

Development Reimagined Submission: Review of the Bank-Fund Debt Sustainability Framework for Low- Income Countries

Question 1: Views on the Main Reform Proposals

DR welcomes the proposed reforms to the LIC-DSF, particularly the clearer distinction between public debt stress and debt sustainability, the proposed domestic debt risk module, the long-term module, and the greater granularity of “High Risk” ratings by time horizon and vulnerability type. These are meaningful improvements. However, DR’s view is that the reforms do not yet address the deeper structural issue: the continued bifurcation of sovereign debt sustainability analysis into separate regimes for low-income countries and market-access countries.

The DSA should apply to all sovereigns through one common framework, not through a separate LIC architecture. This does not mean applying identical thresholds to all countries. It means applying one common analytical spine, with differentiated calibration and country-specific modules activated by actual risk characteristics. Debt risk is not determined by income classification alone. It is shaped by financing structure, creditor composition, currency exposure, domestic debt market depth, refinancing risk, export capacity, fiscal revenue capacity, climate vulnerability, and the productivity of public investment. Many African low-income and lower-middle-income countries now combine concessional borrowing, non-concessional bilateral finance, domestic debt issuance, guarantees, PPP commitments, and varying degrees of market access. The relevant risks are therefore continuous and overlapping, not neatly divided by income or concessional-financing eligibility.

The review should not only align the LIC-DSF more closely with the MAC-SRDSF. It should identify a path towards a universal sovereign DSA framework. The current bifurcation creates methodological asymmetry and the risk of “graduation cliffs.” Countries do not suddenly acquire a new debt structure when they cross an income, IDA, or PRGT eligibility threshold. Their risks evolve gradually, and the analytical framework should evolve gradually as well. A universal framework would assess all sovereigns through comparable principles, while activating modules according to each country’s actual profile.

This matters because some LIC-DSF metrics have limited evidential basis, are applied unevenly across country groups, or can reinforce development models that leave African economies structurally exposed. Indicators that place heavy weight on exports and external debt-service ratios are relevant for assessing foreign-exchange repayment capacity, but they can also produce a narrow view of sustainability. If repayment capacity is assessed mainly through existing export earnings, countries may be implicitly encouraged to maintain a model based on primary commodity exports and imports of higher-value finished goods. That model exposes countries to commodity price volatility, trade shocks, repeated liquidity pressures, and macroeconomic management challenges.

The framework’s own disclosed performance should also be central to the review. The Background Note indicates that, since the 2018 rollout of the LIC-DSF, more than one-third of

LIC-DSF users have been rated “High Risk” in a given year, while the two-year-ahead probability of debt distress conditional on that rating has been approximately 5 percent. Put differently, roughly 95 percent of High Risk ratings have not been followed by debt distress within the relevant two-year horizon. DR recognises that early-warning tools for rare events will generate a high rate of non-realisation. The concern is that a precautionary signal can become a mechanical input into lending decisions, pricing, grant allocation, and creditor behaviour. If such a signal is interpreted as a near-term default probability, it can raise borrowing costs, shorten maturities, reduce financing access, and worsen the debt dynamics it is meant to assess. DR therefore recommends that the review quantify the financing costs associated with High Risk classifications, disaggregated by region and income group, alongside the benefits of the precautionary signal.

DR is also concerned that the proposed refinement to the Composite Indicator of Debt-Carrying Capacity risks building a circular penalty into the framework. The proposed variable capturing exposure to global macro-financial conditions uses the interaction between the interest rate on newly contracted external loans and the share of external debt in total public debt. If external borrowing costs are elevated because of market risk premia, misperception, or regional bias, incorporating them directly into the DCC calculation risks transmitting market mispricing into assessed debt-carrying capacity. A weaker DCC classification can then lower applicable thresholds, increase the likelihood of a High Risk rating, and contribute to further elevated borrowing costs. The review should test this variable for circularity and consider safeguards such as fundamentals-adjusted borrowing costs, regional benchmarks, or winsorised market-cost inputs.

The proposed debt data confidence flag is welcome, but it should distinguish among capacity constraints, governance failures, and creditor-side opacity. Many African countries face debt data limitations rooted in statistical capacity constraints, not unwillingness to disclose. A confidence flag that does not distinguish incomplete data caused by weak statistical systems from incomplete data caused by governance failures risks penalising countries for reasons unrelated to creditworthiness. It should also recognise that debt data gaps can be generated by creditors through confidentiality clauses, fragmented commercial creditor reporting, collateralised lending structures, and inconsistent disclosure practices.

The domestic debt module should be balanced. DR supports closer analysis of rollover pressure, crowding out, banking sector concentration, and domestic interest costs. However, the shift towards domestic borrowing should not be treated only as a vulnerability. Reduced reliance on foreign-currency external debt can lower exchange-rate exposure and vulnerability to sudden stops in international capital markets. Domestic debt can also deepen local capital markets, lengthen the domestic yield curve, broaden institutional investor participation, and strengthen financial sovereignty. The framework should distinguish domestic debt that increases rollover and crowding-out risk from domestic debt that supports market development and reduces external vulnerability.

A further limitation is that the DSA remains too liability-focused. It assesses debt stocks and debt service, but does not adequately account for the assets, productive capacity, resilience, or natural capital that debt may create or preserve. Debt-financed investment in energy systems, transport

corridors, ports, digital infrastructure, irrigation, renewable energy, clean transport, and climate-resilient infrastructure can raise productivity, lower business costs, support job creation, facilitate trade, reduce import dependence, improve competitiveness, and strengthen future revenue mobilisation. Yet the DSA often captures the liability immediately while treating the development return as uncertain, delayed, or outside the core signal.

DR therefore recommends that the revised framework include a productive-asset lens. Where debt finances assets with measurable economic, fiscal, trade, employment, or resilience benefits, the DSA should assess not only the debt service profile but also the expected contribution of the asset to repayment capacity. This should include effects on domestic revenue, foreign-exchange generation, import savings, productivity, employment, and climate resilience where feasible. The purpose is to distinguish debt that finances fragility from debt that builds future capacity.

The same principle applies to natural capital. Many African countries hold substantial natural capital, including biodiversity, forests, wetlands, water systems, minerals, land, and ecosystem services. Maintaining these assets can strengthen long-term economic potential, resilience, and fiscal capacity. DR is not proposing that natural capital be treated as a simple substitute for revenue or foreign exchange, nor that it be used to justify unsustainable borrowing. But complete exclusion of natural capital from debt sustainability analysis is analytically incomplete. A sovereign balance sheet includes liabilities, but it also includes produced assets, human capital, natural capital, and future productive potential. The IMF and World Bank should therefore develop a supplementary balance-sheet module for asset creation, productive-capacity expansion, climate resilience, and natural capital maintenance.

Climate adaptation investment requires a specific safeguard. If adaptation investment raises debt ratios in the near term, it should not mechanically worsen the headline risk signal where the investment credibly reduces future losses and fiscal exposure. Otherwise, climate-vulnerable countries may be penalised for making precisely the forward-looking investments the international community encourages. The final framework should clarify how avoided future losses are reflected in the assessment and should include a stated safeguard that credible adaptation investment does not mechanically trigger adverse risk classifications.

In summary, the proposed reforms move in the right direction but remain too limited. They improve the LIC-DSF while retaining a bifurcated architecture that no longer reflects the realities of sovereign financing. DR recommends a universal sovereign DSA framework with one common analytical spine, differentiated calibration, and modular diagnostics based on actual risk characteristics. The framework should be more careful about circularity, more balanced in its treatment of domestic debt, and more complete in its recognition of asset creation, productive capacity, climate resilience, and natural capital.

Question 2: Analytical Rigour and Ease of Use

The proposed reforms improve analytical rigour in important respects, particularly through the separation of public debt stress from debt sustainability, the introduction of a domestic debt risk module, the long-term module, and the proposed granularity of “High Risk” ratings by time horizon and type of vulnerability.

However, the balance between rigour and ease-of-use is not yet right. The framework remains complex and adds new diagnostics while retaining a bifurcated architecture between the LIC-DSF and the MAC-SRDSF, even though many LICs now have financing structures that resemble market-access countries. A simpler and more rigorous approach would be one universal sovereign DSA framework, with differentiated calibration and modules activated by actual risk characteristics rather than country income category.

We are also concerned that some proposed metrics may create circularity or misleading signals. For example, incorporating external borrowing costs into debt-carrying capacity may transmit market risk premia into the framework, producing a weaker classification that can itself raise future borrowing costs. Similarly, domestic debt should not be treated only as a vulnerability; where it deepens local capital markets and reduces foreign-exchange exposure, it can also strengthen resilience.

Finally, the framework remains too liability-focused. It should account more explicitly for asset creation, productive capacity, climate adaptation, and natural capital maintenance where borrowing strengthens future repayment capacity. The final framework should be more universal, more balance-sheet aware, and more careful about mechanical signals that can shape financing conditions.

Question 3: Additional Feedback

The Proposed Granularity of “High Risk” Ratings Is a Genuine Improvement and Should Inform Downstream Use

We strongly support the proposed introduction of granularity within the “High Risk” rating by time horizon and type of vulnerability. This directly addresses a concern we have raised in other contexts: that conflating near-term default risk with long-term structural vulnerability under a single rating category obscures more than it reveals and can lead third parties to treat a country facing only long-term, distant risk in the same manner as one facing acute near-term distress.

Given the downstream use of LIC-DSF ratings described above, we ask that the IMF and World Bank actively encourage MDBs, rating agencies, creditors, and other institutions that reference LIC-DSF outputs in their own lending or rating decisions to adopt the granular, disaggregated rating rather than the single headline “High Risk” flag.

The granularity reform will only address the self-fulfilling prophecy concern we raise if it is actually used by the institutions whose decisions create the downstream effects. If third parties continue to treat all High Risk ratings alike, then the reform will improve internal analytical nuance without changing the financing consequences faced by borrower countries.

We therefore recommend that the final Guidance Note include explicit guidance on external communication of granular risk ratings, including clear distinctions between liquidity and solvency risk, near-term and long-term risk, external and domestic debt stress, and vulnerability versus unsustainability.

Previous Published Work

For further background on Development Reimagined's position on debt sustainability, see: [Breaking the Bias: Rethinking Debt Sustainability for Africa's Future](#).