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DEVELOPMENT REIMAGINED · HIGH-LEVEL PANEL · BANGKOK, 15 OCTOBER 2026

From the Common African Position on Debt to a Reform Agenda for the DSF

Status of the DSF Reform Process

The LIC-DSF reforms were approved in September and will apply to country assessments from the second half of 2027.

1

The details are still open

Staff will now draft the guidance note, update the templates and train country teams. That is where many of the practical choices will be made.

2

The CAP gives a clear brief

The CAP is a political document, but it says a good deal about how debt sustainability should be assessed.

3

Five proposals follow

Each sets out what should change, which institutions would need to act, and by when.

The reforms are approved, but the guidance note that decides how they apply is still being written.

WHY IT MATTERS

Why the DSF matters for African countries

African countries hold most of the high-risk ratings, and markets often read those ratings as more than an early warning.

SHARE OF HIGH-RISK RATINGS

21 of 33

countries rated high risk or in debt distress under the LIC-DSF are African.

Africa accounts for 38 of the 67 rated countries, and 7 of the 9 in debt distress.

HIGH-RISK RATINGS AND DISTRESS

~5%

of high-risk ratings since 2005 were followed by debt distress within two years.

A high-risk rating is an early warning, not a forecast of default, but markets often price it as one.

BORROWING COSTS

8.2%

effective interest rate on African debt in 2024, up from 5.4–6.3% in 2008–19.

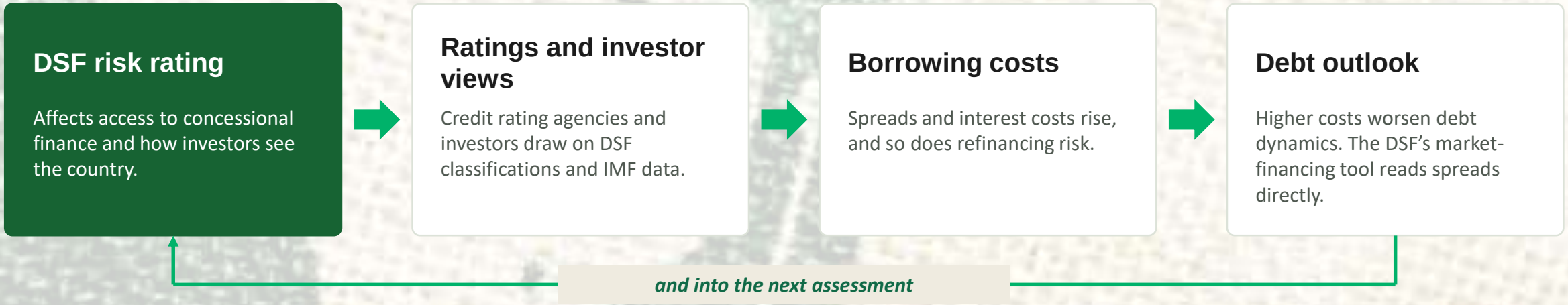
The CAP links the rise in part to how debt sustainability and credit risk are assessed.

How the DSF classifies a country affects what it pays to borrow.

Sources: IMF, List of LIC DSAs for PRGT-eligible countries (as of 30 Sep 2025)

How DSF ratings and borrowing costs affect each other

The CAP traces high borrowing costs partly to how debt sustainability and credit risk are assessed.



WHAT THE CAP SAYS

High borrowing costs are "rooted in asymmetries in debt sustainability assessments, sovereign credit ratings and perceived investment risks, with inflated interest rates driven more by perception than fundamentals."

WHAT THE REVIEW KEPT

The market-financing pressures tool "will be retained with a focus on risk signals from sovereign spreads." Any premium in those spreads therefore enters the DSF.

Credit rating methods are for the panel to take up. Our proposals focus on the DSF.

Sources: CAP on Debt (AU, Feb 2026), p.7; IMF–World Bank Board paper on the LIC-DSF review (Sep 2026).

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CAP Position on the DSF

Five principles DR draws from the CAP (February 2026) and the Lomé Declaration (May 2025).

1

Account for what borrowing builds

Existing tools "often constrain critical investments in human capital, infrastructure, and climate resilience"; debt should finance sectors "enhancing revenue generation".

CAP P1(c)(ii); P2(b)(i)

2

Don't penalise prudent debt management

Local-currency issuance, debt swaps and climate pauses "should not be penalized by surveillance mechanisms such as the Debt Sustainability Analysis".

CAP P2(a)(ix)

3

Take country context into account

A shift towards "politically pragmatic, context-sensitive approaches that go beyond technical rigidity".

CAP P1(c)(ii); Lomé ¶17

4

Recognise the cost of inaction

Security, health and climate spending to be "better accounted for" by "recognizing the cost of inaction".

Lomé ¶23

5

Base risk on fundamentals

Interest rates "driven more by perception than fundamentals", rooted partly in "asymmetries in debt sustainability assessments".

CAP drivers A(i)

These principles are specific enough to measure the September reforms against.

P = CAP pillar, letter = section, numeral = paragraph. CAP on Debt, adopted at the AU Summit, Feb 2026; Declaration of the AU Conference on Debt, Lomé, 14 May 2025.

Changes introduced by the recent DSF reform

The first review since 2017, approved by both Boards in September 2026. It applies to DSAs after the 2027 summer recess.

CHANGED

Stress vs sustainability	Risk of public debt stress now assessed separately from whether debt is unsustainable, using a probability model
Domestic debt	A new module, with diagnostics and realism checks on domestic financing
Long-term module	Climate risks, resilience costs and development needs over longer horizons
Thresholds	Recalibrated, and extended to overall public debt
Debt-carrying capacity	Output volatility added; world growth dropped
Process	More structured judgement, a data-confidence flag and wider realism checks

UNCHANGED OR WITHHELD

- Four risk categories: low, moderate, high, in debt distress
- 5% discount rate; CPIA still part of debt-carrying capacity
- Market-financing tool still uses sovereign spreads
- Probability cut-offs and mechanical signals not published for now

The analysis is broader, but the four risk categories are unchanged.

Sources: IMF Press Release 26/296 (21 Sep 2026); IMF–World Bank Board paper on the LIC-DSF review (Sep 2026).

ASSESSMENT

What gaps did the review close?

How much the new analysis changes country ratings will depend on implementation.

CAP principle	What the review did	What is still missing	Assessment
1 Account for what borrowing builds	Long-term module on climate and development needs	No mechanical signal; affects final assessments only through judgement	PARTLY
2 Don't penalise prudent debt management	Debt stress assessed separately from unsustainable debt	No explicit credit for early reprofiling, swaps or local-currency issuance	PARTLY
3 Take country context into account	Judgement more structured and documented	Guidance on when country evidence can change a rating still to be written	PARTLY
4 Recognise the cost of inaction	Long-term module covers resilience and development needs	Ratings still driven by medium-term thresholds and stress tests	PARTLY
5 Base risk on fundamentals	Not addressed	Spreads still feed the DSF; categories unchanged; signals unpublished	NOT YET

The guidance note will decide how far the new analysis changes country ratings.

DR assessment against the CAP on Debt; reform details from the IMF–World Bank Board paper on the LIC-DSF review (Sep 2026).

Sovereign spreads feed the DSF by design

The retained market-financing pressures tool reads sovereign spreads as a risk signal.

1

DSA assessment

Category, assumptions and published judgment

2

Market interpretation

Ratings, investor mandates and sentiment

3

Financing terms

Yield, rollover access, currency and tenor

4

Future debt path

Debt service, reserves and fiscal space

EVIDENCE TEST

How much of that spread reflects fundamentals, and how much reflects mispricing?

A risk label needs a diagnostic profile

The revised framework can distinguish immediate pressure from repayment capacity over time.

Liquidity	Near-term financing needs, reserves and refinancing exposure
Solvency	Debt-service path against revenue and foreign-exchange capacity
Domestic debt	Rollover concentration, sovereign-bank links and market depth
Uncertainty	Probability, time horizon and adverse scenarios

Publish this profile alongside the headline assessment and explain the judgment behind it.

TECHNICAL ASK 2

Investment changes repayment capacity

The long-term module should test what borrowing finances and the cost of deferring investment.

THE OBLIGATION

Debt service, currency risk, maintenance and contingent liabilities

CAPACITY CREATED

Productivity, fiscal revenue, export earnings and resilience to shocks

SCENARIO TEST

Delivery delays, cost overruns and the cost of inaction

Keep the full debt obligation in every scenario. Test the assets and repayment capacity the borrowing may create.

Transparent assumptions and African scrutiny

Borrowers should be able to reproduce and challenge material judgments.

INDICATOR TEST	Publish tests of how CPIA and output volatility shift African ratings; show financing-cost and growth sensitivities.
RATINGS PRACTICE	Explain treatment of early liability management, local-currency finance and investment effects.
AFRICAN CAPABILITY	AU, AfDB and UNECA can pilot parallel assessments. APRM can lead ratings tests with AfCRA when operational.

Longer-term DR position: one universal DSA spine, with modules for actual financing structures.

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Proposals for the guidance note

Three changes that can be made before the revised framework applies in 2027.

1	**Count what borrowing builds**	FROM The long-term module informs judgement only; borrowing shows up as a cost, rarely as capacity.	TO **Keep the full obligation; test the revenue and FX it builds, allowing for delays, overruns and the cost of inaction.**	WHO · WHEN IMF/WB staff in the guidance note; AfDB and ECA evidence on returns. Before H2 2027.
2	**Publish a risk profile**	FROM One category has to carry every meaning; probability cut-offs and signals are withheld.	TO **Publish a short profile next to the category: liquidity, solvency, domestic debt, and probability by time horizon.**	WHO · WHEN IMF/WB staff in the guidance note; Boards to revisit publication, with AU support.
3	**Credit prudent debt management**	FROM Early reprofiling, or a shift to local-currency debt, can read as new risk.	TO **Stress tests recognise the lower FX and rollover risk of local-currency debt and climate clauses, and treat early reprofiling as prudent.**	WHO · WHEN IMF/WB templates; ALSF on loan clauses. 2027.

All three can go into the guidance note. Publishing the signals in full would need the Boards to revisit their decision.

Proposals on judgement and market signals

One that African institutions can start now, and one for the guidance note and the next review.

4 Explain judgement and test it

FROM

Judgement is now more structured, but its effect on ratings is hard to see, and the new indicators are untested.

TO

Each DSA shows where judgement changed the rating, with sensitivities to financing costs, growth and FX. AU, AfDB and ECA pilot DSAs in volunteer countries test the new guidance.

WHO · WHEN

IMF/WB staff on disclosure; AU, AfDB and ECA, with the Borrowers' Club, on pilots. Before H2 2027.

5 Check spreads against fundamentals

FROM

The market-financing tool uses sovereign spreads, which can include a premium that fundamentals do not explain.

TO

Show how much of a country's spread its fundamentals explain, and keep the unexplained part from driving the risk rating.

WHO · WHEN

IMF/WB staff; AfDB and ECA analysis of African spreads. Guidance note and next review.

African institutions can start the pilots now, without waiting for the guidance note.

What the CAP commits African countries to

The CAP pairs its requests with commitments that match what the revised framework looks for.

WHAT THE REVISED DSF LOOKS FOR	WHAT THE CAP COMMITS TO	
Better debt data the new data-confidence flag	A continental debt monitoring mechanism, with early warning on liquidity, solvency and reserve adequacy	P2(b)(vii)
Full debt coverage domestic debt and SOEs	Debt laws requiring parliamentary approval, debt limits and full disclosure of debt information	P2(b)(iii)–(iv)
Country-owned analysis regular DSAs and debt strategies	Timely DSAs, medium-term debt strategies and borrowing plans; a Borrowers' Club to share experience	P2(b)(v); P1(a)(iv)
Clear criteria in debt treatments where DSAs set the terms	A unified African term sheet, with clear debt sustainability criteria and transparent comparability metrics	P1(a)(vii)

African countries are offering better data and clearer rules, and asking that the data be assessed accurately.

CAP on Debt (Feb 2026). IMF Directors noted the data push "should not unduly penalize countries making good-faith efforts to improve debt data coverage" (PR 26/296).

TIMELINE

When African input can shape the reforms

The guidance note and templates will be drafted over the coming year. Anything that misses them waits for the next review.

WHO WOULD ACT ON EACH PROPOSAL

IMF & World Bank staff	Boards & African EDs	AUC and the AU at the G20	Borrowers' Club	AfDB & ECA	ALSF
1 · 2 · 3 · 4 · 5	2	2 · 4	4	1 · 4 · 5	3

Most of these institutions are represented here today.

FOR DISCUSSION

Five proposals for the panel

Offered as a starting point for the discussion.

1	**Count what borrowing builds**: keep the full obligation, test the returns	IMF/WB staff · AfDB · ECA
2	**Publish a risk profile**: liquidity, solvency, domestic debt, time horizon	IMF/WB staff · Boards · AU
3	**Credit prudent debt management**: local-currency debt, early reprofiling	IMF/WB staff · ALSF
4	**Explain judgement and test it**: sensitivities and African pilot DSAs	IMF/WB · AU · AfDB · ECA
5	**Check spreads against fundamentals**: in the market-financing tool	IMF/WB staff · AfDB · ECA

Longer term: DR has proposed a universal sovereign DSA, with one analytical spine and modules that reflect each country's actual financing.

For the panel: which of these matter most, which are feasible, and who should take them forward?