

Policy Briefing

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The Need for a Permanent Mechanism on Sovereign Debt Restructuring

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Recommendations

- Debt restructuring reform: South Africa and the AU should leverage their positions in forums such as the G20 to establish a global debt restructuring mechanism. This includes commissioning a feasibility study on automatic debt standstills and fair creditor participation to ensure that debt relief aligns with sustainable development and climate goals.
- Strategic alliances: To strengthen their bargaining power, member states facing surcharges or 'grey-listing' should form a 'Debtors Club'. Driven by regional blocs like ECOWAS and SADC, this alliance would mobilise global consensus on the need for this new mechanism.
- Financial sovereignty: African states are urged to transition from the 'big three' private US-based rating agencies to the African Credit Rating Agency. This shift is intended to harmonise standards and protect African economies from unregulated external credit assessments.
- Asset repatriation: The AU should spearhead a unified position on the urgent return of state assets, building on existing efforts by North African nations to ensure that no state can legally withhold another's resources.

Executive summary

This policy brief sets out a vision for a proposed sovereign debt restructuring mechanism, suggesting where and how it should be set up and what its underlying principles should be. The brief also examines the political barriers that are likely to present themselves and how these could be managed, with reference to what an African position should be. Finally, it provides key recommendations for the establishment of this mechanism.

The need for a permanent sovereign debt restructuring mechanism

Twenty years ago, the Jubilee Movement brought states together in a call for the cancellation of the foreign debts of the world's poorest countries. This same call has been revived, as many developing countries once again face rising debt challenges that have created fiscal constraints and limited their ability to undertake crucial government spending. While many countries already experience or are at risk of debt distress, governments are reluctant to pursue debt restructuring or to request other forms of relief, such as debt cancellation or a debt service freeze. This is due to fears of credit rating downgrades, currency depreciation and economic instability, which could be induced by a loss of investor confidence in the economy.

To address these challenges, it has been suggested that a global fiscal body is needed, possibly falling within the jurisdiction of the UN with the mandate to regulate public debt holders, private bonds and credit rating agencies, while also directing dispute resolution and data management processes.¹

There have been arguments for a similar regional body for Africa, housed at the AU, which would coordinate Africa's fiscal interests – especially in dealing with debt vulnerabilities and negotiating debt arrangements. An important building block in this process is the establishment of a debt restructuring mechanism, which is the focus of this policy brief.

This brief sets out a vision for the proposed debt restructuring mechanism, suggesting where and how it should be set up and what principles should underpin it. It also examines the political barriers that are expected to appear and how these could be managed, with reference to the position that Africa should adopt. The brief concludes with key recommendations for the establishment of the debt restructuring mechanism.

¹ UN Independent Expert on Debt, *Visit to Angola: Report of the Independent Expert on the Effects of Foreign Debt and Other Related International Financial Obligations of States on the Full Enjoyment of All Human Rights, Particularly Economic, Social and Cultural Rights*, Attiya Waris, A/HRC/58/51/Add.1 (2025).

Setting up the mechanism

The intended purpose of the debt restructuring mechanism is to enable fair dialogue between debtors and creditors, with the primary objective of minimising the burden carried and the costs incurred by indebted countries, which are usually low-income countries.² The mechanism would incorporate dispute resolution mechanisms and offer technical and logistical support for debt restructuring initiatives.³ This would prevent the long delays in debt resolution that have characterised debt restructuring processes and exacerbated the macroeconomic and developmental challenges faced by highly indebted countries.

To encourage debt resolution outcomes that are sensitive to the development needs of indebted countries, it is important that the debt restructuring mechanism and its processes are housed closer to the debtors than to the creditors. This arrangement, which deviates from the traditional setup of multilateral financial institutions (including the Bretton Woods institutions, which have been at the centre of debt relief efforts over the years), allows for stronger consideration and a better understanding of the economic challenges confronting debtor states.

The mechanism should have a continental outlook that considers the domestic realities of African countries. It should therefore be closely linked to the activities of the AU and African financial and fiscal institutions, including the [African Development Bank \(AfDB\)](#) and the [African Tax Administrators Forum \(ATAF\)](#). Additionally, the expertise of the UN Economic Commission for Africa should be leveraged, notably in the areas of macroeconomics, governance, economic development and planning, to ensure that the mechanism is aligned with the AU's Vision 2063.

What the mechanism would look like

A possible structure that the mechanism could adopt is the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative, which was created to offer the debt restructuring option to countries experiencing debt distress in the wake of the COVID-19 pandemic.⁴ Under the Common Framework, countries first enter into an agreement with the multilateral institution facilitating the debt restructuring, which provides creditors with the debt treatment targets to be met.⁵ Secondly, creditors provide financing assurances that must be approved by the institution.⁶ Thirdly, upon approval of

2 UNCTAD, *Sovereign Debt Workouts: Going Forward Roadmap and Guide*, UNCTAD/GDS/DDF/2015/Misc.1 (2015).

3 UNCTAD, *Sovereign Debt Workouts*.

4 G20 International Financial Architecture Working Group, *Common Framework: Lessons Learned and Ways Forward* (G20 Brazil 2024, 2024).

5 Paris Club, "The G20 Common Framework for Debt Treatments beyond the DSSI", Paris Club, 2024.

6 Paris Club, "The G20 Common Framework"; G20 IFA Working Group, *Common Framework*.

the financing assurances, the two parties negotiate the terms of the restructuring, which are formalised in a signed memorandum of understanding.⁷ This is then incorporated into legally binding treaties between the debtor country and each creditor.⁸

The current debt restructuring process needs additional incentives to promote creditor participation,⁹ and these incentives should be reflected in the new mechanism. While some steps taken under the Common Framework have improved coordination among official creditors, the approach remains reliant on voluntary cooperation and comparability of treatment. This means that for some creditors – especially private and non-traditional official lenders – there are few immediate benefits or protections to offset risks and losses. To address this problem, further incentive mechanisms could be developed to maximise participation and ensure a broader and more equitable debt-treatment process, with possible additional incentives. These include credit enhancements, clearer protections or contractual innovations like value recovery instruments or collective action clauses.

The new mechanism must also be accompanied by an enhanced early-warning system, supported by both creditors and the international institution in question. This is important as some post-default restructurings can be avoided through the introduction of better early-warning systems that help countries to avert impending crises and embark on pre-emptive debt restructuring.¹⁰ The permanent mechanism should therefore be applicable both as a pre-emptive and as a post-default restructuring mechanism. In this regard, it should be adaptive to the many domestic realities faced by African countries and how these domestic realities can trigger defaults and plunge countries into debt distress. A key requirement is therefore to ascertain whether the mechanism should, at any given time, be applied pre-emptively or post-default.

Foundational principles

The mechanism should be based on the principles of fiscal legitimacy, in addition to relevant human rights principles.¹¹ The principles of fiscal legitimacy include justice, fairness, transparency, accountability and responsibility, as well as efficiency and effectiveness.¹²

7 G20 IFA Working Group, *Common Framework*.

8 Paris Club, "The G20 Common Framework"; G20 IFA Working Group, *Common Framework*.

9 Sean Hagan, "Sovereign Debt Restructuring: The Centrality of the IMF's Role" (Working Paper 20-13, Peterson Institute for International Economics, 2020).

10 Tamon Asonuma and Christoph Trebesch, "Sovereign Debt Restructurings: Preemptive or Post-Default", *Journal of the European Economic Association* 14, no. 1 (2016): 175–214.

11 UN Independent Expert on Debt, *Fiscal Legitimacy through Human Rights: A Principled Approach to Financial Resource Collection and Allocation for the Realization of Human Rights – Report of the Independent Expert on the Effects of Foreign Debt and Other Related International Financial Obligations of States on the Full Enjoyment of All Human Rights, Particularly Economic, Social and Cultural Rights*, A/HRC/55/54 (2024).

12 Attiya Waris, *Financing Africa* (Langaa RPCIG, 2019); Attiya Waris, "Developing Fiscal Legitimacy by Building State-Societal Trust in African Countries", *Journal of Tax Administration* 4, no. 2 (2018): 103–118; Attiya Waris, "Towards an African and Kenyan Philosophy of Fiscal Legitimacy", *Journal on Financing for Development* 1, no. 1 (2019).

- **Justice:** The UN Principles for Sovereign Debt Restructuring Processes.¹³ More specifically, these principles involve the following: the sovereignty of debtor states to be maintained in the design of their macroeconomic policies; sovereign debtors and their creditors to demonstrate good faith; all parties to the restructuring arrangement to act openly and transparently; those involved in the restructuring to remain impartial; all interested parties to be afforded equitable treatment; sovereign states to enjoy immunity from foreign jurisdiction and judgments; the legitimacy of all aspects of the restructuring to be assured; the restructuring solution to be a sustainable one; and the restructuring deal to be agreed by a majority of creditors.¹⁴ In addition, the UN Conference on Trade and Development's (UNCTAD) roadmap and guide for sovereign debt arrangements provide for debtor states to include collective action clauses, dispute resolution clauses, and clauses on suspension of payments and stays on litigation in their debt instruments.¹⁵
- **Fairness.** Where a sovereign borrower cannot service its debts, lenders are required to act in good faith and cooperate in order to swiftly restructure the parties' obligations.¹⁶
- **Transparency.** Debtors are required to communicate with their creditors in good time should a restructuring become unavoidable.¹⁷ This will be met with corresponding demands for financial institutions to get involved in debt renegotiations. Firstly, debtors should ensure that, up front, negotiators are fully transparent regarding their negotiating position, including any demands they may have regarding fiscal policy decisions.¹⁸ Secondly, financial institutions should support progressive revenue-raising. At a minimum, international financial institutions should explicitly commit to not including any restrictions on progressive revenue-raising policies in their own negotiating positions. Thirdly, these negotiating positions should be informed by evidence.
- **Accountability.** Country negotiators should not accept restrictions on their countries' ability to raise revenues in the future.¹⁹ They should also not be pressured to tilt revenue-raising towards regressive tax measures such as VAT or progressive tax measures such as wealth taxes and excess profit taxes. Furthermore, country negotiators should resist pressure to not use fiscal space to protect human rights through inclusive public spending.
- **Responsibility.** UNCTAD's Principles on Promoting Responsible Sovereign Lending and Borrowing hold that debt restructuring is a responsibility borne by both lenders and sovereign borrowers.²⁰

13 Martin Guzman and Joseph E Stiglitz, "A Soft Law Mechanism for Sovereign Debt Restructuring: Based on the UN Principles" (International Policy Analysis, Friedrich Ebert Stiftung, 2016.)

14 UN General Assembly, Basic Principles on Sovereign Debt Restructuring Processes, A/RES/69/319 (September 10, 2015).

15 UNCTAD, Sovereign Debt Workouts.

16 UNCTAD, *Principles on Promoting Responsible Sovereign Lending and Borrowing*, UNCTAD/GDS/DDF/2012/Misc.1 (2012).

17 UNCTAD, *Principles on Promoting Responsible*.

18 Attiya Waris, "Letter from the Independent Expert to President of the UN General Assembly", July 17, 2023.

19 Waris, "Letter from the Independent Expert".

20 UNCTAD, *Principles on Promoting Responsible*.

- **Efficiency and effectiveness.** The easiest and simplest way of collecting finance is by collecting large amounts from larger taxpayers, which would be the equivalent of collecting smaller amounts from hundreds of smaller taxpayers. The former collection approach is less costly and is a larger source of revenue.
- **International cooperation and assistance.** The Guiding Principles on Human Rights Impact Assessments of Economic Reforms call for the use of maximum available resources in the progressive realisation of human rights.²¹ This imposes an obligation on states to generate potential resources in a sustainable way, which requires their seeking international assistance and cooperation.²² An example of international assistance and cooperation would be financial and technical assistance, such as that obtained through debt restructuring.²³

In addition to the above fiscal legitimacy principles, debt restructuring should be anchored on a human rights framework, informed by the Guiding Principles on Foreign Debt and Human Rights (A/HRC/20/23),²⁴ and the human rights principle of international cooperation and assistance.

Circumventing potential political barriers

The political barriers to establishing the debt restructuring mechanism are most likely to take the form of resistance by some stakeholders who prioritise the security of their wealth over the needs of states and ordinary people. Conflicts of interest will also be a key factor, as will be the divergent interests of different sovereigns based on their debt contexts.

However, shared sovereign debt contexts, such as the 22 countries that are liable for surcharges,²⁵ may provide support for this mechanism. Similarly, the 26 countries that are grey- or black-listed and are struggling to access affordable funds²⁶ are likely to have a

21 UN Independent Expert on Debt, *Report of the Independent Expert on the Effects of Foreign Debt and Other Related International Financial Obligations of States on the Full Enjoyment of All Human Rights, Particularly Economic, Social and Cultural Rights*, Cephos Lumina Guiding Principles on Human Rights Impact Assessments of Economic Reforms, A/HRC/40/57 (2018).

22 UN Independent Expert on Debt, *Debt Relief, Debt Crisis Prevention and Human Rights: The Role of Credit Rating Agencies Report of the Independent Expert on the Effects of Foreign Debt and Other Related International Financial Obligations of States on the Full Enjoyment of All Human Rights, Particularly Economic, Social and Cultural Rights*, A/HRC/46/29 (2021).

23 UN Independent Expert on Debt, *Debt Relief, Debt Crisis Prevention*.

24 UN Independent Expert on Debt, *Report of the Independent Expert on the Effects of Foreign Debt and Other Related International Financial Obligations of States on the Full Enjoyment of All Human Rights, Particularly Economic, Social and Cultural Rights*, Cephos Lumina Guiding Principles on Foreign Debt and Human Rights, A/HRC/20/23/Corr.1 (2012); UN Independent Expert on Debt, *Report of the Independent Expert on the Effects of Foreign Debt and Other Related International Financial Obligations of States on the Full Enjoyment of All Human Rights, Particularly Economic, Social and Cultural Rights*, Cephos Lumina Guiding Principles on Foreign Debt and Human Rights, A/HRC/20/23 (2012).

25 [Argentina](#), [Ecuador](#), [Egypt](#), [Angola](#), [Ukraine](#), [Mongolia](#), [Gabon](#), [Tunisia](#), [Barbados](#), [Jordan](#), [Pakistan](#), [Armenia](#) and [Georgia](#) are among those identified as having loans above the threshold for surcharges. [Benin](#), [Côte d'Ivoire](#), [Kenya](#), [Moldova](#), [North Macedonia](#), [Senegal](#) and [Sri Lanka](#) began paying surcharges in 2024–2025.

26 The progress of the following countries has been reviewed by the FATF since February 2025: Angola, Bulgaria, Burkina Faso, Cameroon, Côte d'Ivoire, Croatia, Democratic Republic of Congo, Haiti, Kenya, Mali, Monaco, Mozambique, Namibia, Nigeria, South Africa, South Sudan, Tanzania, Venezuela and Vietnam. Algeria, Lao PDR, Lebanon, Nepal, Syria and Yemen chose to defer reporting.

shared interest in pushing for the adoption of this mechanism. Countries seeking to have state assets repatriated are also likely to support such an initiative.²⁷

There is a three-step solution: one, form an alliance of states; two, gain clarity on their shared sovereign debt challenges; three, gain support for the position of a free trade area. If we add in the current push towards an African credit rating agency, coupled with African transaction points (a SWIFT alternative), this will go a long way towards unifying data on the continent. In the case of disputes, we would ensure the selection of judiciaries that are equipped to manage disputes, like the COMESA Court and the African Court system, as well as regional judicial mechanisms and parliaments already in place, thereby laying the foundation for a full regional fiscal framework.

To form this alliance, regional trading blocs may need to provide benchmarking frameworks with data on the various challenges facing different countries across the continent. The similarity of these challenges would allow for a more harmonised approach to international lobbying, as well as collaboration and technical support between countries dealing with political resistance. This would also form the basis for the adoption of international or regional best practices, such as reciprocal treatment extended to high-net-worth individuals who may seek to circumvent systems in one country by moving their assets or relocating entirely to a different country within the region or a trading bloc.

Moving towards the establishment of the mechanism

Action 1: The G20 should set in motion the establishment of the mechanism

Following its leadership of the G20 in 2025, South Africa should use future presidencies to strongly recommend that the G20 commit to establishing a global debt restructuring mechanism that addresses the limitations of the current Common Framework. It should also ensure timely, predictable and comprehensive debt solutions for all developing countries in distress, especially in Africa. In this regard, an independent feasibility study should be commissioned to assess the feasibility of efforts such as automatic debt standstills, group negotiations, fair creditor participation and close alignment between debt relief and development goals, so that future debt crises do not derail progress on sustainable development and climate priorities.

Action 2: The AU should maintain the push for the mechanism in the G20

The AU, as a permanent member of the G20, should champion the establishment of a global debt restructuring mechanism designed to ensure the timely, fair and effective

²⁷ CAPAR (the Common African Position on Asset Recovery) argues that the victims should not be held responsible for the return of stolen assets. States seen to hold assets include Switzerland, Luxembourg and the Cayman Islands.

treatment of sovereign debt among African countries. With its new G20 platform, the AU is uniquely positioned to mobilise global consensus around reforms that enshrine predictability, inclusivity and development safeguards in future debt arrangements, guaranteeing that African development priorities remain at the forefront – even during fiscal crises.

Action 3: Debtors Club/Sponsoring States Alliance

It would be useful to link member states that are about to pay surcharges and get them to join the call for the mechanism. If these countries align with the states that have been grey-listed by the OECD, EU and FATF, it would create a stronger alliance in the push for the mechanism, especially in setting up a Debtors Club, as already agreed at the fourth International Conference on Financing for Development (FfD4) in Seville. This initiative may be driven at the level of regional trading blocs, such as the East African Community, Common Market for Eastern and Southern Africa (COMESA), ECOWAS and SADC, that have the wherewithal to pool their members and strengthen the push for an alliance.

Action 4: Use of the African Credit Rating Agency

All states should urgently submit data to the African Credit Rating Agency and stop using the ‘big three’ credit rating agencies – Moody’s, S&P Global and Fitch Ratings. The latter are all private companies based in the US and are unregulated by any legal authority globally. The AU should encourage the uptake of the African Credit Rating Agency’s services among its members in a drive towards a harmonised standard and (potentially) the fulfilment of Agenda 2063.

Action 5: Establishment of an African position on the repatriation of state assets

State assets ought to be returned as a matter of great urgency. No state should be allowed to withhold the assets of another state, which is in line with the Draft Guideline on the Repatriation of State Assets. Egypt, Morocco, Tunisia and Libya are already pursuing this approach, and other AU member states could adopt it. The Africa Group supported these guidelines when presented at the Human Rights Council and so the adoption of an African position could gain traction quite swiftly. The AU should mobilise its members to support this initiative and, by leveraging its position in the G20, also mobilise international support.

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