

Forum: GA2 - Economic and Financial Council

Issue: Addressing Global Debt Restructuring and Sustainable Financing for Developing Countries



Student Officer: Panagiotis Kamsaris

Position: Co-Chair

Personal Introduction

Dear Delegates,

It's with great honor that I welcome you to the GA2 - Economic and Financial Committee of the American College of Greece Model United Nations 2026. My name is Panagiotis Kamsaris, I am 16 years old, and a high school student in the 11th grade. I have a great interest in politics, international affairs, and law. GA2 is one of the main committees of the General Assembly of the United Nations. It plays a significant role in dealing with economic challenges, development, and international cooperation in finance. "Addressing Global Debt Restructuring and Sustainable Financing for Developing Countries" is a complex issue that requires a lot of research and the ability to understand different perspectives and opinions. It therefore demands the participation of the delegates with a well-prepared, flexible, and problem-solving mindset.

Please note that should you have any inquiries or need assistance with your preparation I am available at your disposal at pkamsaris@gmail.com. I am looking forward to a professional, efficient, and strategic committee with respect as the main aspect.

Kindest regards,

Panagiotis Kamsaris

Topic Introduction

It has become an integral challenge for the global community to address the question of global debt restructuring, as well as the problem of sustainable lending for developing nations, as the increasing level of debt has severely impacted the ability to tackle poverty, public investment, and Sustainable Development Goals (SDGs). The appeal for greater international support for more effective debt restructuring instruments was made in the recent resolutions adopted at the UN General Assembly¹. Conversely, developing countries are faced with a difficult balancing act to meet, as they have to allocate finances to fund core sectors like the provision of healthcare, education, infrastructure, and adapting to climate change, at the same time, when the service costs of their loans keep increasing.

Debt restructuring is one of the tools used to manage a situation of high debt distress, achieved by modifying the original loan terms in terms of maturity, rescheduling, or reduction of the loan principal in a manner that induces the return of a nation's debts to sustainability. According to the International Monetary Fund (IMF), if the situation presents a position of unsustainable debts, then a possible restructuring of the debts may be required, and IMF-supported programs also depend on the judgment of the sustainability of the debts². However, restructurings have become increasingly complex because of creditor fragmentation: traditional Paris Club lenders now operate alongside large bilateral creditors and significant private bondholders, a factor that complicates coordination and often delays timely relief³.

In response, the international system has sought to enhance coordination beyond the DSSI through the G20 Common Framework for Debt Treatments, aimed at enabling "timely and orderly" treatments with stronger official creditor coordination⁴. It has been proved through experience, however, that postponements, as well as the lack of participation from the private creditors, can

¹ "External Debt Sustainability and Development." United Nations General Assembly, A/RES/78/182, 19 Dec. 2023, <https://undocs.org/A/RES/78/182>. Accessed 24 Dec. 2025.

² "Sovereign Debt." International Monetary Fund, <https://www.imf.org/en/Topics/sovereign-debt>. Accessed 25 Dec. 2025.

³ Talero, Beatriz X., et al. "The G20 Common Framework: Progress and Challenges." World Bank, June 2022, <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099802006132239956>. Accessed 25 Dec. 2025.

⁴ "Statement: Extraordinary G20 Finance Ministers and Central Bank Governors' Meeting (Annex I: Common Framework for Debt Treatments beyond the DSSI)." International Monetary Fund, 13 Nov. 2020, <https://www.imf.org/-/media/files/news/news-articles/english-extraordinary-g20-fmcbg-statement-november-13.pdf>. Accessed 25 Dec. 2025.

generate lower effectiveness, which in turn causes uncertainty for debtor countries as well as lower possibilities for recovery. It is important to note that sustainable financing enhances the process of debt restructuring in that it does not pose the threat of recurrent crises since it aims at mobilizing concessional funding and sustainable financing solutions that are in line with the country's strategies and financial capacity. The Addis Ababa Action Agenda further supports sustainable financing in that it includes sustainable borrowing and lending practices, as well as sustainable strategies on debt management, as important elements of the Sustainable Development Targets⁵.

Effective debt management strategies will need to focus on the development of tools for responding to the crisis, that is, restructuring, while also addressing preventive approaches, which encompass enhanced sustainable financing practices. Without effective coordination among creditors or without financing oriented towards development, debt distress can become a vicious cycle—undermining governance, investment, and social stability—rather than a temporary shock from which countries can recover. It is because of this that sustainable finance plays an important role in enhancing the restructuring process by ensuring that the chances of recurring crises are minimized through the mobilization of affordable resources for the long term, which are also aligned with the capacity to repay and the national development strategies.

Definition of Key Terms

Debt distress

Debt distress is a situation where a country struggles to meet its debt-service obligations because its public debt burden has become unsustainable relative to its economic capacity⁶.

Debt overhang

⁵ “Addis Ababa Action Agenda of the Third International Conference on Financing for Development (AAAA).” United Nations General Assembly, A/RES/69/313, 27 July 2015, https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_RES_69_313.pdf. Accessed 23 Dec. 2025.

⁶ “Debt Sustainability Framework—Help Guide.” World Bank, <https://www.worldbank.org/content/dam/LIC%20DSF/Site%20File/help.html>. Accessed 3 Dec. 2025.

Debt overhang is a condition where existing debt burdens are so large that they discourage new investment or growth because expected future returns are likely to be absorbed by debt-service obligations⁷.

Debt profile / Debt portfolio

Debt profile/Debt portfolio is the composition and characteristics of a country's public debt (currency, maturity structure, interest rates, types of creditors, share of external vs internal debt), which influence how vulnerable the country is to crises⁸.

Debt relief

Debt relief is a partial or total cancellation of debt obligations (or debt-service burdens) formally agreed between debtor and creditor, aiming to ease the debt stress of the borrowing country⁹.

Debt restructuring

Debt restructuring is a negotiated change to the terms of existing sovereign debt — for example, extending maturity, reducing interest rates, postponing payments, or reducing principal — to make debt more manageable for the borrower¹⁰.

Debt service

Debt service is the total amount of payments (interest plus repayment of principal) that a country must make on its debt during a given period¹¹.

⁷ Bolton, Patrick, et al. "The ABCs of Sovereign Debt Relief." Center for Global Development, 2020, <https://www.cgdev.org/publication/abcs-sovereign-debt-relief>. Accessed 3 Dec. 2025.

⁸ "Debt Sustainability Framework—Help Guide." World Bank, <https://www.worldbank.org/content/dam/LIC%20DSF/Site%20File/help.html>. Accessed 3 Dec. 2025.

⁹ Bolton, Patrick, et al. "The ABCs of Sovereign Debt Relief." Center for Global Development, 2020, <https://www.cgdev.org/publication/abcs-sovereign-debt-relief>. Accessed 3 Dec. 2025.

¹⁰ "Sovereign Debt Restructuring—Annex." International Monetary Fund, Apr. 2023, <https://www.imf.org/-/media/Files/Publications/WEO/2023/April/English/ch3annex.ashx>. Accessed 3 Dec. 2025.

¹¹ "External Debt Statistics: Guide for Compilers and Users." International Monetary Fund, <https://www.imf.org/external/pubs/ft/eds/eng/guide/file1.pdf>. Accessed 3 Dec. 2025.

Debt-to-GDP Ratio

Debt-to-GDP ratio is a common metric comparing a country's total public debt to its gross domestic product (GDP), used to gauge how sustainable its debt burden is relative to the size of its economy¹².

External debt / External public debt

External debt is the debt owed by a country's government to foreign lenders, whether other states, international institutions or foreign investors¹³.

Inflation

Inflation is a sustained increase in the overall price level of goods and services in an economy over time, leading to a decrease in the purchasing power of money¹⁴.

Internal debt

Internal debt is debt owed by the government to lenders within the same country like domestic banks or citizens, as opposed to external debt owed abroad¹⁵.

Macroeconomic Ratios

Macroeconomic ratios are quantitative indicators based on national economic statistics, for example, debt- to GDP, deficit to GDP, current account balance, or revenue debt ratios, used to assess economic performance and the sustainability of the economy and debt¹⁶.

¹² "Sovereign Debt." International Monetary Fund, <https://www.imf.org/en/Topics/sovereign-debt>. Accessed 3 Dec. 2025.

¹³ "External Debt Statistics: Guide for Compilers and Users." International Monetary Fund, <https://www.imf.org/external/pubs/ft/eds/eng/guide/file1.pdf>. Accessed 3 Dec. 2025.

¹⁴ "Inflation." International Monetary Fund, <https://www.imf.org/en/Topics/inflation>. Accessed 21 Dec. 2025.

¹⁵ "Political Glossary of Debt Terminologies." ESCR-Net, Apr. 2024, https://www.escr-net.org/wp-content/uploads/2024/04/Political-glossary-of-debt-terminologies_English.pdf. Accessed 3 Dec. 2025.

¹⁶ "Debt Sustainability Framework—Help Guide." World Bank, <https://www.worldbank.org/content/dam/LIC%20DSF/Site%20File/help.html>. Accessed 3 Dec. 2025.

Paris Club lenders

Paris Club creditors refer to the bilateral creditors who work through the Paris Club to secure debt treatments for countries with sovereign debt-related difficulties. The creditors collectively negotiate with the concerned countries on issues like rescheduling, extension, or reduction, in accordance with the concept of comparability of treatment¹⁷.

Public Sector Debt / National Debt

Public sector debt / National Debt is the total outstanding debt of a government at any point in time, combining both internal and external debt¹⁸.

Sovereign debt

Sovereign debt is the total public debt owed by a national government (both principal and interest) to its creditors¹⁹.

Background Information

Historical Evolution of Debt Crises in Developing Countries

The tendency of sovereign debt crises to strike developing countries is closely tied to global economic cycles, structural vulnerabilities, and shifting international financial systems. In the 1970s, many developing states ran up enormous external debts because of the plentiful availability of global liquidity, low interest rates, and aggressive lending on the part of international banks²⁰. Many of these loans were used for financing development projects or fiscal deficits, about which quite inadequate debt

¹⁷ “Paris Club.” International Monetary Fund, <https://www.imf.org/en/Topics/paris-club>. Accessed 18 Jan. 2026.

¹⁸ “Political Glossary of Debt Terminologies.” ESCR-Net, Apr. 2024, https://www.escr-net.org/wp-content/uploads/2024/04/Political-glossary-of-debt-terminologies_English.pdf. Accessed 3 Dec. 2025.

¹⁹ “Sovereign Debt.” International Monetary Fund, <https://www.imf.org/en/Topics/sovereign-debt>. Accessed 25 Dec. 2025.

²⁰ “Sovereign Debt and Financial Crises: An Historical Analysis.” International Monetary Fund, 2018, <https://www.imf.org/en/publications/fandd/issues/2018/03/debroeck>. Accessed 16 Dec. 2025.

management frameworks were either conceived or put into practice²¹. When global interest rates rose sharply in the early 1980s and commodity prices collapsed, many debtor states were unable to meet repayment obligations, triggering widespread defaults²².

This period culminated in the Latin American “Lost Decade”, beginning with the Mexican default in 1982²³. Prolonged stagnation, high inflation, and declining real income characterized this era for countries like Brazil, Argentina, and Venezuela. Besides the financial implications of increased poverty, decreased public expenditure on health and education, and general public unrest that undermined political stability and confidence in government institutions²⁴. Regional contagion and investor panic were shown in how recurring debt crises in Brazil—sometimes referred to as the “Samba Effect”—could spread financial instability in a moment throughout emerging markets²⁵.

The developing countries remained vulnerable throughout the 1990s, as capital flows became highly volatile and financial regulation was rudimentary. The Asian Financial Crisis of 1997–1998 revealed a fundamental risk of reliance on short-term foreign borrowing and thus on currency mismatches, with consequences of mass unemployment, social dislocation, and political change in countries like Indonesia and Thailand²⁶. These events underlined the fact that debt crises are not simply economic events but also promoters of social inequality and breakdowns in governance.

During the early 2000s, many developing economies achieved renewed growth with improved access to markets, supported by commodity booms and capital inflows²⁷. At the same time, the

²¹ “A World of Debt 2025: It Is Time for Reform.” UN Conference on Trade and Development (UNCTAD), 2025, <https://unctad.org/publication/world-of-debt>. Accessed 13 Dec. 2025.

²² “Sovereign Debt and Financial Crises: An Historical Analysis.” International Monetary Fund, 2018, <https://www.imf.org/en/publications/fandd/issues/2018/03/debroeck>. Accessed 16 Dec. 2025.

²³ “Heavily Indebted Poor Countries (HIPC) Initiative.” World Bank, <https://www.worldbank.org/en/topic/debt/brief/hipc>. Accessed 27 Dec. 2025.

²⁴ “A World of Debt 2025: It Is Time for Reform.” United Nations Conference on Trade and Development, 2025, <https://unctad.org/publication/world-of-debt>. Accessed 10 Dec. 2025.

²⁵ “The Latin American Debt Crisis.” Council on Foreign Relations, <https://www.cfr.org/timeline/latin-american-debt-crisis>. Accessed 16 Dec. 2025.

²⁶ “Social Consequences of the East Asian Financial Crisis.” World Bank, <https://documents1.worldbank.org/curated/en/486441468770742543/pdf/310410PAPER0Social0consequences0eacrisis.pdf>. Accessed 16 Dec. 2025.

²⁷ “A World of Debt 2025: It Is Time for Reform.” UN Conference on Trade and Development (UNCTAD), 2025, <https://unctad.org/publication/world-of-debt>. Accessed 13 Dec. 2025.

Argentine monetary and debt crisis in 2001 showed that adopting rigid exchange rate regimes and excessive external borrowing could lead to banking collapses, social protests, and a sharp increase in poverty.²⁸ The Global Financial Crisis of 2008 further narrowed financing options since capital retreated from emerging markets and fiscal pressures mounted²⁹. Against repeated crises, international efforts for sustainable financing and debt relief had been expanded. Initiatives include the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative, among others, aimed at lessening the burden of debts and unlocking resources for development³⁰. More recently, the COVID-19 pandemic and the succeeding inflationary and energy shocks have revived debt distress. Mechanisms like the G20 Debt Service Suspension Initiative and the continued call for comprehensive and coordinated debt restructuring frameworks have been developed anew³¹. In short, these are developments that detail the increasingly complex nature of the global debt landscape in achieving sustainable financing.

Causes of Unsustainable Debt in Developing Countries

Unsustainable debts in developing countries, in general, can be traced to domestic vulnerabilities and external shocks. On the domestic side, developing countries tend to rely on a small export base. With a small export base, countries tend to be exposed to revenue instability due to price instability. Such countries have a tendency to see revenue fall as prices drop. Consequently, countries rely on borrowing to finance revenue shortfalls. Fiscal vulnerabilities in developing countries include shallow tax revenue, inefficient revenue management, and spending pressures influenced by politics. Such factors undermine revenue stability³².

Failures in governance and weaknesses within institutions constitute another major cause of solvency problems. Mismanagement of public finances, poor debt management, and cases of hidden

²⁸ “The Role of the IMF in Argentina, 1991–2002.” International Monetary Fund Independent Evaluation Office, <https://www.imf.org/external/np/ieo/2003/arg/index.htm>. Accessed 16 Dec. 2025.

²⁹ “The Global Financial Crisis and Developing Countries.” World Bank, <https://www.worldbank.org/en/research>. Accessed 16 Dec. 2025.

³⁰ “Multilateral Debt Relief Initiative (MDRI).” International Monetary Fund, <https://www.imf.org/external/np/exr/mdri/eng/index.htm>. Accessed 27 Dec. 2025.

³¹ “G20 Debt Service Suspension Initiative (DSSI).” World Bank, <https://www.worldbank.org/en/topic/debt/brief/dssi>. Accessed 16 Dec. 2025.

³² “External Debt Sustainability and Development.” United Nations General Assembly, A/RES/78/182, 19 Dec. 2023, <https://undocs.org/A/RES/78/182>. Accessed 23 Dec. 2025.

or improperly disclosed financial liabilities result in shocks that emanate from hidden liabilities that come to light or from improperly structured contracts that materialize and lead to loss of creditor confidence and ill-fated restructuring efforts. Corruption and poor governance contribute to this element by potentially redirecting funds away from productive spending that would improve solvency levels down the road³³.

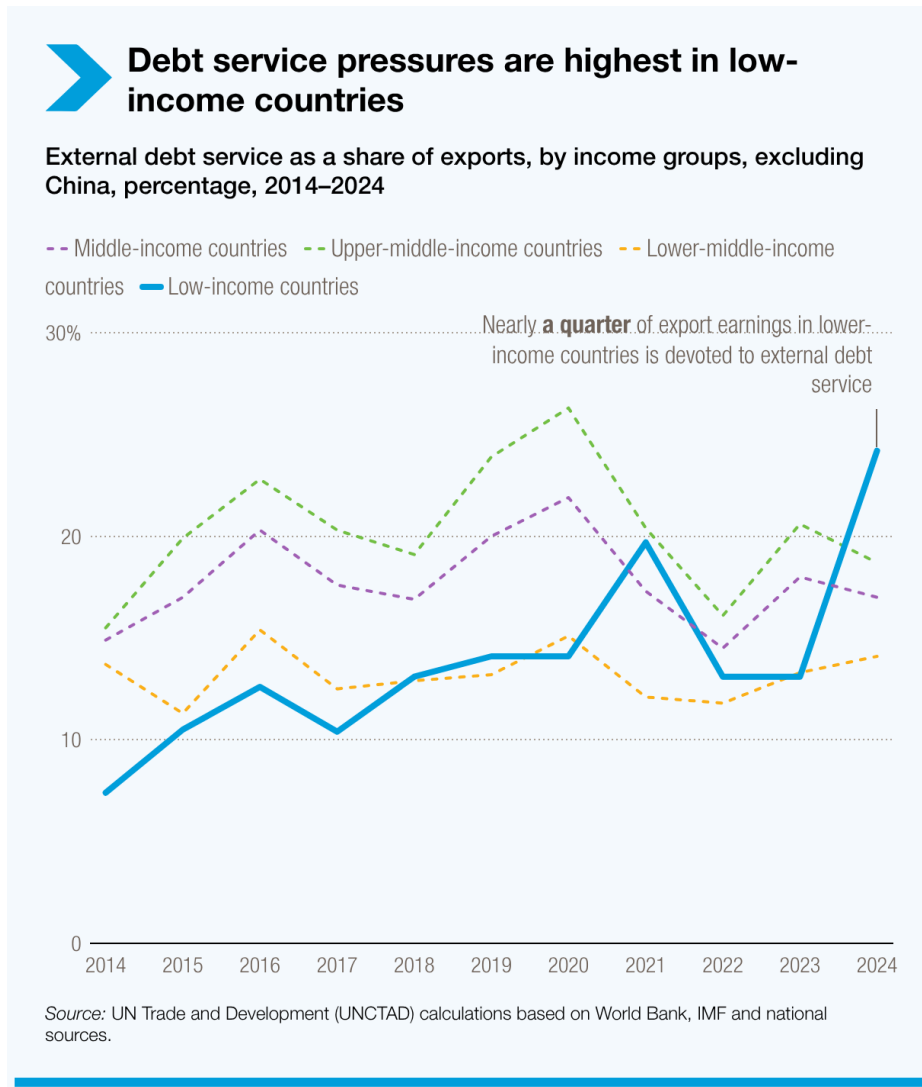
Fragile domestic financial systems and shallow local capital markets exacerbate sovereign vulnerability. When external finance dries up, governments often switch to more expensive domestic borrowing, crowding out private investment and creating rollover risks that can precipitate liquidity crises. The current era's creditor fragmentation, with traditional Paris Club lenders, large bilateral lenders, notably China, and significant private creditors, raises coordination problems during restructurings, which can delay relief and deepen distress³⁴.

Lastly, the forceful external shocks that have pushed countries into unsustainable paths include the COVID-19 pandemic outbreaks, global spikes in energy prices, sudden global surges in interest rates, and the rising frequency of climate disasters that have widened the financing gaps for vulnerable countries and increased their costs of debt service³⁵.

³³ "Macroeconomic and Fiscal Frameworks in Low-Income Developing Countries." International Monetary Fund Policy Paper, 18 Feb. 2022, <https://www.imf.org/en/Publications/Policy-Papers/Issues/2022/02/18/Macroeconomic-and-Fiscal-Frameworks-in-Low-Income-Developing-Countries-512417>. Accessed 24 Dec. 2025.

³⁴ Bolton, Patrick, et al. "The ABCs of Sovereign Debt Relief." Center for Global Development, 2020, <https://www.cgdev.org/publication/abcs-sovereign-debt-relief>. Accessed 21 Dec. 2025.

³⁵ "Trade and Development Report 2023." United Nations Conference on Trade and Development (UNCTAD), <https://unctad.org/publication/trade-and-development-report-2023>. Accessed 24 Dec. 2025.



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Figure 1: Image depicting debt service pressures being the highest in low-income countries.

Consequences of Debt Distress for Development

Debt distress affects the development of developing countries as it creates a limitation in public funds, a lack of development in structures of governance, and limited growth. A country that spends a lot of government revenue on servicing debt has limited capacities in other sectors, like offering essential public services such as free universal healthcare, quality education, and social welfare³⁷. This

³⁶ “A World of Debt 2025: It Is Time for Reform.” UN Conference on Trade and Development (UNCTAD), 2025, <https://unctad.org/publication/world-of-debt>. Accessed 13 Dec. 2025.

³⁷ “A World of Debt 2025: It Is Time for Reform.” UN Conference on Trade and Development (UNCTAD), 2025, <https://unctad.org/publication/world-of-debt>. Accessed 13 Dec. 2025.

has negative effects on healthcare, which suffers from a lack of access to medical equipment, a shortage of personnel, and a lack of development in preventive programs³⁸, as well as in the education sector that suffers from inadequacies in salaries of teachers, school structures, and curricula³⁹.

Infrastructure investment, which remains a key priority in terms of transportation, energy, and technology infrastructure, also falls into a debt distress situation. This happens due to governments being faced with huge repayments, resulting in postponing major projects such as infrastructure development, hence contributing to low productivity and a mismatch between potential and actual productivity⁴⁰. There is also a fall in private investments due to macroeconomic uncertainties. Such uncertainties discourage investors by increasing risk perceptions and reducing confidence in long-term investments⁴¹.

The effects of the economy are also seen in other macroeconomic ratios. High debt servicing costs affect exchange rates, contribute to inflation, and affect investor confidence. The developing countries usually find their credit ratings falling, deepening their debt crisis and thereby hindering development. Unavailability of funds in capital markets, coupled with rising interest rates, affects development in a negative way⁴².

Social effects are also equally severe unemployment, falling nominal wages, and a growing number of impoverished persons, which are among the conditions that are usually precipitated by fiscal consolidation and economic stagnation⁴³. Such conditions make it even more difficult for welfare-state

³⁸ “Financing for Universal Health Coverage.” World Health Organization, <https://www.who.int/health-topics/health-financing> Accessed 24 Dec. 2025.

³⁹ “Poverty and Shared Prosperity 2024.” World Bank, 2024, <https://www.worldbank.org/en/publication/poverty-and-shared-prosperity>. Accessed 10 Dec. 2025.

⁴⁰ “Debt, Investment and Growth in Developing Countries.” United Nations Conference on Trade and Development (UNCTAD), Trade and Development Report 2023, <https://unctad.org/publication/trade-and-development-report-2023>. Accessed 24 Dec. 2025.

⁴¹ “External Debt Sustainability and Development.” United Nations General Assembly, A/RES/78/182, 19 Dec. 2023, <https://undocs.org/A/RES/78/182>. Accessed 24 Dec. 2025.

⁴² “Global Financial Stability Report.” International Monetary Fund, <https://www.imf.org/en/Publications/GFSR>. Accessed 24 Dec. 2025.

⁴³ “Social Consequences of the East Asian Financial Crisis.” World Bank, <https://documents1.worldbank.org/curated/en/486441468770742543/pdf/310410PAPER0Social0consequences0eacrisis.pdf>. Accessed 16 Dec. 2025.

programs, widening inequalities in society. On the other hand, for vulnerable nations, debt distress precipitates conditions for political instabilities as well as low government trust.

On balance, debt distress outcomes create a cycle where economic vulnerability, lack of public investments, and adverse conditions feed back into each other. A cycle halt necessitates access to durable finances, debt restructures, and development in capacities to avoid periodic crises⁴⁴.

Key Challenges in the Current System

Although international agreements on sovereign debt restructuring exist, the current international architecture is still fragmented, inefficient, and inadequate in the face of the magnitude of debt problems in developing countries. Among the most difficult issues is the inability to coordinate the different creditors. The list of creditors has evolved from the classical multilateral institutions and Paris Club countries to cover a new category of emerging bilateral lenders, led by China, together with private debtors⁴⁵. Such different actors are characterized by different legal systems and perspectives, which has made it difficult to reach agreements on debt restructuring.

The other significant challenge is that the process of debt restructuring is rather slow, bureaucratic, and politicized. The current system is rather ad hoc, with no credible timelines, resulting in indecision that hurts economic uncertainty in the debtor nations. This is because a lack of cohesion among creditors, combined with the absence of mandatory procedural norms, causes delays in the process, which leads to uncertainty in the economy.⁴⁶ Countries with debt issues may choose to procrastinate on necessary debt restructuring because of concerns regarding readmission to capital markets, credit worthiness, or even domestic politics, thereby adding to the costs of adjustment⁴⁷.

⁴⁴ “Sovereign Debt Restructuring.” International Monetary Fund, Apr. 2013, <https://www.imf.org/external/np/pp/eng/2013/042613.pdf>. Accessed 16 Dec. 2025.

⁴⁵ “International Debt Report 2024: Developing Countries Paid Record \$1.4 Trillion on Foreign Debt in 2023.” World Bank, 3 Dec. 2024, <https://www.worldbank.org/en/news/press-release/2024/12/03/developing-countries-paid-record-1-4-trillion-on-foreign-debt-in-2023>. Accessed 10 Dec. 2025.

⁴⁶ “Debt Relief Under the G20 Common Framework” World Bank, 2022, <https://documents1.worldbank.org/curated/en/099802006132239956/pdf/IDU0766c0f2d0f5d0040fe09c9a0bf7fb0e2d858.pdf>. Accessed 13 Dec. 2025.

⁴⁷ “Sovereign Debt Restructuring” International Monetary Fund, Apr. 2013, <https://www.imf.org/external/np/pp/eng/2013/042613.pdf>. Accessed 16 Dec. 2025.

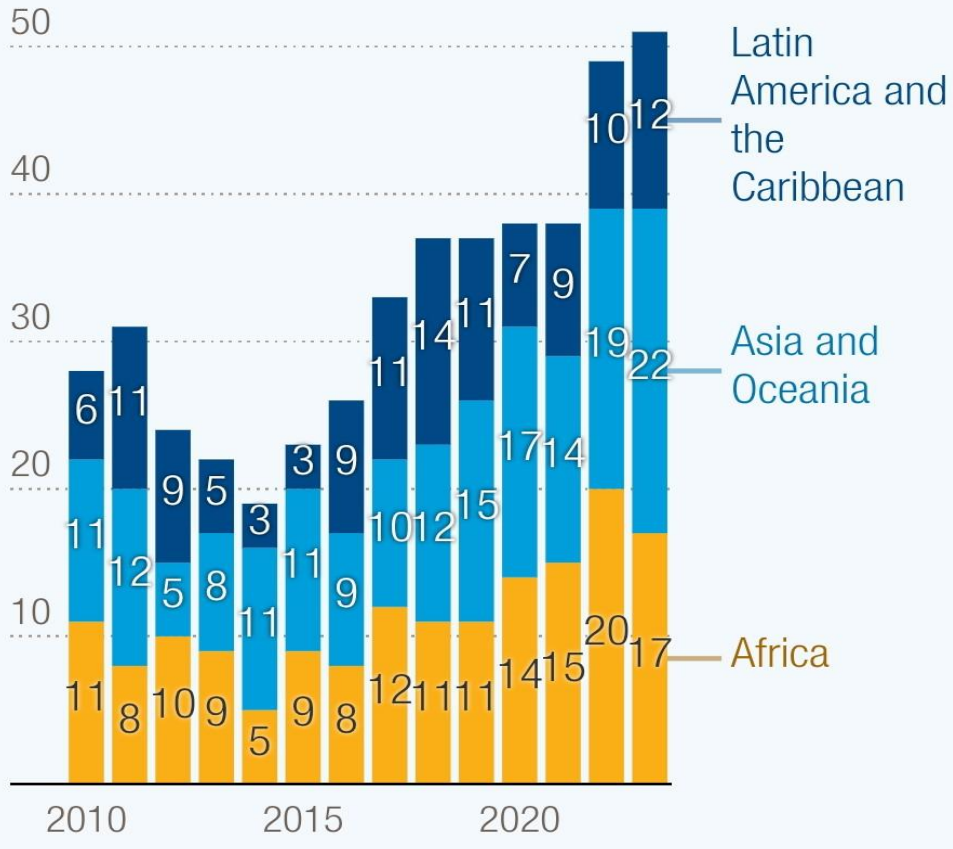
Limited participation of private sector creditors also presents a serious challenge. This is because private sector creditors, such as bondholders as well as commercial banks, tend to hesitate to take part in debt relief initiatives because of the voluntary nature of participation⁴⁸. This means that official sector participation is severely impacted, which affects the entire initiative of debt relief.

Lastly, the existing structure lacks adequate options for sustainable financing that can facilitate a long-term recovery process post-debt restructuring. While the use of short-term instruments of debt relief is beneficial from the fiscal point of view, it is perhaps not targeted towards the alleviation of the underlying structure of the economy in terms of facilitating inclusive growth.

⁴⁸ “Sovereign Debt Restructuring.” International Monetary Fund, 2013, <https://www.imf.org/external/np/pp/eng/2013/042613.pdf>. Accessed 16 Dec. 2025.

Number of countries with net debt outflows doubled over the last decade.

Number of developing countries with net negative transfers on external public debt



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Figure 1: Image depicting the number of countries with net debt outflows doubled over the last decade.

Major Countries and Organizations Involved

Argentina

⁴⁹ "A World of Debt 2025: It Is Time for Reform." UN Conference on Trade and Development (UNCTAD), 2025, <https://unctad.org/publication/world-of-debt>. Accessed 13 Dec. 2025.

Argentina is a key case to understand issues with sovereign debt because it has experienced several situations involving either a default or negotiations with private lenders and with the IMF. Today, it seems that Argentina is now working on managing its debt repayments that are to be made in 2026, with an estimated total repayment cost just above \$7 billion from bank borrowing and other market-driven operations⁵⁰.

Japan

The Japanese government is a significant official creditor and a regular contributor to joint sovereign debt work-outs, especially in the Paris Club mechanism and G20 processes. The framework of debt restructuring adopted by the Japanese government focuses on the concept of debt sustainability, coordination with the IMF/World Bank approach, and in recent times, the provision of crisis emanating facilities for low-income countries, which are faced with liquidity and solvency crises⁵¹.

People's Republic of China (PRC)

China is a major bilateral creditor of several developing countries, and as such, its engagement has always played a crucial part in securing holistic debt treatments to achieve sustainability. In recent times, China has been more actively and contemplatively involved in creditor coordination meetings, including as co-chair for Official Creditor Committees under multilateral frameworks⁵².

United States of America (USA)

A key role in debt restructuring is played by the USA since it is one of the key strategic policymakers of the major multilateral lenders and uses the G20 platform for faster and more predictable

⁵⁰ “Argentina is currently negotiating with banks for a roughly US\$7-billion loan, and faces more than US\$4 billion in debt maturities in January of 2026.” Buenos Aires Times, 5 Dec. 2025, <https://www.batimes.com.ar/news/economy/argentina-announces-return-to-international-debt-markets.phtml>. Accessed 25 Dec. 2025.

⁵¹ “White Paper on Development Cooperation 2022: Part II 1 (2) Efforts on Debt Issues.” Ministry of Foreign Affairs of Japan, https://www.mofa.go.jp/policy/oda/white/2022/html/honbun/b2/s1_2.html. Accessed 21 Dec. 2025.

⁵² “China’s Role in Sovereign Debt Restructuring.” International Monetary Fund, Aug. 2023, <https://www.imf.org/en/Blogs/Articles/2023/08/09/chinas-role-in-sovereign-debt-restructuring>. Accessed 21 Dec. 2025.

debt restructurings of debtor countries or for more robust “sustainable financing” principles⁵³. It also plays an important role in shaping the global financing environment using its strategic power in the IMF and World Bank agenda-setting process, for example, debt transparency and debt sustainability analysis.

International Monetary Fund (IMF)

The IMF is one of the key institutions within the sovereign debt restructuring framework because it is responsible for the evaluation of the sustainability of the country’s debt burden and the provision of financial assistance to the country⁵⁴. Furthermore, the IMF-supported facilities are often the basis of the sovereign debt restructuring because the facilities provide the debtor countries with the desired environment, which is important. After all, the creditors require financial assurance.

Organization for Economic Co-operation and Development (OECD)

The OECD brings value to the issue of debt and development as it provides data, policy insights, and international standards that are relevant to financing sustainable development. While it is not a lending organization, the OECD is one of the most powerful actors in the debate, as it is known for setting best practices in the area of development finance and transparency of debt⁵⁵.

World Bank

It is at the forefront of sustainable financing to developing countries. In this regard, it is actively engaged in development loans and concessional lending. Moreover, it is involved in debt sustainability analysis along with the IMF. The World Bank is engaged in lending to countries to improve infrastructure

⁵³ “Remarks by Secretary of the Treasury Janet L. Yellen at Press Conference During the G20 Finance Ministers and Central Bank Governors Meetings.” U.S. Department of the Treasury, 25 July 2024, <https://home.treasury.gov/news/press-releases/jy2488>. Accessed 21 Dec. 2025.

⁵⁴ “Sovereign Debt.” International Monetary Fund, <https://www.imf.org/en/Topics/sovereign-debt>. Accessed 25 Dec. 2025.

⁵⁵ “Finance for Sustainable Development.” Organisation for Economic Co-operation and Development, <https://www.oecd.org/en/topics/policy-issues/finance-for-sustainable-development.html>. Accessed 1 Jan. 2026.

development, education development, and the improvement of the healthcare sectors. This helps countries switch to less expensive borrowing⁵⁶.

Blocs Expected

Alliance 1

Possible states: Nigeria, Kenya, Ethiopia, Ghana, Bangladesh, Argentina, Indonesia, Thailand

The member states are expected to support complete debt restructuring in terms of longer repayment periods, lower rates of interest, and also debt cancellation. This is in line with their argument that debt stands in the way of financing their needed services in the sectors of free healthcare, education, infrastructural development, and adaptation to climate change. As such, they expect debt sustainability to be evaluated in relation to their development needs as well as their vulnerabilities.

Alliance 2

Possible states: United States of America, China, Japan, Germany, the United Kingdom, South Korea, Switzerland, the Netherlands, France

This bloc is expected to place a premium on financial prudence, debt sustainability, and market stability. The member states of this bloc generally advocate the restructuring of debts only if it is necessary and often insist that the restructuring of debts would be conditionally allowed based on economic reforms and good debt management. This bloc is expected to place a premium on financial prudence, debt sustainability, and market stability. Although this bloc understands the development problems of the debtor countries, it generally takes a focused and rule-based approach to ensure that financial markets are protected and maintain integrity.

⁵⁶ “Debt Sustainability Analysis (DSA).” World Bank, <https://www.worldbank.org/en/programs/debt-toolkit/dsa>. Accessed 1 Jan. 2026.

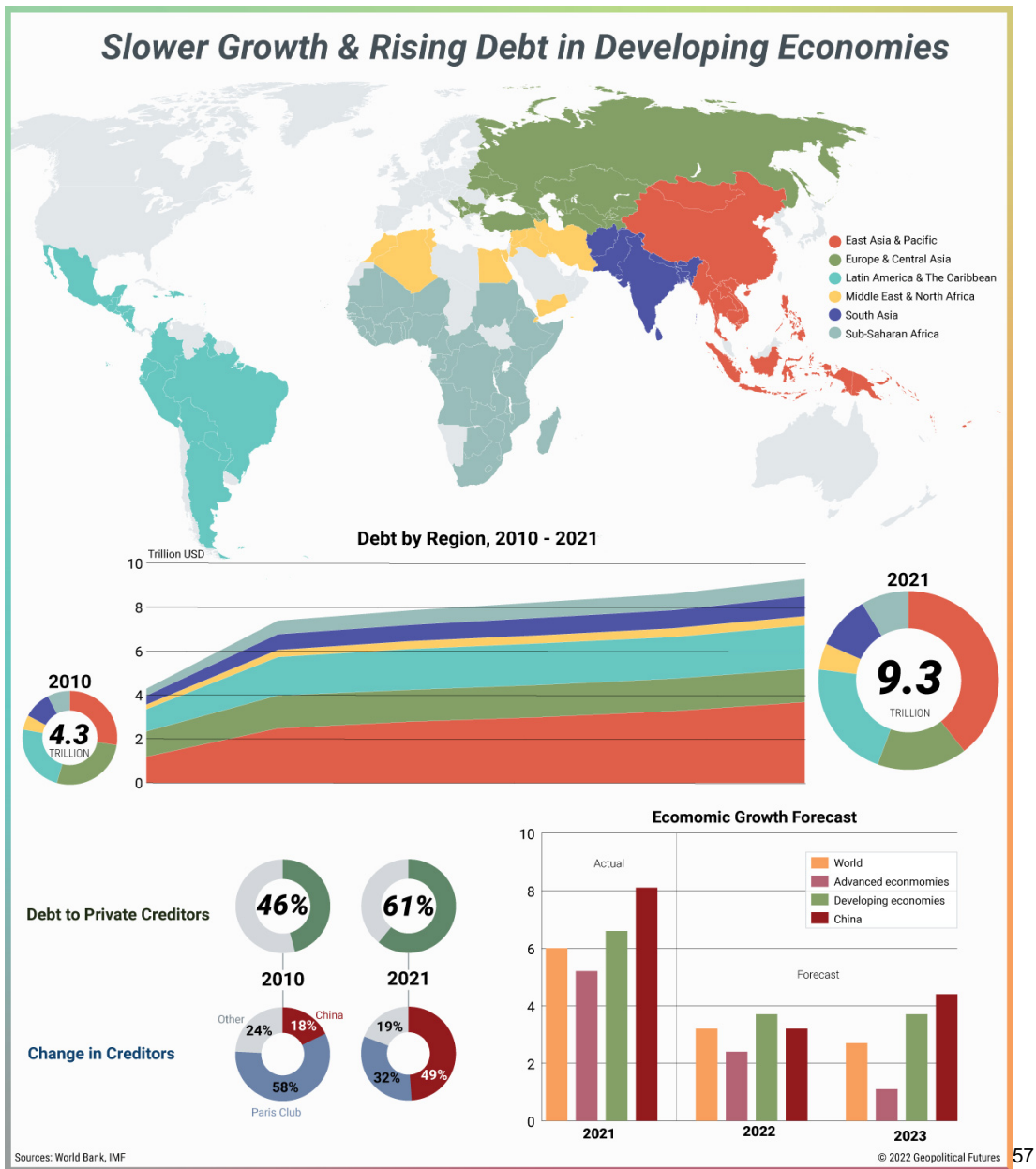


Figure 2: Image depicting the growth rate and public debt of developing economies.

Timeline of Events

⁵⁷ "Rising Debt in Developing Economies." Geopolitical Futures, 9 Dec. 2022, geopoliticalfutures.com/rising-debt-in-developing-economies/. Accessed 2 Dec. 2025.

Date	Description of Event
<i>16th of May 1956</i>	The founding of the Paris club
<i>12th of August 1982</i>	The Mexican Debt Default
<i>27th of September 1996</i>	Launch of the Heavily Indebted Poor Countries (HIPC) Initiative
<i>21st of July 2005</i>	Introduction of the Multilateral Debt Relief Initiative (MDRI)
<i>27th of July 2015</i>	Adoption of the Addis Ababa Action Agenda (AAAA)
<i>12th of December 2015</i>	Launch of the Paris Agreement (COP21)
<i>15th of April 2020</i>	Launch of the G20 Debt Service Suspension Initiative (DSSI)
<i>31st of January 2022</i>	First G20 Common Framework Restructuring Agreements
<i>19th of December 2023</i>	Adoption of UN Resolution on External Debt Sustainability and Development

Relevant UN Resolutions, Treaties & Events

The Paris Agreement (COP21)

12th of December 2015

Link: https://unfccc.int/sites/default/files/english_paris_agreement.pdf

The Paris Agreement is an international convention that focuses on mitigating climate change through an average global temperature increase of well below 2°C above pre-industrial levels. Even as this convention deals with environmental protection, the impact of climate change is relevant to debt sustainability and green financing worldwide. Accessing massive financing for climate change adaptation and the ensuing shift to low-carbon economies makes developing nations more vulnerable to climate change debt sustainability and financing constructs. This was the first global financial

agreement that demanded the integration of climate risk into debt sustainability analysis and ushered in the beginning of fast growth of green bonds and climate-contingent debt.⁵⁸

Addis Ababa Action Agenda of the Third International Conference on Financing for Development (AAAA)

27th of July 2015 (A/RES/69/313)

Link: https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_RES_69_313.pdf

The Addis Ababa Action Agenda serves as an international blueprint for the financing for sustainable development, where the issue of sovereign debt in Developing Countries is dealt with squarely. This document has recognized the negative impact of excessive indebtedness on development achievements and the need for responsible borrowing and lending, increased transparency in debt, and collective approaches for the restructuring of Debts. This document continues to influence the international policy process, which links development financing, debt sustainability, and global economic resilience comprehensively. This agenda brought about such a profound policy framework that aligned global investment and debt management strategies for the attainment of SDGs⁵⁹.

Basic Principles on Sovereign Debt Restructuring Processes

10th of September 2015 (A/RES/69/319),

Link: <https://undocs.org/A/RES/69/319>

This UN General Assembly resolution establishes a set of principles intended to guide fair, transparent, and orderly sovereign debt restructuring processes. These principles include sovereign

⁵⁸ “Paris Agreement (COP21).” United Nations Framework Convention on Climate Change, 12 Dec. 2015, https://unfccc.int/sites/default/files/english_paris_agreement.pdf. Accessed 23 Dec. 2025.

⁵⁹ “Addis Ababa Action Agenda of the Third International Conference on Financing for Development (AAAA).” United Nations General Assembly, A/RES/69/313, 27 July 2015, https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_RES_69_313.pdf. Accessed 23 Dec. 2025.

equality, good faith negotiations, transparency, impartiality, and sustainability. Although not legally binding, the resolution has influenced international debate by providing a normative framework for how debt restructurings should be conducted, particularly for developing countries facing debt distress. It has strengthened calls for creditor coordination and borrower protection, contributing to ongoing discussions about reforming the international financial architecture to better manage sovereign debt crises. The resolution indeed established a normative global standard for "equitable" restructuring and thus gave the debtor nations a moral and political framework with which to call for more transparency and fairness from diverse creditor groups.⁶⁰

External debt sustainability and development

19th of December 2023 (A/RES/78/182)

Link: <https://undocs.org/A/RES/78/182>

This UN General Assembly resolution defines a series of principles designed to provide guidance on fair and transparent restructuring of sovereign debt. These principles are those of sovereignty, good faith, transparency, impartiality, and sustainability. While not a legal document, it seems that it had some influence on international debate by establishing a normative framework of how debt restructuring should work, especially in the context of countries that are LDCs and have experienced debt distress. This document contributed by increasing pressure on creditor coordination and protecting sovereignty. This was in response to the increasing international worry surrounding the increasing levels of external debts in developing countries, especially in the post-pandemic era. The resolution stresses the need for international cooperation and the involvement of all creditors, as well as the need for effective debt restructuring. The resolution highlights the relationship between debt sustainability and development. The resolution reiterates the importance of joint international efforts in

⁶⁰ "Basic Principles on Sovereign Debt Restructuring Processes." United Nations General Assembly, A/RES/69/319, 10 Sept. 2015, <https://undocs.org/A/RES/69/319>. Accessed 23 Dec. 2025.

the fight towards the achievement of Sustainable Development Goals as a result of the dangers associated with debt crises.⁶¹

Previous Attempts to Solve the Issue

G20 Debt Service Suspension Initiative (DSSI)

The G20 Debt Service Suspension Initiative was designed during the COVID-19 era to provide benefitted developing countries with temporary debt relief through the suspension of official bilateral debt payments for an agreed period of time, with a view to providing fiscal space to governments to address their pressing needs while still expecting them to settle their dues subsequently⁶². However, this scheme remained voluntary for debtor countries, and its influence remained largely confined to official bilateral creditors, while encouraging others to follow similar patterns of treatment to private creditors too. As this initiative is more of a temporary measure and does not address long-term financial indebtedness, it is classified as an emergency liquidity tool and not as an adequate restructuring measure.

Voluntary Debt Swaps

Voluntary Debt Swaps are instruments that provide a way to reduce the immediate costs of debts or rebalance costly debts by linking the achieved savings to strategic outcomes, commonly climate resilience, conservation, or spending related to healthcare or education. The International Monetary Fund has noted that, when designed effectively, debt swaps could be used to finance development priorities, although the IMF is clear that effective swaps are not a silver bullet that will work for every country as a comprehensive approach to restructuring, but rather that swaps are best if they positively contribute to a country's overall debt profiles while being fully transparent⁶³. The use of Voluntary Debt Swaps has been common in the discussions of Sustainable Financing Initiatives.

⁶¹ "External Debt Sustainability and Development." United Nations General Assembly, A/RES/78/182, 19 Dec. 2023, <https://undocs.org/A/RES/78/182>. Accessed 24 Dec. 2025.

⁶² "G20 Debt Service Suspension Initiative (DSSI)." World Bank, <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>. Accessed 16 Dec. 2025.

⁶³ Debt for Development Swaps: An Approach Framework." International Monetary Fund, 4 Aug. 2024, <https://www.imf.org/en/publications/policy-papers/issues/2024/08/05/debt-for-development-swaps-an-approach-framework-553146>. Accessed 25 Dec. 2025.

Paris Club Debt Treatments

The Paris Club is a longstanding forum in which official bilateral creditors coordinate debt treatments for debtor countries requesting relief usually in conjunction with an IMF supported program. Most of its restructurings include rescheduling, maturity extensions, and, in some cases depending on the country's situation, debt reduction. An important defining operational feature is that the Paris Club's principles, most notably comparability of treatment, attempt to prevent a debtor from offering better terms to non-Paris Club creditors than those agreed upon with Paris Club creditors. This mechanism matters because it sets a coordinated baseline among many traditional official creditors and has historically been central to organized official sector restructurings, even as the creditor landscape has diversified⁶⁴.

Heavily Indebted Poor Countries (HIPC)

The Heavily Indebted Poor Countries (HIPC) Initiative is an international debt relief package developed and implemented through collaboration between the International Monetary Fund and the World Bank to ensure that the poorest and most heavily indebted nations in the world are not subject to unsustainable debt, which may act as an impediment to sustainable development. This approach ensures that indebted nations benefit completely from debt relief provided through meeting certain requirements. This aid is offered in such a way that it achieves sustainable debt and in no way supports deferment of payments. This approach has emerged as an alternative to short-term debt sustainability. This is evident in how it addresses indebtedness while also addressing how nations may end up in such positions in the future⁶⁵.

Multilateral Debt Relief Initiative (MDRI)

⁶⁴ “What Are the Main Principles Underlying Paris Club Work?” Paris Club, <https://clubdeparis.org/en/what-are-the-main-principles-underlying-paris-club-work>. Accessed 25 Dec. 2025.

⁶⁵ “Heavily Indebted Poor Countries (HIPC) Initiative.” World Bank, <https://www.worldbank.org/en/topic/debt/brief/hipc>. Accessed 27 Dec. 2025.

The Multilateral Debt Relief Initiative (MDRI) is introduced as an addition to the HIPC Initiative, where it offers complete and free cancellation of eligible debts owed to main multilateral agencies such as the IMF, the World Bank, and the African Development Fund. The MDRI seeks to provide further room in the budget of countries that complete the process of the HIPC initiative so that they are able to allocate these funds to more pressing sectors such as healthcare, education, and infrastructure development⁶⁶. The MDRI is different from other forms of temporary relief and mechanisms that involve restructuring, as it offers long-lasting solutions in the reduction of debts and so enhances faster development outcomes. Nevertheless, there is a need for prudent management of debts after the relief process has occurred, as MDRI still allows the accumulation of debts.

Possible Solutions

Creation of an equilateral and collaborative approach for Debt Restructuring

An internationally consistent and more predictable framework of sovereign debt restructuring is required in this regard with a view to mitigating the challenge of creditor fragmentation. Currently, sovereign debt restructuring is often a time-consuming negotiation process owing to the varying rules and procedures applied by official bilateral creditors, other private creditors and emerging market creditors. Thus, better coordination and rules could ensure the timely consolidation of the economy of the debtor nations. This could be triggered through multilateral institutions like the G20, IMF, and the World Bank through increased coordination platforms and agreed-upon procedural standards, which would cut the time used to achieve restructuring outcomes and lessen economic uncertainty for debtor states. However, such a framework is still not easy to implement due to differences in creditor interests and the lack of binding rules that govern all creditors.

Use of Standardized Debt Reporting Frameworks

Improving debt transparency is greatly beneficial for the avoidance of excessive debt burdens and the establishment of trust between debtors and creditors through the application of standardized debt reporting structures. Debt issues have been a challenge in the development of emerging countries

⁶⁶ “Multilateral Debt Relief Initiative (MDRI).” International Monetary Fund, <https://www.imf.org/external/np/exr/mdri/eng/index.htm>. Accessed 27 Dec. 2025.

that have lacked transparency in their loan agreements and debt information. Such issues can be resolved through the improvement of the dissemination of debt data and the application of standardized debt reporting structures. In addition, the improvement of debt data transparency is beneficial in the analysis of the risks involved. National governments can initiate the implementation of the standardized debt reporting structures with the technical support of international financial institutions, as the issue of accountability will be resolved through the improvement of the confidence levels of the creditors.

The Use of Innovative Debt Instruments

In addition, innovative debt instruments can facilitate the alignment of debt relief and development. This can be achieved through debt-for-development swaps and state-contingent bonds. These instruments enable countries to devote more attention to investment while reducing pressures associated with the repayment of debt. However, the application of these debt instruments requires certain guidelines. Such measures would be facilitated by cooperation among the debtor governments, multilateral lenders, and private creditors within internationally endorsed frameworks that open up more fiscal space for development while maintaining creditor participation.

Enhancing Domestic Debt Management and Financing Sustainability

To ensure debt sustainability for the longer term, there is a need to focus on effective debt management and financing sources within their own nations. Enhancing their institutional capacity and public financial management would enable nations to depend less on foreign borrowing for financial assistance. In addition to this, borrowing from multilateral institutions with lower interests for longer periods may enable nations to develop while minimizing debt risk. This can be made possible by domestic authorities, with the supporting role of development banks through capacity-building programs and fiscal reforms for stronger debt resilience, with reduced exposure to external shocks.

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