New solutions – old habits?

A case study of post-COVID debt architecture

by Kristina Rehbein

In the wake of the COVID-19 pandemic, the G20 nations and international financial institutions have introduced new debt restructuring procedures. Since then, seven countries have had to suspend payments to their creditors and negotiate debt cancellation. In June 2024, almost four years after the creation of the G20 Common Framework, the IMF reported that progress was finally being made in resolving debt crises. It argued that the next step on the agenda should be to support countries experiencing temporary liquidity constraints. But does this thesis withstand closer scrutiny?

The following analysis explores whether the current debt architecture effectively enables countries to escape the debt trap (see also Box 2). Among other things, it focuses on the following questions: Have all creditors contributed to debt relief to the same extent? To what extent has the debt restructuring process actually contributed to sustainable fiscal recovery and social stability of indebted countries? Three groups of countries were examined for this purpose. The results are summarised below on a case-by-case basis, and general lessons learned are presented.

Summary of case studies

I. No payment suspension during the crisis

First country group: Countries that have not yet suspended payments but are very heavily burdened by public external debt according to the analysis in the Global Sovereign Debt Monitor.

Examples: Kenya and **Pakistan**

New debt restructering procedures should be designed to ensure that debt restructerings take place earlier – ideally preemptively – rather than too late. As early as 2013, the IMF identified[1] the problem of "too little, too late" in a key study, pointing out that debt cancellation often takes place too late and does not sufficiently restore debt sustainability. Since then, the issue of "too little, too late" problem has repeatedly surfaced in reform debates, most recently during the preparatory negotiations for the 4th International Conference on Financing for Development in Seville. However, there is no uniform definition for when a country has a debt problem and should enter into debt restructuring negotiations. In creditor-dominated political discourse, debt crises are often not acknowledged until countries are no longer able

Box 1: Full case studies

The **full case studies**, which are only summarised in this article, are available online via QR code or here: www.erlassjahr.de/gsdm2025.

We would like to thank **Collins Liko,** Economic Policy and Human Rights Programme Coordinator at the International Network for Economic, Social and Cultural Rights (Kenya), **Dr Charity Musamba** from the University of Zambia, and Sri-Lankan economists **Yathursha Ulakentheran** and **Shafiya Rafaithu** for their contributions to the country analyses.

to service their debts to their creditors. Countries also often only enter debt restructuring negotiations only after being forced to suspend payments. However, countries can already be in a debt crisis well before reaching this point, with debt posing serious challenges for the population of debtor nations. **Kenya** and **Pakistan** are good examples of this.

According to the analysis of the Global Sovereign Debt Monitor, both countries have a very heavy external debt burden (see 'Global external debt burden', from page 8). However, they have so far been able to service their debts in part through extensive borrowing, which has postponed the start of debt restructuring negotiations.

Both **Kenya** and **Pakistan** are doing everything in their power to convince their creditors that they can continue servicing their debts and will not default. To this end, they are implementing economic policy measures that are placing a heavy burden on their citizens, such as cutting social spending. As a result, debt crises are being prolonged, ultimately increasing the cost of resolution for creditors as well. In the process, the avoidance of debt restructuring is implicitly encouraged by official creditors such as the German Federal Government and the IMF.

Box 2: The new (old) debt architecture (additional online material)

The **additional online material**, 'The new (old) debt architecture', provides an overview of the informal and formal arrangements that currently govern the handling of sovereign debt problems. It also explains why new initiatives such as the G20 Common Framework do not represent a fundamental reform of the international debt architecture.

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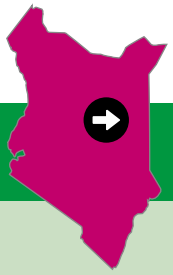
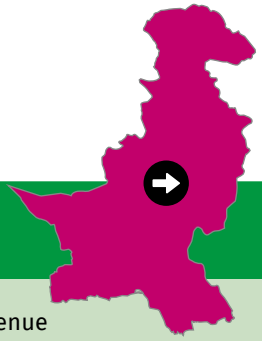


Kenya at a glance

Annual average debt service as a percentage of government revenue (2025-2027): 18,5%

- **No debt restructuring:** So far, Kenya has avoided entering into negotiations to restructure its external debt.
- **Unrealistic assumptions:** Kenya's debt is deemed sustainable by the IMF, despite the high risk of debt distress. This is based on assumptions about economic development that are unrealistically positive. This means that the IMF can offer new loans without having to demand debt restructuring.
- **Burdened population:** Instead of debt restructuring, the IMF and the Kenyan government are relying on tax increases and spending cuts. This is placing a burden on the population, leading to social protests that the government is responding to with severe repression.
- **No end in sight:** Despite unrest, the IMF is maintaining its reform plan and calling for further fiscal consolidation.



Pakistan at a glance

Annual average debt service as a percentage of government revenue (2025-2027): 23,6 %

- **No debt restructuring:** So far, Pakistan has avoided entering into negotiations to restructure its external debt.
- **Risks are not being taken into account:** Despite the "exceptionally high risks" outlined in its programme documents, the IMF continues to grant loans without making them conditional on debt restructuring. Despite indications to the contrary, such as extremely high debt servicing costs, Pakistan's debt is considered sustainable, justifying further loans.
- **In the debt trap:** Taking out repeated loans from various lenders can prevent the necessary restructuring of debt. The IMF is becoming the primary lender rather than the lender of last resort, which is exacerbating the debt problem.
- **Rising poverty:** In 2024, 2.5 million more people fell below the poverty line.[2] The budgetary adjustments required under the IMF programmes, including the latest one, to reduce the debt burden are so strict that they leave little room for the urgently needed expansion of social and infrastructure spending.

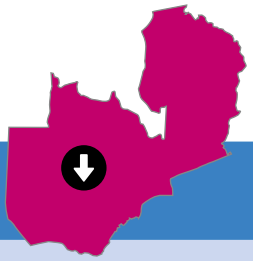
II. Debt restructuring under the G20 Common Framework

Second group of countries: Countries that qualify for debt restructuring under the G20 Common Framework and had to restructure their debt after the COVID-19 pandemic

Examples: Ghana and **Zambia**

Unlike the HIPC Initiative in the early 2000s, the Common Framework is not a debt relief initiative: The creditors have not made any binding commitments regarding the amount of debt relief they will provide, whether in the form of cancellations, extensions to the debt's maturity date and/or reductions to the interest rate. Rather, the Common Framework is a creditor forum primarily designed to resolve coordination problems between members of the Paris Club, such as France, Germany and the United States, and non-members such as China, India and Saudi Arabia. The most important difference compared to debt restructuring procedures outside the Common Framework is that China participates in joint negotiations for countries that benefit from the Common Framework. Whether and how much debt cancellation is granted to a debtor country in a specific case continues to be decided by the creditors on a case-by-case basis and at their own discretion. Therefore, the unequal balance of power at the negotiating table between debtors and creditors persists even under the G20 Common Framework.

Zambia and **Ghana** are two of four countries that have currently applied for debt restructuring under the G20 Common Framework. Zambia submitted its request for debt restructuring negotiations in February 2021. In June 2023, the official creditors agreed on a debt restructuring agreement. The private investors followed suit in May 2024. Ghana was the last of the four countries to apply for debt restructuring, doing so in January 2023.[3] This process was **significantly faster** than Zambia's debt restructuring or debt restructurings outside the G20 Common Framework: By June 2024, agreements were reached with official bilateral creditors and private investors, after a period of around one and a half years. Ghana is considered a success story of the G20 Common Framework due to this comparatively rapid progress in negotiations.



Zambia at a glance

Annual average debt service as a percentage of government revenue[4]
2024-2026 – prior to the debt restructuring: 54.1%
2025-2027 – after the debt restructuring: 15.2%

- **Protracted debt restructuring process:** Nearly four years on, some creditors have still not participated in the restructuring process.
- **No sustainability:** According to IMF indicators, the debt relief granted is insufficient. Repayments have been postponed far into the future, but not cancelled. Basic predictions are already proving overly optimistic, raising doubts as to whether Zambia will be able to achieve a sustainable debt level in the medium term.
- **Inadequate creditor participation:** According to calculations by civil society, it has not been possible to oblige all creditors to make a comparable contribution. Even though pressure from China has led private creditors to agree to slightly more extensive debt restructuring than they had initially proposed, private investors continue to be treated more favourably than official creditors.
- **Creditor compensation instead of debtor protection:** One of the main reasons why an agreement was reached is that a compensation mechanism was established for both private and official creditors, allowing them to make fewer concessions under certain conditions. However, there is no such debtor protection: Even if economic performance falls short of forecasts, debt repayments will not be further reduced – despite the fact that Zambia has recently been hit by a severe drought.

Ghana at a glance

Annual average debt service as a percentage of government revenue[4]
2024-2026 – prior to the debt restructuring: 30.5%
2025-2027 – after the debt restructuring: 16.0%

- **Rapid process:** Ghana reached an agreement with its bilateral official creditors and private investors on the restructuring of its external debt relatively quickly. However, a significant proportion of commercial creditor banks have not yet participated.
- **Private investors were pushed to agree:** It seems that similar concessions of private investors and bilateral official creditors have been achieved. Pressure from official creditors had a positive impact in this regard. However, there was no guarantee that this outcome would be achieved.
- **No sustainability:** According to IMF indicators, the debt relief granted does not appear to be comprehensive enough to ensure a resilient economic recovery.
- **Sacrifices for creditors:** In order to persuade external creditors to enter into negotiations, Ghana first had to demonstrate "good behaviour" through "sacrifices" at home. This included domestic debt restructuring and severe austerity measures, which were informal conditions for negotiations with external creditors.

III. Debt restructuring outside the G20 *Common Framework*

Third group of countries: Countries that had to restructure their debt after the COVID-19 pandemic, but do not qualify for debt restructuring under the G20 Common Framework due to their per capita income.

Examples: **Ukraine**, **Sri Lanka** and **Suriname**

Due to their income status, **Suriname**, **Sri Lanka** and **Ukraine** have had to negotiate outside the G20 Common Framework since 2020. While Sri Lanka and Suriname negotiated their external debt with both their bilateral official and private creditors, Ukraine initially did not conclude a restructuring agreement with the holders of its pre-war bonds until 2024.

Outside the G20 Common Framework, countries usually negotiate with Western creditor countries as a group, through the Paris Club, as well as with creditor governments outside the Paris Club, such as China or India, on a bilateral basis. Otherwise, similar rules apply to these negotiations as to those within the G20 Common Framework (see also Box 2).

Sri Lanka is an exceptional case in that an official creditor committee has been formed with members of both the Paris Club and relevant G20 countries such as India.[6] However, "better" coordination of bilateral official creditors has not improved the outcome in terms of the results and the goal of restoring debt sustainability.

Where reform is needed

The examples of these countries show that debt restructuring is still neither attractive nor fair. Even though progress has been made in individual cases, criticism of the current system persists. It includes:

Suriname at a glance

Annual average debt service as a percentage of government revenue[4]
2023-2025[5] – prior to the debt restructuring: 33.3%
2025-2027 – after the debt restructuring: 17.9%

- **Minimal debt relief:** Private investors joined forces and successfully blocked Suriname's debt restructuring offer until they obtained more favourable terms and conditions, agreeing to grant only minimal debt relief. Moreover, the investors pushed through their demand for a "value recovery instrument" (VRI), which will compensate them handsomely for their concessions if future oil revenues materialise. Similar to the case of Zambia, however, there was no relevant debtor protection.
- **Negotiations blocked by the majority of creditors:** The agreement shows that negotiations and thus sustainable restructuring can be blocked not only by uncooperative individual creditors, but also by the majority of private creditors.
- **Inaction on the part of rule-makers:** The IMF, which sets the debt restructuring parameters, and the Paris Club accepted the less favourable terms offered by private creditors.[7] They did so without providing an explanation of how they determined that debt restructuring with private creditors was comparable to their own relief measures, or why this agreement would render Suriname's debt sustainable, despite earlier assessments indicating that significantly greater debt relief was required. After all, lower nominal debt cancellation is not offset by investors agreeing to especially long maturities or low interest rates.
- **Unreliable:** The Paris Club did not respond to the VRI by offering Suriname greater protection, but is instead keeping open the option of demanding more repayment at a later date. This means that Suriname cannot count on reliable, sustainable debt relief.

Sri Lanka at a glance

Annual average debt service as a percentage of government revenue[4]
2024-2026 – prior to the debt restructuring: 57.7%
2025-2027 – after the debt restructuring: 33.7%

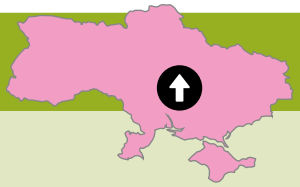
- **Burdened population:** The burden of the debt crisis is being disproportionately shifted onto Sri Lanka's population. This is happening in large part due to austerity measures that are driving up living costs and deepening social inequality. Women and low-income households are particularly affected.

- **Creditor interests prioritised:** The primary surpluses demanded by the IMF are unrealistic, and the calculated amount of debt relief is too low. Both prioritise creditor interests over sustainable debt relief. From the outset, the IMF underestimated the amount of debt relief needed, which has led to continued high debt risks despite debt restructuring.

- **Debtor protection as window dressing:** Notwithstanding the already low concessions, private bondholders are not willing to participate in debt restructurings without economic incentives. However, unlike in Suriname, Zambia and Ukraine, the agreement in Sri Lanka includes a mechanism that promises slightly higher debt relief if economic growth is lower than expected. In principle, this debtor protection is a welcome approach. However, the specific design favours creditors and, from the perspective of Sri Lankan civil society, amounts to little more than window dressing.[8]

- **Missed opportunity:** The IMF and public creditors negotiated the debt restructuring deal with interim President Wickremesinghe. He came to power following public protests in 2022, without elections, and therefore lacked legitimacy among the majority of the population. When Wickremesinghe was clearly voted out of office in the September 2024 presidential elections, the IMF and official creditors gave Sri Lanka's new government little room for manoeuvre. The opportunity to renegotiate the debt restructuring was missed, along with the chance to promote economic and political stability through fairer restructuring.

Ukraine at a glance



Annual average debt service as a percentage of government revenue[4]
2024-2026 – prior to the debt restructuring with bondholders: 7.2%
2025-2027 – after the debt restructuring with bondholders: 5.3%

- **Good deal for private pre-war investors:** In light of the severe destruction resulting from the war, it is evident that Ukraine will require significant debt relief from its creditors. Unlike in other debtor countries, the G7 and EU countries in particular have a shared geopolitical interest in ensuring Ukraine's fiscal stability. Nevertheless, private investors who invested before the war managed to negotiate debt relief that is significantly below the level deemed necessary by the IMF and the Ukrainian government. As with other countries, they will receive additional debt repayments if the economic situation improves more quickly than expected. However, no further debt relief will be provided to Ukraine in the event of an economic downturn.

- **Further concessions:** Instead of taking a hard line against private creditors to push for greater debt relief,[9] Ukraine has chosen to make further concessions by accepting significantly less debt relief. Official donors also accepted the unfavourable deal for the time being.

- **Tax money for debt servicing:** As private creditors were able to assert their profit interests, Ukraine will have to pay them over 1 billion USD by 2027, despite the war, presumably using public funds intended for stabilising the country itself.

- **Unequal power relations lead to unequal outcomes:** Although the international debt architecture has been revised since the COVID-19 pandemic, it has not systematically improved the negotiating power of debtor countries vis-à-vis their creditors. Power asymmetries continue to determine the outcome of negotiations. Private lenders can usually avoid having to bear the default risk for which they were compensated through high interest rates.

- **Not all creditors participate equally:** Instead of comparable concessions being made by both official and private creditors at the negotiating table, it is often the private creditors who have the upper hand. In theory, equal treatment clauses, also known as "clawback clauses",[10] in agreements with bilateral official creditors require comparable participation by private creditors. However, these clauses only put pressure on the debtor nations without helping them enforce their claims against private creditors. Official creditors, however, seem to simply accept unfavourable outcomes with private creditors instead of pushing for effective reforms.[11]

- **Tough negotiations:** Although negotiations within the G20 Common Framework are progressing faster overall, some countries are still in the process of negotiating and have not yet completed the debt restructuring. Some of these countries are still negotiating with commercial bank creditors who have not yet participated or have only participated partially.

- **Debt cancellation is not enough:** Debtor countries not only lack reliable information about how much debt cancellation they can expect in debt restructuring,[12] but also lack trust in the effectiveness of debt restructerings. In most cases, the debt cancellation negotiated on a case-by-case basis is unlikely to be sufficient to ensure the social and economic sustainability of the debt. Instead, the shortfall in debt cancellation is being offset by overly optimistic economic assumptions and austerity measures, and glossed over by adjusting the figures to present a more favourable picture.

- **Debt reduction at the expense of the population:** These shortcomings inherent in the procedures mean that the burden of adjustment falls more heavily on the debtor country's population. This is exacerbated by the fact that the IMF requires debtor countries to implement strict austerity measures as part of debt restructuring. Rather than seeking sustainable solutions, the interests of creditors are all too often prioritised. The goal of improving the socio-economic situation of debtor countries is neglected.

Outlook

Analysis shows that countries that have undergone debt restructuring generally have lower debt servicing costs in the short term than if they had avoided negotiations. This is also evident when we look at countries such as Kenya and Pakistan, which are trying to avoid debt restructuring and are instead continuing to pay off their creditors, placing a heavy burden on their populations. Nevertheless, the international debt architecture still needs to be reformed and should therefore remain on the political agenda.

Without far-reaching reforms, debt restructuring will continue to provide only short-term relief, failing to offer a socially and economically just long-term solution as it prioritises genuine creditor interests and repayment at the expense of social spending and economic recovery. This need to reform the debt architecture will also be discussed in Seville in June 2025. The preparatory documents for the 4th International Conference on Financing for Development (FfD4) call for a more "development-oriented" international debt architecture. To this end, debt restructuring, whether within or outside the G20 Common Framework, must be designed in accordance with the basic principles of a sovereign insolvency process. This includes prioritising the economic, social and cultural rights of the debtor country's population when calculating the amount of debt cancellation, to be carried out by an independent body. Furthermore, negotiations must be conducted fairly and transparently, and debt cancellation must be granted without economic policy conditions. Only by implementing such structural reforms, debt crises can be resolved in a sustainable manner.

Reforming the debt architecture is not only in the interest of the debtor country. History has shown time and again that timely and far-reaching debt restructuring is not a zero-sum game, and that creditors ultimately benefit too. On the other hand, tentative debt restructuring measures aimed at minimising pain for creditors lead to higher costs for all involved. This is evidenced by the launch of the multilateral Heavily Indebted Poor Countries (HIPC) Initiative in 1996, which required the cancellation of a large part of the beneficiary countries' debt. The FfD4 in Seville is a good opportunity to get the reform agenda back on track (see also '2025 Jubilee – opportunity of the decade', from p. 40).

In the article **'Reform proposals to implement a sovereign debt workout mechanism'**, we have outlined specific proposals for reform that we believe are both necessary and achievable in the short term from a civil society perspective. These proposals are designed to address the challenges highlighted in this article and reform the debt architecture to ensure that debt restructuring is carried out in accordance with the principles of the rule of law. Available at: www.erlassjahr.de/reformvorschlaege-2025 (in German)

[1] See IMF (2013): 'Sovereign Debt Restructuring – Recent Developments and Implications for the Fund's Legal and Policy Framework'.

[2] Vgl. Word Bank: „The World Bank in Pakistan – Overview".

[3] For a detailed analysis of Ghana's debt restructuring, see Rehbein, K. (2024): 'Umgang mit Ghanas Schuldenkrise – Funktioniert der neue „Schuldenmanagementkonsens" tatsächlich? FES Analyse Wirtschaft und Finanzen'.

[4] As in the article 'Global external debt burden', payment obligations over a three-year period prior and after the debt restructuring are considered to determine the current debt burden. The comparison shows a significant short-term debt relief. However, debt restructuring negotiations should not focus solely on the short-term effect on debt servicing. In the past, debt crises were often prolonged by granting only short-term payment extensions without providing long-term relief. Debt Justice UK (2024) provides an analysis of debt restructuring agreements concluded in recent years that also takes into account the long-term effects: 'Analysing Outcomes from Debt Restructurings'.

[5] Unlike in the case of the other countries, the comparison period here is not 2024–2026, but 2023–2025. Suriname had already largely completed its debt restructuring by the end of 2023, and reliable information on payment obligations prior to the restructuring is only available until the end of 2025; see p. 63 of the IWF-Country Report 24/6.

[6] It should be noted, however, that the Chinese government only participated as an observer and explicitly did not consider itself part of the creditor committee.

[7] See 'Based on the assessment that the Republic of Suriname has fulfilled all its commitments under the 2022 Minutes, notably the comparability of treatment […]' in Paris Club (10 October 2024): 'Suriname – Implementation of second phase of the debt treatment by the Paris Club'. The Paris Club's exact expectations regarding "comparability of treatment", i.e. which parameters were used as a basis, are not known. However, calculations by civil society and a comparison of the IMF's calculations in its 2021/280 and 2023/350 Country Reports show that the low write-offs of nominal claims are not offset by especially long maturities or low interest rates agreed by private creditors in the restructuring. This suggests that private creditors benefit more than public creditors.

[8] See Kadirgamar, A. (2025): Finance Capital, GDP Growth and Sri Lanka's Economic Depression.

[9] For example, through a default on pre-war bonds supported by official creditors or through regulatory and legislative measures in relevant G7 countries.

[10] Clawback clauses allow relevant creditors (countries) to revoke their own debt relief agreement if they believe that other creditors have been given preferential treatment. Consequently, debts that have been restructured have to be paid back again in full.

[11] The reasons why bilateral official creditors in the Paris Club or the official creditor committee consider a seemingly less favourable restructuring offer from private creditors to be comparable to bilateral official relief are not made public. In response to a minor inquiry from the Left Party Parliamentary Group in the German Bundestag, the Federal Ministry of Finance (BMF) claimed that the comparable participation of private creditors had generally worked well in the past. However, empirical studies from both academia and the World Bank suggest the opposite. Any studies on which the BMF bases its findings are not publicly available and therefore cannot be verified

[12] One proposal that aims to enhance the reliability of debt relief for debtor nations entails bilateral official creditors pledging their commitment in advance regarding the extent of debt relief, or specifying in advance the amount of debt relief a nation can expect in the event of debt restructuring. This could be done, for example, by setting target indicators as part of the G20 Common Framework rather than waiting for the IMF debt sustainability analysis at the start of negotiations. It could be a commitment to reduce a country's debt to at least a medium level of risk of debt distress with room for shocks, or to set target indicators similar to those in the HIPC Initiative with sufficient buffers to avoid excessive debt relief, such as reducing debt service to 10% of government or export revenues..