



From Debt to Growth: A Proposal for a Growth and Investment Reset



Executive Summary

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Purpose

This paper proposes a major initiative to seize a narrow window to act before low- and lower-middle-income countries (LLMICs) fall into deep debt distress – offering countries facing liquidity challenges from legacy external debt a pathway to growth, self-sufficiency, and private capital flows. It surges affordable financing to, and arrests outflows from, countries with high ambition with respect to investing in their own development and putting their economies on a sustainable path.

This initiative is not a replacement for efforts to make long overdue improvements to the debt restructuring process. These will remain crucially important to the small number of countries that require imminent restructuring. Instead, this initiative would serve the larger group of countries that face acute liquidity and financing challenges, but could return to sustainability with dedicated support for growth.

Problem

Any agenda that aims to support growth and a transition to country-led, private sector and domestic resource-financed development will fail without a solution to acute liquidity and financing pressures. Developing countries are struggling with unprecedented interest burdens that crowd out essential investments. Without urgent action, this will get worse: a wall of Covid-era, low-cost external borrowing is coming due just as borrowing costs have skyrocketed. Particularly with advanced economy borrowing rates above five percent, many developing countries face a stark choice: make further sharp cuts to spending at significant cost to growth and human lives, or finance government deficits and amortizations via exorbitant private borrowing that is likely to lead to eventual default.

A Proposed Reset

To draw a line under historically-high debt service burdens built up over successive shocks, we propose a Growth and Investment Reset. The Reset surges affordable, long-term financing and halts net outflows to bilateral creditors – all at limited cost to donors. The Reset gives countries committed to a country-led growth and investment agenda the support and time needed to build the macro foundations for private investment and self-sufficiency. In doing so, it recalibrates ambition from stabilization to sustained growth.



The Reset forms a grand bargain among key stakeholders:

1. **International Monetary Fund (IMF) and World Bank Group financing surge**

Reset participants receive a package of long-term affordable support, on top of regular lending. A dedicated IMF facility provides the necessary foundation for macroeconomic stability, while coordinated World Bank policy lending and guarantees create room for growth-enhancing investments. New financing needs to be additional and significant to be impactful. Recognizing constrained fiscal space in donor countries, the Reset uses policy changes and innovative mechanisms to create new concessional resources at very low cost to donors.

2. **Bilateral official creditors**

In exchange for the surge of international financial institution (IFI) support – which improves the odds of repayment – bilateral creditors agree to avoid net withdrawals from Reset countries for the program's duration, extending maturities as needed.

3. **Private creditors**

The Reset leverages scaled-up multilateral development bank (MDB) policy-based guarantees, enabling liability management operations to refinance loans from private creditors in cases where debt is unsustainably expensive. This is an opportunity to systematize and consolidate the most effective MDB tools being developed on private sector liability management. The Reset will also set expectations that participants will take measures to keep debt sustainable in the future – for example, via pause clauses and clearer limits on expensive borrowing while in the program.

Who could benefit?

Working with technical partners, we have identified about 40 LLMICs that could be potential Reset participants. These countries face acute liquidity pressures and/or have insufficient financing available for investment. At the same time, they have sustainable debt levels. The Reset would not be a replacement for debt restructuring: the few countries needing it would restructure to manageable levels before accessing the initiative. The Reset's growth-focused branding will help it to avert the perceived stigma that has made previous debt initiatives unpopular with potential participants. The popularity of a similar (but smaller and less transformative) post-Covid IMF facility suggests broad uptake.

From Debt to Growth:

Why Action on Liquidity Is Needed Now



Developing countries face an imminent crisis.

But the nature of the crisis is different from past large-scale debt initiatives and requires a different solution. In most cases today, debt stocks are generally considered by the IMF to be sustainable. For example, external debt stocks (53% of GDP and 194% of exports) across the vast majority of developing countries are substantially lower than pre-Heavily Indebted Poor Country (HIPC) treatment averages (91% of GDP and 603% of exports).¹ Only five countries exceed pre-HIPC averages – the same countries that will likely need a near-term restructuring.

Given only a handful of clear candidates, there is not a sufficiently strong case to overcome likely resistance from borrowing countries and creditors to a new class-based initiative focused on debt write-downs. Importantly, borrowers are not lining up for a restructuring. The process is slow and painful: the average duration has surged to 2.5 years, up from just one year in 2014-2020. Moreover, borrowers will not willingly accept mandatory private sector involvement because of the associated stigma and loss of market access. The G20 should continue to press for long-overdue improvements to the debt restructuring architecture to help countries that ultimately fall into debt distress, though with the recognition that at this point the process impacts only a handful of countries.



A crisis of cash flow and fiscal space.

The data point instead to a different financing crisis affecting a large number of countries. Interest payments consume an unprecedented portion of national budgets, eclipsing public investment and essential spending on human capital. Interest payments now exceed 10% of revenue on average in developing countries, over double pre-treatment HIPC levels, and already exceed total public investment in ten countries. Sharp cuts to international aid mean the same countries are being asked to absorb essential expenditures in areas such as health into national budgets. While many countries view this as an opportunity to increase sovereignty and ownership, this aspiration risks being a mathematical impossibility without a financing solution.

1. World Bank International Debt Statistics (IDS)

The cushions are gone.

The capacity to absorb the latest shock and make repayments out of reserves is limited because reserve positions have weakened. Foreign exchange reserves remain thin for many low-income countries; median low-income country reserve coverage was 3.8 months of imports in 2025, down from 5 months pre-Covid. Meanwhile, concessional financing from sources other than the IFIs has evaporated. In addition to the collapse in international development assistance, large bilateral creditors have been pulling back. China, for example, shifted from a net provider of finance to a net extractor over the last decade. Finance for Development Lab finds that two-thirds of LLMICs are seeing negative net transfers with China.

And it is about to get worse.

An acute pick-up in amortizations started in 2025 and will run until 2030, as low-cost Covid-era borrowing rolls off. Countries that financed cheaply in a low-interest-rate world now face structurally higher long-term rates. Recent Eurobond issuances by Congo-Brazzaville, Côte d'Ivoire, Kenya, and Nigeria carried coupons of 7-10%. Even with historically tight spreads, a five percent 10-year U.S. Treasury leaves all-in borrowing costs above growth rates in many countries. Domestic debt is no escape, with nominal rates up to 25% and short maturities that create acute rollover risk.



The choice countries face.

Absent international action, a large number of countries will face a stark choice. They can make further sharp cuts to spending at significant cost to growth and human lives, or finance government deficits and amortizations via exorbitant private borrowing that is likely to lead to eventual default. In either case, financing constraints limit investments; without productive investments, there is no credible strategy for growth. There is a narrow window to arrest this dynamic and return these countries to growth and debt sustainability without class-based restructuring.

The status quo is not enough.

For a broad set of countries, the right answer is a growth and liquidity solution, not debt forgiveness. Many of these countries have been muddling through these difficult conditions by using IFI money to refinance high-cost debt in a piecemeal, insufficient way that leaves no room to invest in their own futures. Multilateral inflows are financing the retrenchment by Chinese and private creditors rather than productive investment. The result is a form of permanent dependency, with many countries stuck cycling through IMF programs without building resilience or accelerating growth. And without a new initiative, there is a risk that even the IFIs will begin pulling back; the share of countries net-repaying the IMF hit a historic high in 2026, and overall net financial flows to low-income countries are projected to turn negative in 2030.²

2. Global Sovereign Advisory

Policy Proposal

Based on this evidence, this paper proposes a new form of debt solution tailored to the current conjuncture. We have called it the Growth and Investment Reset. The Reset leverages the international financial system to offer a pathway back to growth, self-sufficiency, and debt sustainability by generating affordable net positive flows for investment in countries that face liquidity challenges from legacy external debt.

The Reset targets LLMICs that are making high-ambition reforms. At the heart of the deal is a reciprocal commitment: countries that pursue ambitious reforms will be matched by equally ambitious support from IFIs and G20 creditors. Specifically, the Reset provides those countries with meaningful new affordable financing, giving those reforms the time they need to take hold.

The initiative has three parts.





Part 1

Affordable Financing Surge

The IMF and World Bank provide a significant package of long-term financing to Reset countries.

The IFIs have the tools and innovative financing structures to surge support; they need shareholder backing to take a more transformative approach. The Reset's enhanced financing package enables countries to refinance expensive debts and improve their overall debt service profile. It enables ambitious reforms over a realistic timeframe, ensures economic adjustment programs are designed with investment needs in mind, and fills the balance of payments gaps that higher investment needs create.

To work, this initiative needs to be more than a repackaging of existing IFI financing – and it needs to provide a substantial amount of new money. The perception is that the IFIs have provided just enough financing since Covid to keep countries afloat. This is not due to lack of ambition at the institutions – which have been operating within constraints set by shareholders. When shareholders have stepped in, they have demonstrated the ability to generate substantial sums at very little cost. In the years immediately following the pandemic, G20 financing initiatives generated \$100 billion in new concessional financing across two IMF trust funds and \$50 billion in new headroom at the World Bank. If the Reset mirrored these efforts it could offer smaller countries as much as 7-8% of their GDP (for larger countries, it would be less). This amount is well within the capacity of the institutions to provide, particularly in the IMF's case as a portion of the money would be to ensure it is not taking money out of developing countries on a net basis.

While the split in financing between the World Bank and IMF is still to be determined, it is essential that both institutions play a role.

The IMF brings the macroeconomic perspective and long-term balance-of-payments tools, while the World Bank brings its deep expertise in structural investment and growth – with both institutions having the potential to deploy significant new financial scale.

- **The IMF is essential to make this initiative transformative and move beyond the existing financing options.**

The IMF would provide Reset participants with significant supplementary long-term balance of payments support through a dedicated facility, on top of a regular full-fledged IMF program. To distinguish the Fund's level of support from regular programs – and catalyze action from other stakeholders – the initiative needs a well-defined separate window. The new dedicated facility would top up IMF financing at semi-concessional rates with a long grace period. In addition to financing, the IMF also works with countries to define a sustainable macro-fiscal framework – i.e., providing the stable external and financial conditions that are necessary to attract private capital and make countries more resilient to external shocks.

- **The World Bank also has a critical role to play in the Reset: it would provide financing to support growth-enhancing projects and structural reforms.**

As part of a broader reform agenda, the MDBs should be pressing forward 'with their agenda' to fully utilize capital headroom by lending more and shifting toward higher-risk/higher-impact instruments. This includes developing higher quality project pipelines and further streamlining approval processes. There is also scope for a greater focus on policy-based operations to anchor MDB engagement. The Reset would supercharge this agenda and focus MDB efforts on getting money out the door effectively. The IMF program and financing would anchor new World Bank and other MDB lending, so that it is aligned with a common and ambitious reform plan. This approach would necessarily require greater cooperation between the IMF and the MDBs in the development of macro-fiscal frameworks. On a case-by-case basis, a World Bank policy-based guarantee or financing could be used to support refinancing (see below).





Sources of new IMF/World Bank financing.

New financing from the IMF and World Bank can be generated without drawing substantially on donor resources by using a combination of innovative financing instruments, policy changes, and internal resources. For example, at the IMF, the new facility could draw on the model of one of the existing concessional trust funds, the Poverty Reduction and Growth Trust (PRGT) or the Resilience and Sustainability Trust (RST). Scaling up either of these trust funds could be done without drawing substantially on donor resources, including through low-cost donor loans and/or tapping IMF internal resources. At the World Bank, existing excess headroom could be deployed with greater risk-taking to Reset countries, and/or International Bank for Reconstruction and Development net income could be directed to increasing concessional lending capacity. All of these options would involve trade-offs and careful calibration of the donor and institutional policy context.

Additional Reset requirement: reform and investment ambition.

Not every country with an IMF program would automatically be part of the Reset: countries must have sustainable debt levels and be willing to take further steps on investment and reform ambition. Specifically, on top of the regular IMF program, accessing the new IMF facility and scaled-up World Bank financing would require countries to develop and disclose a medium-term investment plan addressing infrastructure and growth bottlenecks. Investment plans will aim to clarify national priorities, focus funding asks on projects that will demonstrate results, and enhance transparency to help build public trust in IFI-supported programs, making reforms more durable and politically sustainable. The country would need to work with both the IMF and World Bank – and, as appropriate, regional development banks – to develop the investment plan. As part of this, IMF program design would explicitly recognize that implementing reforms takes time and that growth-enhancing investments often need to be frontloaded. This approach would also help countries and donors align fiscal, monetary, and financial policies with a vision of long-term resilience, reducing the likelihood of repeated recourse to the IMF.

While historically countries have been reluctant to sign up for an initiative if a full-fledged IMF program is a requirement – likely one donors will insist on – 43 LLMICs have had full-fledged IMF programs in the last 10 years, and 28 countries accessed the IMF's post-Covid long-term financing facility.³

3. IMF Monitoring of Fund Arrangements (MONA) database; IMF [list](#) of Resilience and Sustainability Trust arrangements.





Part 2

Bilateral Creditors

Ownership of the Reset by existing G20 creditors will be critical to the success of the initiative.

Large bilateral creditors will benefit if the initiative succeeds – enabling a return to growth and ultimate repayment. But for the surge of IFI money to succeed in restoring growth and liquidity, G20 bilateral creditors will need to solve a collective action problem. Right now, the incentive for creditors is to take money out before other creditors do. The 40 potential Reset countries have about \$80 billion in principal payments coming due to G20 members through 2030.⁴

4. Based on data reported in the World Bank's IDS database.

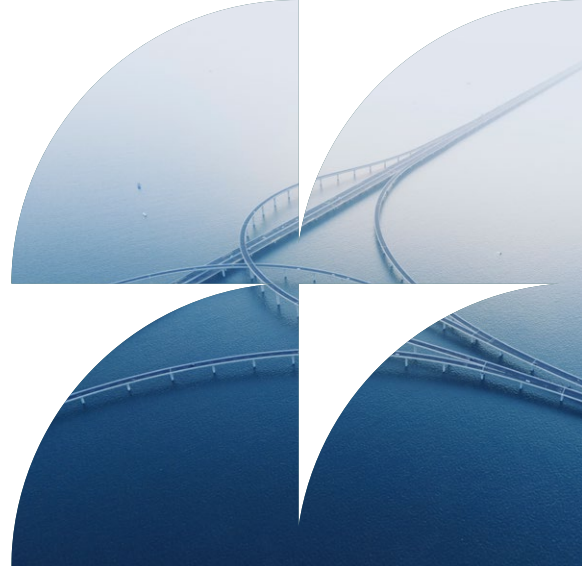


Recent actions by G20 creditors to offer refinancing and liquidity suggest there is a pathway to avoid this.

For example, China's revealed preference across recent cases (e.g., Kenya, Pakistan, Egypt) has favored refinancing with maturity extension, grace periods, and lower interest cost. These liquidity injections were intended to support partner countries through market-oriented financial cooperation to address temporary liquidity challenges while preserving long-term project viability. If similar refinancing operations were done in the context of significantly higher IFI financing, borrowing countries would have a greater chance of success – and ultimately bilateral creditors would see higher odds of ultimate repayment for their lending.

Therefore, a key part of the Reset package would be for G20 bilateral creditors to reach a political-level commitment to provide liquidity and/or refinancing.

Doing so would ensure that new IFI money is not used, on a net basis, to repay official bilateral creditors. Bilateral creditors would implement this commitment on a case-by-case basis, building on what many of them are already doing de facto. The mechanism is instrument-agnostic: refinancing, rescheduling, or new financing all satisfy the commitment. The IMF would monitor implementation of this commitment, much as it currently builds the financing table for programs.



The Vienna Initiative could provide inspiration for a new approach to coordinated commitment frameworks among G20 creditors, countries, and IFIs – focused on growth and addressing a collective action problem, rather than on debt.

Drawing on this model, official bilateral creditors would maintain their exposure to a Reset country during the program period, provided the IMF and World Bank surge financing to support a credible growth plan. This coordinated “maintenance of exposure” commitment eliminates free-riding among official creditors and offers a real pathway to growth-enhancing investment.



Part 3

Private Creditors

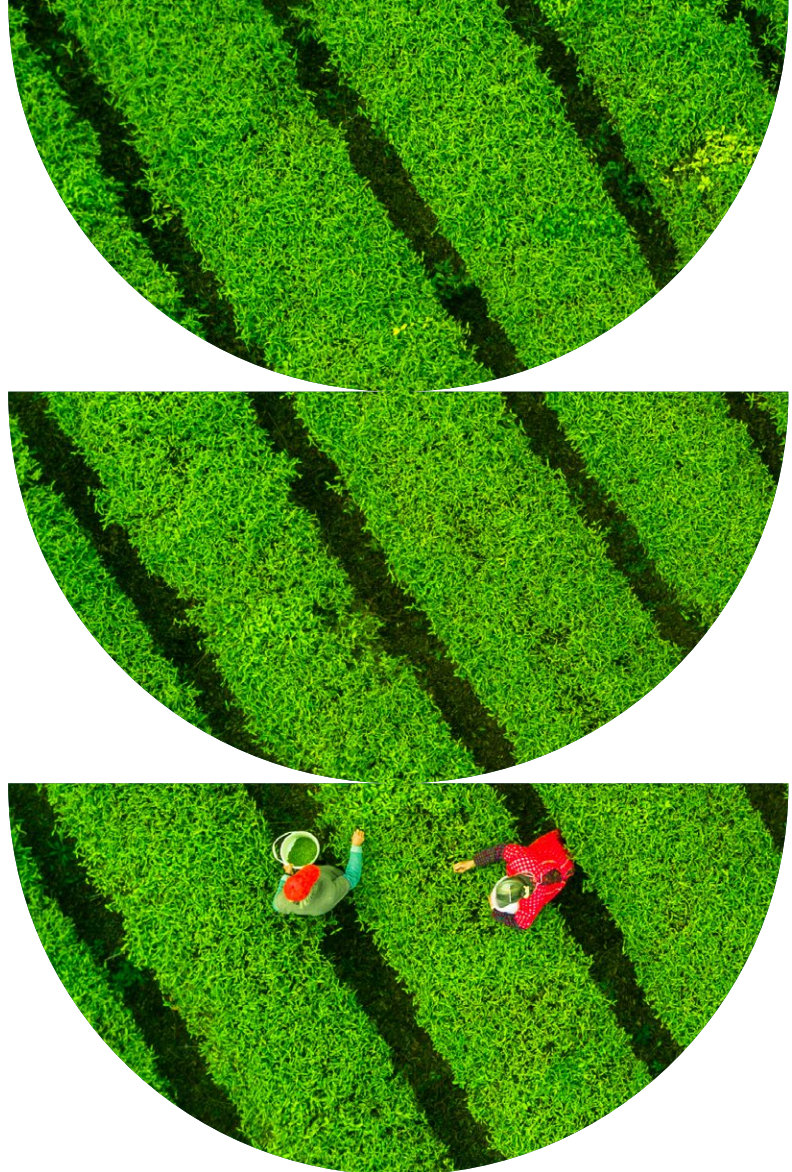
Dealing with private debt presents its own complications and will require a tailored approach based on country context.

The Reset is an opportunity to systematize and better harness new MDB policy instruments designed to help countries swap and/or refinance private debt where appropriate, better anchoring these instruments in an overarching macroeconomic framework. International financial institutions have been an essential lifeline for many countries struggling with liquidity challenges, in many cases pioneering new solutions and finding creative ways to help. But the MDBs are operating within the constraints set by their shareholders. The Reset aims to move away from the ineffective status quo, in which IFI money is effectively used to bail out the private sector and bilateral official creditors without a plan to move to something more sustainable. The Reset will instead refinance loans from private creditors that are unsustainably expensive and set expectations that participants avoid taking on such debt in the future.



To do this, the MDBs will leverage their work to modernize policy-based guarantees and other tools to enable liability management operations where needed, reducing exposure to high-cost private debt faster than would occur naturally.

The World Bank, the Inter-American Development Bank, and the African Development Bank have provided policy-based guarantees to swap existing high-cost debt or lower the cost of new debt. For example, the World Bank recently conducted such operations in Côte d'Ivoire and Benin. The World Bank Group Guarantee Platform (PBG+) offers a potential entry point. Further expansion requires a frank look at the trade-offs between this tool and simply scaling up MDB lending, as well as further coordination between MDBs and alignment with the IMF's macro-fiscal program.



Financing under the Reset is also linked to forward-looking enhancements to debt management.

For example, new instruments could include transparency requirements and inclusion of contractual provisions to temporarily suspend debt service in the event of a shock – making future debt stocks more resilient.



Next Steps

The first step to advancing an effective new financing agenda is securing political agreement that there is a problem in need of materially different solutions. We will need to clearly recognize both the severity of this need – and the fact that our existing international financial tools and debt frameworks were simply not built to address it.

The G20 under the UK presidency is an opportunity to press for a meaningful breakthrough to well-known growth and liquidity challenges. The G20 can provide the political overlay – a strategy that is genuinely ambitious in scope, yet rigorously grounded in political feasibility. To build a solution that can command global support, the G20 must navigate several hard realities:

- **First, developing countries themselves will need to be eager to sign up for it.**

That means avoiding mechanisms that impose mandatory private sector debt refinancing or forced reprofiling, which inevitably trigger market access concerns. The offer of support will need to be structured as incremental, highly attractive, and net-positive financing. Importantly, the initiative should be based on the recognition of a country's ambitious plans for growth and investment, rather than the stigma of a debt problem.

- **Second, any solution should not rely on major increases in bilateral donor contributions, given the tight domestic fiscal constraints in many major donor capitals.**

Fortunately, there is tremendous potential for policy adjustments and innovative financing mechanisms at the IMF and World Bank that can unlock volumes of long-term financing at low cost to donors.

- **Third, the framework will need to be politically acceptable to all key stakeholders –**

including the United States and China.

- **Finally, this effort requires decisive, coordinated leadership from the IMF and the World Bank.**

The Reset is designed to bring forward elements that could act as a grand bargain between key stakeholders – one strong enough to overcome institutional inertia and move beyond an ineffective status quo. Specifically, a surge of IFI financing would sweeten the deal for bilateral creditors and the private sector. The focus on growth rather than debt forgiveness should help attract both recipients and creditors. And IFI shareholders should prefer this to an option in which they slowly and ineffectively bail out other creditors.

Failure to act is not an acceptable answer. We are not yet in a systemic solvency crisis that requires a broad debt forgiveness initiative. But if we continue on as is, this liquidity crisis will do real damage to growth and development, and it will eventually turn into the more familiar insolvency crisis – one that is far harder and far more costly to fix.



Annex: Debt Data

