees or public disclosure of agreed terms, is depriving markets of the information needed to price sovereign risk accurately. Standardized treatment of countries cannot function so long as the debt position of the debtor, or the contractual terms of individual creditors, remain unknown.

The challenge of sovereign debt cannot be separated from the question of what the debt is financing. Debt that is assumed to fund productive investment—including infrastructure, education, health systems, and energy transition—can pay for itself through the fiscal returns of economic growth. Debt taken on to service social expenditures, or deployed through inefficient public investment systems, cannot.

The [IMF’s October 2025 Fiscal Monitor, *Spending Smarter*](#), finds significant efficiency gaps in public investment across emerging markets and developing economies, with the least efficient countries achieving limited improvements in infrastructure per dollar spent.

The development return on borrowed capital varies enormously by country and with the quality of the domestic institutions managing expenditure.

The inescapable implication is that the development return on [borrowed capital varies enormously by country](#) and with the quality of the domestic institutions managing expenditure. This matters for debt sustainability analysis: A country borrowing at 9 percent to finance investment with a fiscal return above that rate is in a fundamentally different position from one borrowing at the same rate to refinance legacy obligations or finance recurrent expenditures. And debt taken to fund a project that delivers returns below the cost of borrowing is not sustainable.

A Siloed International Policy Community

Any effective approach to the global debt crisis will require first rationalizing the actions and inputs of a fragmented international policy community with the political realities and then providing incentives to support solutions.

International debates on sovereign debt are shaped by a relatively small community of creditor and borrower government agencies, multilateral institutions, bondholders, think tanks, industry bodies, academic institutions, and NGOs.

At a time when politics is often the greatest constraint to progress, the solutions put forward by these groups are often not translated into politically salient proposals. Despite there being limited political space for solutions, this network of actors has prioritized technical policy proposals that compete for a relatively small audience and are often not well coordinated.

For example, in 2025, three high-profile commissions on the debt crisis produced overlapping reports that together offered a total of fifty policy recommendations (see table 3).

- The [Jubilee Report](#)—originally commissioned by Pope Francis for the 2025 Jubilee year—made twenty-seven formal policy recommendations. This report was framed as a politically ambitious set of principles and recommendations to address the structural challenges to managing sovereign debt in the long term.
- The [Report of the UN Secretary-General’s Expert Group on Debt](#) (UN SG) offered eleven recommendations deemed to be politically feasible, including with respect to multilateral reforms, cooperation between countries, and national measures.
- A third report, [the Expert Review on Debt, Nature and Climate](#) (DNC), presented twelve recommendations linking debt management with investments in climate and nature.

A subsequent effort by civil society groups to fashion these fifty recommendations into an advocacy strategy failed to gain traction because of a lack of alignment on priorities; limited capacity within the NGO, think tank, and philanthropic communities; and limited political channels for implementation.

These commissions, despite significant investment and deep expertise, have to date struggled to achieve political headway.

Table 3. Recommendations in the Jubilee Report, the UN Secretary General’s Expert Group on Debt, and the Expert Review of Debt, Nature and Climate

SYSTEMIC: Requires new architecture	Jubilee	UN SG	DNC
International sovereign debt resolution mechanism Create a permanent bankruptcy court that is rules-based and sits outside of creditor jurisdiction.			
End international financial institutions’ bailouts of private creditors Restrict IMF financing of foreign currency debts held by private creditors.			
IMF surcharge elimination and gold sales Remove procyclical surcharges and sell gold reserves to create funding for the Catastrophe Containment and Relief Trust and World Bank Debt Relief Trust Fund.			
Credit rating agency reform Create a public credit rating agency to provide an alternative to private agencies and incorporate climate risk into credit ratings.			
Creditor jurisdiction legislation Reform laws in New York State and the UK that underpin most sovereign debt contracts.			
Finance Facility Against Climate Change (F2C2) Introduce Special Purpose Vehicles issuing green bonds backed by future aid commitments, up to \$1 trillion.			
STRUCTURAL: Requires political coordination	Jubilee	UN SG	DNC
G20 Common Framework reform Expand the common framework to middle-income countries and introduce automatic debt service standstills on application.			
Multilateral development bank recapitalization and new loan classes Expand thirty- to forty-year non-concessional climate loans. Fully implement the Capital Adequacy Framework to increase capital available using MDB balance sheets.			
Special drawing rights rechanneling through multilateral development banks Channel IMF special drawing rights through multilateral development banks and use the MDB model to leverage these rights on capital markets.			
Precrisis debt refinancing Provide liquidity to low-income countries to limit the risk of getting into debt distress.			
Reform debt sustainability analyses Incorporate climate risk and investments in resilience as assets, not just costs.			
INCREMENTAL: Works within existing frameworks	Jubilee	UN SG	DNC
Climate-resilient debt clauses Embed clauses in new debt contracts that offer automatic debt service suspensions after catastrophic climate shocks.			
Technical assistance and borrowers’ forums Increase peer learning, support debt management capacity, and create shared legal advisory functions.			
Debt swap standardization and scaling Offer standardized systems that lower transaction costs in implementing debt swaps.			
Domestic resource mobilization Increase support for building tax capacity and carbon pricing.			

Source: Compiled by the author using Claude Sonnet 4.6.

Note: The comparative analysis of the three 2025 expert reports on sovereign debt was conducted with the assistance of Claude Sonnet 4.6, a large language model developed by Anthropic. The three documents were the report of the UN Secretary-General’s Expert Group on Debt, “Confronting the Debt Crisis: 11 Actions to Unlock Sustainable Financing” (June 2025); the Jubilee Commission’s “The Jubilee Report: A Blueprint for Tackling the Debt and Development Crises” (Pontifical Academy of Social Sciences, June 2025); and the final report of the Expert Review on Debt, Nature and Climate, “Tackling the Vicious Circle” (June 2025). The model was instructed to identify each report’s diagnosis of the debt problem, its principal policy recommendations, and its proposed reforms to the international financial architecture, and to compare the reports across these dimensions, noting points of convergence and divergence in framing, terminology, and institutional ambition. The author reviewed all outputs against the source texts. See the Methodology section for further explanation.

A New Approach to Sovereign Debt Challenges

Despite the clear need for a grand solution to the global debt crisis—on the order of HIPC or MDRI—it is clear that the current financial, political, and geopolitical incentives on both the borrower and creditor sides are not conducive to such an ambitious scenario.

Political openings for any comprehensive approach [are limited](#) and narrow. Any debt solutions linked to climate change and sustainability, for instance, are unlikely to garner backing from the current U.S. administration. Similarly, it may prove difficult to secure Chinese support for overhauling the current debt architecture, expanding the Common Framework, or significantly increasing debt transparency. Private creditors, for their part, will need to be incentivized to participate either by the carrot or the stick.

In this absence of political space, the sovereign debt community has instead defaulted to one of three positions:

1. Analysis that articulates and illuminates the challenge but fails to offer a realistic solution or remains fatalistic about the situation
2. Siloed technical proposals and policy innovations that fail to meet the scale of the challenge, because they lack a political strategy capable of harnessing donor action, mobilizing civil society, implementing recommendations, and meaningfully engaging China
3. Efforts to resolve individual countries' issues as they arise, without adequate transparency and standardized processes, resulting in slow-moving responses

While the public discourse continues to focus on debt restructuring, countries in practice face a range of challenges that require very different treatments and can be coordinated by smaller groups of creditors.

One emerging opportunity lies with the UK presidency of the G20 in 2027. Early indications signal an [appetite from the UK government to use its presidency to address the issue in a structural way](#). The UK also hosts the G7 in 2028.

A Modular Approach to Debt Challenges

The UK is well positioned to lead an effort that could succeed, through adopting a modular approach that is sufficiently tailored to each country's situation, without having to create bespoke solutions for each scenario—a laborious and time-consuming process.

As analysis from the [Finance for Development Lab \(FDL\)](#) highlights, the situations facing countries with sovereign debt challenges are distinct, but they also tend to fall into a finite set of categories. The FDL segments low- and lower-middle-income countries into three buckets: seven countries are deemed to be “insolvent”; twenty-three are considered “solvent but face liquidity constraints”; and another twenty-eight are “low-risk.”

This kind of country segmentation could create a standardized “toll booth” approach, whereby countries enter different lanes and can expect standardized treatment based on the situation they face.

Such standardization, provided it is managed by organizations such as the IMF and World Bank, with adequate engagement of Chinese creditors and with use of the updated Debt Sustainability Framework, could reduce risk and create a set of consistent expectations among creditors and borrowers regarding the treatments required.

Under this scenario, countries could enter the following lanes. Each would include predictable and time-bound targets for providing solutions, accompanied by transparent, quantitative triggers so that all stakeholders have common expectations about when countries become eligible for these treatments.

1. **Fast Lane: Liquidity enabler.** This is the lane for countries that face liquidity constraints. It would offer a series of tools to create fiscal breathing space rapidly, to avoid liquidity issues becoming solvency issues. Treatments could include debt service suspension initiatives to support countries undergoing specific challenges, and expanded debt swap initiatives housed at MDBs, allowing for the refinancing of debt to unlock liquidity.
2. **Medium Lane: Access enabler.** For countries requiring tools that enable (re-)entry to capital markets, MDBs could work across the capital stack to identify country-level plans and targets and provide capital, data, and coordination to reduce the costs of private investment. This lane would include standardized approaches and data disclosures to address lack of transparency in debt markets.
3. **Slow(est) Lane: Solvency enabler.** Where a country's debt burden has grown to a level that is fundamentally unsustainable relative to its economic capacity, this lane would offer a set of standardized procedures for the restructuring and reprofiling of existing debt. This could include the rapid implementation of a Jubilee buy-back

fund, as championed by the [government of Spain](#), to purchase high-cost debt and refinance it at lower rates using the resources of the MDBs.

4. **Concessional Lane.** For low-income countries, this lane would reduce debt burdens from multilateral, bilateral, and commercial creditors—especially when nations are hit by an external shock. It could in theory be akin to a modern-day HIPC or MDRI. This could include reducing debt service due to the IMF through the Catastrophe Containment and Relief Trust, while bilateral creditors could provide additional debt service relief or suspension.

Rather than seeking consensus positions across the G20, which has proven increasingly elusive, the approach would convene the minimum necessary stakeholders to provide a solution to each specific challenge. An illustrative, effective example is the G20's work on reforming the MDB system through its Capital Adequacy Framework. The G20 mandated a group of experts that championed a set of five recommendations and engaged the key institutions in their development. The subsequent action from the governors and management of MDBs unlocked [\\$400 billion in lending headroom](#) from the MDB system.

Centrifugal Forces to Embed Core Principles of Effective Debt Management

Critics of such a modular approach will rightly point out that it centers on the incentives of creditors and underplays the importance of ensuring debt is managed well via reforms to the international debt architecture and stronger public financial management standards.

There is no easy solution, but one approach worth considering is to focus less on negotiating rules at the multilateral level, which is challenging in the current geopolitical environment, and concentrate instead on embedding a set of core principles into each country circumstance and incentivizing borrowers and creditors to implement these principles as part of the solution.

This approach could build on existing frameworks such as UN Trade and Development's [Principles on Promoting Responsible Sovereign Lending and Borrowing](#) (see table 4), which have been endorsed by thirteen developed and developing countries, as well as the African Network on Debt and Development's [African Borrowing Charter](#).

Relevant principles could be mapped onto each lane, so that creditors and countries are both clear on their respective obligations.

This would be combined with efforts to address the high cost of sovereign borrowing, as laid out in the G20 [Africa Expert Panel](#) report, including through transparent data initiatives and steps to improve domestic debt management.

Table 4. UN Trade and Development Principles on Promoting Responsible Sovereign Lending and Borrowing

Lender Responsibilities	
Agency	Lenders must recognize that government officials act as agents of the state and its citizens.
Informed Decisions	Lenders must provide information to help borrowers understand risks and benefits, with greater responsibility when dealing with less sophisticated sovereigns.
Due Authorization	Lenders must verify, to the best of their ability, that the borrowing is legally authorized and enforceable.
Responsible Credit Decisions	Lenders must realistically assess repayment capacity; geopolitical motives must not replace sound credit assessment.
Project Financing	Lenders must conduct ex ante investigations into financial, social, cultural, and environmental impacts of projects they finance, proportional to their expertise and loan size.
International Cooperation	Lenders must comply with UN sanctions and not facilitate transactions that evade them.
Debt Restructurings	When a sovereign cannot service debts, lenders must engage in good faith toward consensual restructuring; acquiring distressed debt to force preferential settlement is “abusive.”
Borrower Responsibilities	
Agency	Governments act as agents of the state; self-dealing or corruption by officials in the borrowing process is “wrongful.”
Binding Agreements	Debt contracts must be honored; exceptions exist only in cases of genuine economic necessity or valid legal defenses, which should be pursued through competent courts.
Transparency	Borrowers must establish legal frameworks with clear procedures, oversight, and legislative accountability for debt obligations including guarantees.
Disclosure and Publication	Full, accurate, and timely public disclosure of debt terms and economic/financial data is required, including fiscal data, debt composition, derivatives, and guarantees.
Project Financing	Borrowers must conduct thorough ex ante assessments of projects and publish results; project funds must be used only as agreed.
Adequate Management and Monitoring	Borrowers must implement debt sustainability strategies, independent audits, and debt management offices covering contingent liabilities at all government levels.
Avoid Over-Borrowing	Governments should only borrow where the prospective social return meets or exceeds the interest rate; chronic deficit financing without justification is inconsistent with sustainable policy.
Restructuring	Where restructuring is unavoidable, it must be conducted promptly, transparently, and fairly, with equitable burden-sharing and no arbitrary discrimination among creditors.

Source: UN Trade and Development, *Principles on Promoting Responsible Sovereign Lending and Borrowing* (Geneva: UNCTAD, 2012), <https://unctad.org/publication/principles-promoting-responsible-sovereign-lending-and-borrowing>.

Conclusion

In a world of geopolitical fragmentation, addressing the debt challenges facing low- and middle-income countries requires a more segmented and targeted approach. Rather than pursuing one-size-fits-all solutions, the international community should focus on mechanisms that can deliver timely relief to countries facing distinct debt challenges before those burdens evolve into humanitarian or security crises.

The UK's G20 presidency should consider a segmented approach.

The UK's G20 presidency should consider such a segmented approach as part of its efforts to strengthen the international debt architecture. In the lead-up to the summit, the UK is particularly well placed to lead a concerted effort to engage China and private creditors in codesigning solutions that meet the scale of the challenge while remaining politically viable. Doing so would represent a significant contribution to addressing one of the major challenges of our time: unlocking the necessary resources to support sustainable development in a time of geopolitical fragmentation.

Methodology

The author used the following prompt to generate the analysis of communiqué language: “Find the official communiques of G7 Heads of State and meetings from 2020 to 2025. Parse text relating to sovereign debt issues. Then conduct an analysis of how the wording of that text has changed over time. Then do the same for (a) G7 Finance Ministers Communiques (b) G20 Finance Ministers Communiques and (c) G20 Head of State Communiques.”

The author then asked Claude to draft an explanation describing the meta-analysis, which is as follows: “The analysis of G7 and G20 communiqué language was conducted using Claude Sonnet 4.6 (Anthropic, 2025). Official communiqués from G7 Heads of State summits (2021–2025), G7 Finance Ministers and Central Bank Governors meetings (2020–2025), G20 Finance Ministers meetings (2020–2025), and G20 Heads of State summits (2020–2025) were retrieved from the G7 Information Centre (University of Toronto) and G20 Information Centre (University of Toronto), supplemented by official government sources including the U.S. Treasury, G7 Canada 2025, and G20 South Africa 2025. Debt-related passages were identified and extracted from each document. Claude was then used to conduct a comparative linguistic analysis of how the framing, urgency, specificity, and key terminology of sovereign debt language evolved across all four document streams over the period, with findings verified against the primary source texts. The analysis reflects documents available as of May 2026.”

Notes

- 1 Analysis by [ONE Data](#) calculates dollars repaid per \$100 borrowed over the full term of a loan for “blend” countries—that is, countries with access to both concessional lending and markets. In 2024, every \$100 borrowed from the World Bank’s International Development Association cost only \$39 in present value, a savings of \$61 compared with market-equivalent borrowing. The World Bank’s International Bank for Reconstruction and Development offered savings of \$22 relative to market terms. In other words, concessional lending from the MDBs remains cheaper than market borrowing.



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