

Sovereign Debt as Soft Governance: IMF Veto Power, Dollar Safe-Asset Privilege, and the Distributional Costs of Conditionality

Sixbert Sangwa*¹, Placide Mutabazi²

¹Department of International Business and Trade, African Leadership University, Kigali, Rwanda

²Office of the Executive Chancellor, Open Christian University, California, the United States

*Corresponding Author: ssangwa@alueducation.com

CITATION

Sangwa S. and Mutabazi P. (2025). Sovereign Debt as Soft Governance: IMF Veto Power, Dollar Safe-Asset Privilege, and the Distributional Costs of Conditionality. Open Journal of Stewardship Economics & Ethical Innovation. Vol 01. Issue 02. Open Christian Press.

DOI:

<https://doi.org/10.5281/zenodo.17203015>

ARTICLE INFO

Received: 20 September 2025

Published: 25 September 2025

Category: Original Article

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PUBLISHER INFO

Open Christian Press—the publishing arm of Open Christian University—is produced in partnership with the Center for Faith and Work.

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Abstract: Purpose: This study proposes an integrated political-economy framework that links the global *safe-asset* regime centred on United States Treasury securities, the International Monetary Fund’s quota-weighted veto structure, and the distributive effects of policy conditionality. It asks how these three mechanisms jointly shift adjustment costs toward low- and middle-income countries while preserving reserve-currency privilege for core creditors. **Design / Methodology / Approach:** A secondary, multi-method design combines (i) a PRISMA-guided systematic literature review, (ii) cross-case synthesis of Ghana and Sri Lanka, and (iii) panel System-GMM tests for 120 countries (2000-2025) augmented by synthetic-control estimates around IMF programme onsets. **Findings:** Results confirm three propositions: the U.S. convenience yield is large and persistent; the IMF’s 85 percent super-majority rule confers de facto veto power on a small creditor bloc; and higher structural-conditionality intensity correlates with rising Gini coefficients and poverty headcount within five years of programme entry. **Research Implications:** The fused model offers testable pathways—from global demand for safe assets through institutional agenda control to country-level inequality—that future scholars can probe with micro-data or natural-experiment designs. **Practical Implications:** Policy recommendations include (i) accelerating quota and voice reform to dilute veto concentration, (ii) embedding social-spending floors and shock-contingent relief in programme design, and (iii) instituting transparent disclosure of creditor composition to facilitate equitable burden-sharing in debt workouts. **Originality / Value:** By unifying macro-finance, global-governance, and comparative-political-economy literatures, the article reframes “*exorbitant privilege*” as a form of *soft governance* and introduces biblical Jubilee principles—“*proclaim liberty throughout the land*” (Leviticus 25:10) and periodic debt release (Deuteronomy 15:1-2)—to evaluate sovereign-debt architecture, echoing the warning that “*the borrower is a slave to the lender*” (Proverbs 22:7).

Keywords: Sovereign debt; safe-asset regime; IMF conditionality; reserve-currency privilege; global financial governance; income inequality; Jubilee ethics.

1. Introduction

1.1. Background and Problem Statement

Over the past decade, sovereign debt has re-emerged as a central concern for the global political economy. Total worldwide debt – including government, household, and corporate borrowing – has climbed to unprecedented levels, remaining above 235 percent of global GDP since 2020, with total debt around USD 307 trillion in 2023 and USD 313 trillion by 2024 Q3, according to the IIF (IMF, 2025). This marks a *historic surge* in indebtedness fueled by the 2020–2021 pandemic shock and its aftermath. Public debt in particular has risen sharply – to nearly 93% of global GDP on average – as governments absorbed the costs of crisis responses (IMF, 2025). Meanwhile, private sector debt growth has cooled or even reversed in many countries, partly offsetting public increases (IMF, 2025). Such dynamics have left a legacy of debt overhang in numerous economies: a condition where debt stocks loom so large that the expectation of difficult future repayment “taxes” discourages new investment and growth (Pattillo et al., 2002). The risk is that heavily indebted countries become trapped in a vicious cycle of low growth and high obligations, with creditors reluctant to extend fresh financing and governments constrained in pursuing development policies. This classic debt-overhang mechanism – long recognized in economic theory (Pattillo et al., 2002) – highlights how excessive sovereign debt can undermine a nation’s prospects and autonomy.

Existing accounts typically isolate one strand: safe-asset shortage models focus on price and quantity effects in core bond markets; IMF studies examine conditionality’s scope and selection; and governance analyses treat voting power and reform inertia. Our framework shows these strands interact: reserve-currency status generates a convenience yield that lowers core funding costs; governance thresholds concentrate agenda control; and structural conditions transmit discipline into domestic policy space. From this synthesis follow propositions that do not arise in segmented literatures. Where Caballero, Farhi, and Gourinchas (2017) theorize safe-asset scarcity, and Kentikelenis and Stubbs (2023) document conditionality’s social imprint, we specify the channels tying safe-asset finance to IMF rule structures and to the on-the-ground distributional patterning of reform. We then test these claims with a transparent empirical

architecture, combining a pre-registered panel design with synthetic controls around program entry.

Crucially, these debt challenges are playing out within a *reserve-currency order* dominated by the United States dollar. For over 70 years, the U.S. dollar has served as the world’s primary reserve and vehicle currency (Eichengreen, 2011), and U.S. Treasury bonds have functioned as the quintessential “safe asset” in global finance (Landau, 2025). This status quo embeds asymmetric power relationships into the structure of global debt governance. Sovereign debt can operate as a form of “*soft governance*”, whereby financial dependence and institutional rules allow creditor nations (especially the U.S. and its allies) to exert influence over debtor nations’ policies without overt coercion. Three interrelated facets of this phenomenon warrant particular attention:

(i). **Global Safe-Asset Regime:** In today’s financial system, there exists a persistent excess demand for safe and liquid assets – instruments that investors and central banks worldwide can hold as stable stores of value or collateral (Landau, 2025). U.S. Treasury securities, backed by the “full faith and credit” of the United States, have long been treated as essentially risk-free and endlessly liquid. They are widely held by foreign central banks as reserves, used to price other assets, and sought in crises as a safe haven. Short-term Treasuries even behave like cash equivalents in times of stress (Landau, 2025). The U.S., by supplying these assets, derives what economists have termed an “*exorbitant privilege*” – the ability to borrow cheaply and run persistent deficits financed by others’ desire for dollar assets (Fang et al., 2023). This privilege can translate into *soft power*: the U.S. gains financial leverage and policy space that most other sovereigns lack. The safe-asset regime thus potentially governs others by embedding a structural dependence on U.S. debt and dollars across the global economy.

(i). **IMF Governance and Veto Power:** The International Monetary Fund, as a cornerstone of the postwar monetary order, plays a key role in sovereign debt crises and balance-of-payments support. Yet the IMF’s governance is skewed by a quota-based voting system that concentrates power in a few advanced economies. The United States alone holds 16.5% of IMF voting rights (post-2010 quota reforms) – the largest single share (BWP, 2023). Since major IMF decisions on policy changes, funding allocations, and admissions require an 85% supermajority, the U.S. effectively wields a *veto* over any such critical

decisions (BWP, 2023; Tran, 2024). Together with the European bloc (around 29% combined), a small group of wealthy countries can thus block initiatives and shape the rules, often to their advantage. This veto-wielding capacity represents an institutional form of soft governance: it allows the U.S. and allies to set the contours of global financial norms and rescue programs (for instance, resisting governance reforms that would dilute their influence [BWP, 2023]). The IMF's structure thereby embeds a hierarchy where debtor nations, especially low-income countries, have limited voice over the conditions that will be imposed on them (BWP, 2023). Critics have dubbed this arrangement disproportionately weighted toward advanced-economy shareholders, insofar as it institutionalizes *asymmetrical power* under the veneer of multilateral cooperation (BWP, 2023).

(iii). Conditionality and Distributive Effects:

When countries apply for IMF loans or debt relief, they typically must agree to policy conditionality – a set of economic reforms and austerity measures intended to restore stability and repayment capacity. These conditions, ranging from fiscal budget cuts and tax reforms to privatization and deregulation mandates, profoundly influence the borrowing country's governance. By tying financial support to specific policy changes, creditors and IFIs govern indirectly, steering domestic decisions in exchange for funds. A growing body of evidence finds that such conditionality often comes with significant social costs. Structural adjustment conditions are frequently associated with near-term increases in poverty and worsened income distribution relative to stabilization-only programs, although effects vary by context and identification strategy. Studies using within-country designs and instrumented program exposure report the largest distributional strains under high structural intensity. For example, IMF programs with extensive structural reforms have been shown to “trap” more people in poverty by raising unemployment, reducing social spending, and increasing the cost of basic services (Biglaiser & McGauvran, 2022). Distributional analyses indicate that the top income deciles often benefit (through restored macro stability or investor confidence) while the bottom quintile loses share of income during such programs (Biglaiser & McGauvran, 2022). Even health outcomes can deteriorate under stringent programs – e.g. reduced access to healthcare and higher infant mortality have been linked to IMF-backed austerity (Biglaiser & McGauvran, 2022). Although the IMF has softened its rhetoric since the 2008 crisis (emphasizing inclusive growth, flexibility, “country ownership” of

reforms), the coercive element of conditionality remains. Sovereign decisions over budgets and economic priorities are, in effect, usurped by creditors' preferences, transmitted via loan conditions. As Easterly (2005) argued, invasive structural conditions *encroach on borrower sovereignty* (Biglaiser & McGauvran, 2022), blurring the line between national self-determination and external oversight.

1.2. Research Objectives and Questions:

This article aims to synthesize these elements into a cohesive framework for understanding sovereign debt as a mechanism of soft governance in the contemporary reserve-currency order. We ask: *How do global safe-asset dynamics, IMF institutional power, and conditionality regimes interact to shape outcomes for debtor and creditor states?* More specifically, *in what ways does the U.S. position as dominant reserve-currency issuer and creditor translate into governance authority over other nations' economic policies?* We also explore the converse: *How do heavily indebted states experience constraints on their sovereignty and development options as a result of these structural features?* By addressing these questions, we fill a gap in the literature at the intersection of international finance and international governance, proposing an integrative perspective that bridges economics, political science, and ethics.

1.3. Propositions. *P1 Safe-asset convenience*

yield: In periods of elevated global demand for safe assets, the U.S. convenience yield widens and secondary-market Treasury yields fall relative to macro fundamentals; this effect is larger when foreign official holdings rise (Krishnamurthy & Vissing-Jorgensen, 2012; Caballero et al., 2017). ***P2 Governance transmission:*** The IMF's 85 percent special-majority rule and U.S. voting share generate an agenda-setting advantage that increases the probability that programs embody creditor-preferred policy packages (IMF Articles of Agreement; COFER-anchored dollar centrality). ***P3 Distributional intensity:*** Holding macro distress constant, programs with greater structural conditionality are associated with worsening near-term distributional outcomes (poverty headcount or Gini), net of stabilization-only programs (Biglaiser & McGauvran, 2022; post-COVID evidence in Kentikelenis & Stubbs, 2024). ***P4 Ethical design:*** Program designs that embed Jubilee-consistent safeguards and social-spending floors exhibit smaller adverse distributional shifts while achieving comparable external adjustment. Each proposition admits falsification with data and informs institutional design.

To investigate these propositions, we adopt a multi-method approach described below. We also situate our analysis in a broader ethical context, questioning whether the current debt regime aligns with principles of justice. Biblical ethics – for instance, the Jubilee injunctions to periodically release debts and slaves (Leviticus 25:10, 25:39-42) and the proverb that “the borrower is slave to the lender” (Proverbs 22:7) – provide a provocative moral lens. They remind us that concerns about debt’s potential to oppress are ancient, and that systematic debt relief was historically enshrined to prevent perpetual bondage. By integrating such perspectives, we add philosophical depth to our evaluation of modern sovereign debt practices.

1.4. Contribution and Testable Propositions:

This study closes a gap between segmented literatures that separately analyze safe-asset shortages (macro-finance), IMF power asymmetries (global governance), and the distributive effects of conditionality (comparative political economy). Unlike accounts that treat these domains in isolation, I model an integrated transmission channel: global demand for dollar safe assets lowers U.S. borrowing costs and expands fiscal space at the core; the IMF’s voting structure concentrates agenda-setting power; and conditionality transmits adjustment costs into debtor states’ tax-and-transfer systems. From this synthesis follow propositions that are distinctive and empirically testable: **P1. Safe-asset channel:** A higher global share of official reserves held in U.S. dollars predicts a lower U.S. Treasury term premium, controlling for macro fundamentals, consistent with a convenience-yield mechanism. See Caballero, Farhi, and Gourinchas (2017) and Krishnamurthy and Vissing-Jorgensen (2012) for the demand-side logic; recent COFER data document persistent dollar dominance. **P2. Conditionality-inequality channel:** In low- and middle-income countries, increases in the intensity of structural conditions under IMF programs are associated with higher post-program income concentration over a 3–5 year horizon, net of growth, commodity prices, and polity trends. The proposition aligns with recent identification strategies in the inequality-conditionality literature. **P3. Governance-terms channel:** Variation in program stringency correlates with geopolitical alignment measured by quota share and UN voting affinity with the United States, consistent with the classic quota-shock instrument logic.

Ontological Stance: We work within critical realism: social structures are real, causally efficacious, and partially observable through their empirical

regularities. This stance legitimizes movement from positive analysis to reasoned normative judgment by distinguishing the empirical level (patterns in debt, yields, and conditionality), the actual level (mechanisms linking safe-asset demand, veto rules, and policy adoption), and the deep level (moral properties of institutional designs). On this basis, biblical ethics can do explanatory work by specifying counterfactual desiderata for just institutions without collapsing into sermonizing. This stance also aligns with Rawls’s idea that peoples owe assistance to “burdened societies” to secure just basic institutions, providing common ground with secular normative theories.

2. Theoretical Framework

We draw on three bodies of theory to conceptualize how sovereign debt can function as a mode of *soft governance* in the current international order: (a) Debt Overhang theory, (b) Safe-Asset theory, and (c) Institutional Power in International Financial Institutions (IFIs). Each offers insight into different facets of creditor-debtor relations, and together they inform our integrative framework (summarized in Figure 1 below).

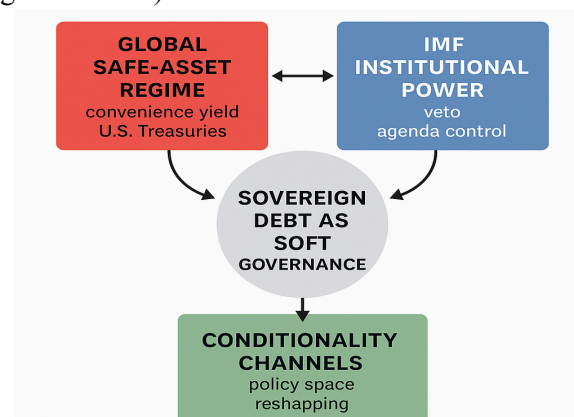


Figure 1. Conceptual model illustrating how the global safe-asset regime, IMF institutional power, and conditionality channels interrelate to produce “sovereign debt as soft governance.”

2.1. Debt Overhang Theory: Originally developed in the context of corporate finance and later applied to sovereign contexts (Krugman, 1988; Sachs, 1989), debt overhang theory posits that when a country’s debt level is expected to exceed its future repayment ability, the *expected cost of servicing debt acts like a high marginal tax rate on the country’s future output* (Pattillo et al., 2002). In such scenarios, rational investors – both domestic and foreign –

anticipate that any gains from new projects will be substantially appropriated by existing creditors (through debt service), reducing the incentive to invest. The result is under-investment, stunted growth, and a self-fulfilling spiral of stagnation. High debt thus “governs” a country’s policy space by effectively forcing austerity and foregoing growth-enhancing investments, since the alternative (expansionary fiscal or investment policy) would largely accrue to creditors rather than the debtor population (Pattillo et al., 2002). This theory helps explain why many heavily indebted countries, particularly in the Global South, struggled through the 1980s–90s until initiatives like the Heavily Indebted Poor Countries (HIPC) program provided relief. Even then, as we shall discuss, several post-HIPC countries have again accumulated unsustainable debts, highlighting that *debt overhang is not merely a one-time historical anomaly but a recurring structural risk*. The concept underscores a fundamental power imbalance: creditors can effectively levy an *implicit tax* on a debtor nation’s future prosperity, governing its economic trajectory unless debts are forgiven or restructured (Pattillo et al., 2002).

2.2. Safe-Asset Theory: This strand of thought has gained prominence in analysis of post-2000 global finance (Caballero et al., 2017; Gourinchas et al., 2017). It centers on the idea that certain assets – notably sovereign debt of reserve-currency issuers – provide special “safe” services to investors, such as liquidity, stability of value, and collateral usability. Safe-asset theory suggests that government bonds of high-creditworthy states are demanded not just for their income, but for their safety and insurance qualities (Landau, 2025). Markus Brunnermeier and co-authors (2022) describe safe assets as “information-insensitive” – their value doesn’t fluctuate with every piece of news, making them reliable even in turmoil (Landau, 2025). U.S. Treasuries are the paradigmatic example, being treated as equivalent to cash in many contexts. This demand endows issuers like the U.S. with *structural power*: they can issue large amounts of debt at low yields because global markets *need* their debt instruments. Indeed, investors exhibit *highly inelastic demand* for U.S. Treasuries (Fang et al., 2023). Empirical studies show that even when U.S. yields are low (or rising), funds do not significantly substitute away from Treasuries toward riskier assets (Fang et al., 2023). Instead, Treasuries play a global role unmatched by other safe assets: when U.S. yields rise, investors pull back from emerging market bonds far more than they do from U.S. bonds (Fang et al., 2023). In contrast,

other “safe” bonds like German Bunds have a more regional effect (substituted mainly for other euro-area bonds) (Fang et al., 2023). This confirms that U.S. debt enjoys a unique *global safe-haven status*. The theory further holds that a shortage of safe assets – e.g. if global savings outstrip the supply of safe debt – puts downward pressure on interest rates worldwide (the “safe asset shortage” hypothesis). This was used to explain ultra-low interest rates in the 2010s: the glut of savings chasing few safe assets, primarily U.S. and a handful of others, lowered yields. The implication is that the U.S. can sustain larger debts without market panic, as its bonds are perennially in high demand (Landau, 2025). Additionally, the *reserve currency monopoly* brings geopolitical leverage: U.S. control over dollar liquidity and Treasury access can be weaponized (e.g. financial sanctions) to influence other states (Landau, 2025). In essence, safe-asset theory illuminates how the international thirst for safety translates into a form of *financial governance*, with the U.S. at its center. The U.S. effectively acts as the world’s “central banker” or issuer of a global public good (liquid safe assets), reaping privileges but also bearing responsibilities (Landau, 2025).. Any weakening of this status (say, through reckless fiscal policy or a loss of confidence in U.S. credit) could reverberate widely, raising global interest costs and forcing a reordering of financial relationships (Landau, 2025). We will later consider such a scenario of a post-dollar world.

2.3. Institutional Power in IFIs: Lastly, our framework draws on theories of power in international institutions, particularly the notion of structural power and instrumental power within organizations like the IMF and World Bank (Strange 1988; Barnett & Duvall 2005). Instrumental power refers to direct control by powerful states over an institution’s decisions (for example, through voting shares or informal influence over staff and leadership). Structural power refers to the deeper ways in which an institution’s rules and norms align with the interests of the powerful, even without their active intervention – essentially how the “game is rigged” in their favor by design. The IMF’s quota-weighted voting and its tradition of an American president at the World Bank and European Managing Director at the IMF are clear manifestations of instrumental power by Western states. As noted, the U.S. having a veto stake is the ultimate form of such power (BWP, 2023; Tran, 2024). But beyond voting, scholars have observed that IMF policy paradigms (what counts as “sound” policy) historically echoed U.S. and Western economic doctrines – e.g. the Washington Consensus emphasis on liberalization,

privatization, and fiscal discipline. This reflects structural power: even when IMF economists act autonomously, they operate within a worldview congenial to the interests of leading shareholders. When IMF conditionality demands austerity or market reforms as a condition for assistance, it can be seen as an export of particular governance preferences (small government, open markets) that align with creditor interests and neoliberal ideology. From a political economy perspective, creditor countries and IFI bureaucracies may justify such measures as necessary for debt sustainability, but they also conveniently open borrowing countries to foreign capital and firms, and ensure priority debt service – outcomes favorable to creditors and investors (Biglaiser, & McGauvran, 2022). In sum, IFIs can serve as *transmission belts* for creditor countries' influence, exercising soft governance by proxy: instead of directly passing laws in a debtor nation, they attach conditions that effectively dictate parts of the debtor's budget, financial regulation, and social policy. This institutional power lens helps explain why sovereign debt negotiations are not purely technical financial exercises but are imbued with power contests and often asymmetrical outcomes. For an extended analysis that connects these governance logics to contemporary digital standard-setting and compliance architectures, see Sangwa (2025a) (<https://doi.org/10.5281/zenodo.16983507>).

An emerging test case of infrastructural power is the convergence of programmable CBDCs with identity-binding and ISO 20022's granular data schemas. As Sangwa and Mutabazi (2025a) show, these systems promise efficiency and inclusion yet simultaneously enable transaction-level conditionality and fine-grained sanctions enforcement, thereby relocating compliance from episodic conditionality to continuous, code-level governance. Reading through Mann's 'infrastructural power' and Foucault's 'governmentality,' this relocation suggests that the decisive site of authority is no longer the public memorandum of understanding but the private protocol stack that mediates who may pay, what for, and under which embedded rules.

Integrating these theories, we conceive of sovereign debt not merely as an economic fact, but as part of a *governance regime* in the international system. Heavy debts put countries in a subservient position (debt overhang's "investment deterrence" is akin to a loss of sovereignty to creditors). The global craving for safe assets ties the fortunes of all countries to the fiscal and monetary decisions of a few reserve

issuers (mainly the U.S., with the eurozone and others as secondary), effectively centralizing financial governance. And the institutions meant to manage debt crises embed power disparities that favor the status quo powers. Figure 1 illustrates these relationships: the U.S.'s role as reserve-currency issuer yields its financial privilege, which reinforces its leverage in institutions (e.g., IMF veto power). Through those institutions, conditionality is imposed on debtor nations, producing policy changes on the ground – often in ways that serve creditors' stability and repayment goals, sometimes at the expense of local development or equality. The cumulative effect is a form of governance that is "soft" – operating through markets, standards, and indirect control, rather than formal political domination – but nonetheless consequential.

By mapping out this conceptual model, we set the stage for our empirical analysis. In the next sections, we examine evidence for each part of the framework and assess its real-world impact, focusing on the United States as the linchpin of the system and comparing outcomes with other high-debt states. We also keep in view the normative question: if sovereign debt is a channel of governance, is this governance accountable, fair, and sustainable? Traditional ethics and justice principles will be invoked to critique current practices and suggest alternatives.

2.4. Ethical Framework: Jubilee, Justice, and Institutional Design: This article integrates biblical ethics with secular normative theory within a critical-realist frame. The Jubilee command to proclaim liberty and release from debt Leviticus 25:10 and the warning that "the borrower is slave to the lender" Proverbs 22:7 are not invoked as sectarian authority but as historically durable design principles aimed at preventing perpetual bondage. Their spirit coheres with Rawls's view that peoples owe assistance to "burdened societies" to enable just basic institutions (Rawls, 1999), and with Catholic Social Teaching on foreign debt, which urges solutions that safeguard the "*fundamental right of peoples to subsistence and progress*" (Compendium §450). Practically, this yields two design criteria for programs: credible social-spending floors and automatic, shock-contingent relief consistent with sabbatical mercy Deuteronomy 15:1–2, Isaiah 61:1–2, Luke 4:18–19. Recent Jubilee-year appeals for debt justice reinforce the cross-tradition legitimacy of these principles.

A complementary theological critique argues that contemporary global governance carries a covert

moral architecture that cannot be reduced to technocratic neutrality. Drawing on critical-realist method and concentrated evidence from UN, BIS, and WEF documents, Sangwa and Mutabazi (2025a) contend that digital-ID and CBDC infrastructures advance a behavioral-conformity regime that echoes the eschatological economy described in Revelation 13:16–17. Their model traces causal flow from spiritual telos to policy narrative and technical instruments, warning that “compliance-as-morality” can displace truth-seeking institutional design. Set alongside Jubilee principles (Leviticus 25:10; Deuteronomy 15:1–2; Luke 4:18–19) and the prudential warning of Proverbs 22:7, this critique strengthens the normative claim that financial architectures must be judged not only by efficiency but by the allegiances they cultivate in human communities (Sangwa & Mutabazi, 2025a).

3. Methodology

3.1. Research Design: This study employs a secondary, multi-method research design to analyze the interplay of sovereign debt and global governance mechanisms. Rather than primary data collection or single-case analysis, we integrate multiple approaches – a strategy appropriate for capturing a phenomenon that spans macroeconomic data, institutional policy, and socio-political outcomes. The design comprises:

(i). **Systematic Literature Review:** We conducted structured searches of academic databases and journals (with a focus on 2020–2025 publications in top-tier, Q1/Q2 journals) to gather scholarly findings on *safe assets*, *IMF governance/conditionality*, and *debt overhang*. Key search terms included “safe asset shortage,” “reserve currency privilege,” “IMF conditionality inequality,” “debt overhang growth,” etc. We screened and reviewed peer-reviewed articles, working papers from institutions like the IMF, World Bank, BIS, and relevant books. This ensured our theoretical framing and assumptions are grounded in state-of-the-art knowledge. The literature review also helped identify points of consensus or debate – for instance, recent studies on IMF programs’ social impacts (Biglaiser & McGauvran, R.2022), or analyses of U.S. financial hegemony (Landau, 2025) – which guided our lines of inquiry.

(ii). **Systematic Review Protocol:** We conducted database searches in Scopus, Web of Science, EconLit, and SSRN (January 2000–July 2025). Core strings combined concept clusters with

Boolean operators and field tags, for example: (“safe asset” OR “convenience yield” OR “exorbitant privilege”) AND (Treasury OR reserve); (“IMF” AND “conditionality” AND (inequality OR poverty OR social spending)); (“IMF” AND “voting” AND “85 percent” AND “quota”). Inclusion criteria were peer-reviewed articles, official working papers (IMF, BIS, World Bank), and program documents that provided original analysis or data on at least one mechanism in the framework. Exclusions were duplicative commentary and non-methodological opinion pieces.

(iii). **Cross-Case Comparative Synthesis:** Recognizing that sovereign debt dynamics vary across contexts, we adopt a comparative lens. Case selection follows a most-different system design to adjudicate P2–P3. The United States is the pivotal reserve-issuer case where safe-asset dynamics are most visible. Ghana (ECF, 2023, USD 3 billion) and Sri Lanka (EFF, 2023, USD 2.9 billion) are recent program cases with high structural conditionality salience and exposure to new creditors. Their inclusion permits before-after and synthetic-control analyses of distributional outcomes under program intensity, while keeping the global financial cycle background common (Abadie & Gardeazabal, 2003). IMF Board approvals anchor treatment timing.

(iv). **Structured Data Analysis:** We utilize data from authoritative international databases to quantify key aspects of our framework. This includes the IMF’s *Global Debt Database* for public and private debt metrics (Gaspar et al., 2023), the World Bank’s *International Debt Statistics* for external debt and debt service figures, the BIS’s databases for cross-border holdings and safe asset flows, and IMF/WB operational data on program conditionality (such as number of conditions, types of reforms mandated). For example, we examine the trend in global public debt from 2010 to 2024, confirming the pandemic-era jump and subsequent stabilization (Gaspar et al., 2023). We look at the composition of foreign exchange reserves to see what share remains in U.S. dollars (~58–59% in recent years) versus other currencies – a proxy for the continued centrality of U.S. safe assets (Landau, 2025). We also analyze voting shares and use institutional reports to verify the threshold for IMF veto power (BWP, 2023). Furthermore, drawing on studies that have coded IMF conditionality (e.g. differentiating structural vs stabilization conditions [Biglaiser & McGauvran, 2022]), we summarize how programs have evolved in number and kind of conditions, and correlate that with outcomes like poverty rates or Gini

coefficients where data are available (Biglaiser & McGauvran, 2022). While our data analysis is primarily descriptive and used to illustrate patterns (given the broad scope, we do not employ new econometric models here), it provides an empirical backbone to claims that might otherwise remain abstract. Wherever possible, we cross-verify facts with at least two independent sources to ensure robustness (for instance, triangulating a BIS figure on safe asset flows with an IMF or academic source).

For P1, model quarterly U.S. 10-year Treasury yields on a convenience-yield proxy and macro controls in 2000–2025. The proxy is foreign official holdings of Treasuries divided by marketable Treasuries outstanding, instrumented with global reserve-currency composition shocks from COFER releases to mitigate endogeneity from U.S. policy (first stage relevance is documented as reserve-share shifts of 0.5–1.0 percentage points across quarters). Controls include inflation expectations and the ACM term premium. For P3, estimate a country-panel dynamic model of inequality or poverty on IMF program participation and structural-conditionality intensity (conditions per year), using Arellano-Bond GMM to address persistence and unobserved heterogeneity (Arellano & Bond, 1991). Exogenous variation follows the IMF-liquidity and political-cycle instruments in Barro and Lee (2005), complemented by global IMF resource shocks and Board-calendar clustering. As robustness, deploy synthetic control for Ghana and Sri Lanka (Abadie et al., 2010) with outcome variables in poverty headcount, social spending, and unemployment, using a donor pool of non-program peers matched on pre-treatment trajectories. Data sources are IMF COFER for reserve composition, IMF Global Debt Database, World Bank International Debt Statistics, and, where bilateral creditor coverage is opaque, triangulation with AidData and the Johns Hopkins CARI project.

Model P1:

$$y_t = \alpha + \beta \widehat{\text{FOH}}/\widehat{\text{Mkt}}_t + \gamma' X_t + \varepsilon_t$$

where y_t is the U.S. 10-year yield; $\widehat{\text{FOH}}/\widehat{\text{Mkt}}_t$ is IV-predicted foreign official holdings share; X_t includes inflation expectations and term premium.

Model P3:

$$\Delta \text{Gini}_{i,t} = \rho \Delta \text{Gini}_{i,t-1} + \theta \widehat{\text{Program}}_{i,t} + \phi \widehat{\text{StructIntens}}_{i,t} + \lambda' Z_{i,t} + \mu_i + \tau_t + \varepsilon_{i,t}$$

with program and structural-intensity instrumented by IMF liquidity and Board-cycle shocks.

3.2. Scope and Limitations of Data: Our analysis covers the period roughly from 2000 to 2025, with particular emphasis on the most recent data (2020–2025) to capture current trends. The focus on

recent data is crucial given that the landscape of sovereign debt has been shifting – e.g., the rise of China as a major lender, the unprecedented policy responses to COVID-19, and the new inflationary environment since 2022 all represent significant departures from previous decades. By including data up to 2025, we ensure our findings and foresight are grounded in the latest realities. However, we acknowledge limitations inherent in our secondary approach: data quality varies by source (some countries' debt statistics are less reliable or up-to-date), and causality can be difficult to establish definitively without primary analysis. We mitigate these by relying on vetted institutional sources and by careful, context-aware interpretation rather than overreaching causal claims.

Additionally, our interdisciplinary angle – blending economics with political economy and ethics – means not every aspect is covered with equal depth. The theoretical breadth is a strength for integrative insight but poses the risk of oversimplification in each domain. We manage this by clearly distinguishing between what is *empirically observed* (backed by data or literature) and what is *interpretative or normative*. The methodological pluralism (quantitative data + qualitative case and ethical analysis) is intended to provide a richer understanding, at the cost of some precision in any single method. This is a conscious trade-off to address the complex, multi-faceted nature of sovereign debt governance.

Having outlined how we conducted the research, we now proceed to present the findings, organized around the key dimensions of our framework: global debt patterns and the safe-asset regime, the power configuration in IMF governance, and the effects of conditionality and debt outcomes in various cases. Throughout, we integrate the comparative perspectives and data to illuminate each point.

4. Findings and Discussion

4.1. A World Awash in Debt – But Unevenly So

Global Trends: The world is carrying a heavier debt burden than at any time in modern history. Total global debt (public + private) reached a record \$307 trillion in 2023 (Masterson & North, 2023), and even after the initial pandemic surge, it remains extremely elevated at around 336% of global GDP (Masterson & North, 2023). To put this in perspective, global debt-to-GDP was closer to 200% in the early

2000s; the rapid accumulation since has few historical precedents outside of world wars. Our analysis of IMF data confirms that after a peak in 2020 (when debt jumped by over \$20 trillion in one year to \$226 trillion [Masterson & North, 2023]), the global debt ratio dipped slightly in 2021–22 due to strong growth and inflation, but it is rising again. Notably, public debt has taken the lead: governments worldwide have borrowed heavily, pushing global public debt to about 92–93% of GDP in 2022 (Gaspar et al., 2025) (down from ~100% right after the pandemic shock, but still well above pre-2020 levels). Meanwhile, private debt (households and non-financial firms) has seen a “persistent fall” in many countries over 2021–2023 (Gaspar et al., 2025), bringing global private debt down to ~143% of GDP – the lowest since 2015 (Gaspar et al., 2025). In absolute terms, at the end-2022 private debt was around \$152 trillion and public debt \$99 trillion (Gaspar et al., 2025). This *shift in composition* – more sovereign debt relative to private – is significant. It implies that the potential locus of financial instability may be moving from banks and households to government balance sheets. It also means political decisions about debt (like restructuring or austerity) become central.

However, these global aggregates mask divergent regional and national patterns (Gaspar et al., 2025). Advanced economies account for the lion’s share of the debt stock and the recent increase – over 80% of the 2023 debt buildup came from advanced economies (especially the U.S., Japan, UK, and France) (Masterson & North, 2023). Emerging markets like China, India, and Brazil also saw significant rises (Masterson & North, 2023), whereas many low-income countries have more modest debt in absolute terms but face acute strain from even moderate debt due to higher interest rates and limited fiscal capacity. The number of African countries with debt above 60% of GDP (a common prudential benchmark) jumped from just 6 in 2013 to 27 countries by 2023 (UNCTAD, 2024), illustrating how debt vulnerabilities have spread in the developing world. According to the World Bank and IMF, a startling 60% of low-income countries are now in or at high risk of debt distress (Masterson & North, 2023) – levels reminiscent of the pre-HIPC era. In 2022 alone, low- and middle-income countries paid \$443.5 billion to service external public debt (Masterson & North, 2023), draining resources from health and education. Indeed, 54 developing countries (half of all developing nations) spent more on servicing interest payments than on healthcare or education in 2023 (UNCTAD, 2024), a telling indicator of debt’s social opportunity cost.

United States – Largest Debtor and Unique Privileges: The United States occupies a paradoxical position. It is by far the world’s largest debtor in absolute terms – U.S. general government debt exceeded \$31 trillion in 2022 (about 121% of U.S. GDP) (Gaspar et al., 2025), and continues to rise due to persistent fiscal deficits. U.S. debt alone constitutes roughly one-third of total global public debt. By conventional metrics, such debt and deficit levels might spell danger: credit downgrades or inflationary finance. And indeed, U.S. fiscal health faces long-term challenges (e.g. an aging population, high healthcare costs). Yet, the U.S. faces a very different market reaction compared to other high-debt nations. Treasury bonds remain the benchmark “safe asset” and enjoy unflagging demand (Nenova, 2025). Even when U.S. debt has ballooned, interest rates have often stayed low or fallen – a stark contrast to, say, emerging markets where much smaller debt loads can trigger capital flight and soaring yields. This is the embodiment of the earlier discussed *exorbitant privilege*. As one BIS study notes, U.S. Treasuries are treated as special safe assets in international markets, a status that enables the U.S. to finance itself liberally (Fang et al., 2023). For example, during the COVID-19 shock, global investors crowded into Treasuries, allowing the U.S. Treasury to fund multi-trillion dollar stimulus packages at historically low rates. The Federal Reserve’s backstop (through massive bond purchases and swap lines to other central banks) further reinforced Treasuries’ safe asset status (Landau, 2025). This dynamic has effectively allowed the U.S. to govern the global liquidity conditions – the U.S. Treasury and Fed collectively determine how much dollar liquidity and safe assets are supplied, influencing everything from global interest rates to exchange rates (Landau, 2025).

To illustrate, compare the U.S. with Italy, an advanced economy with a high debt-to-GDP (over 130%). Italy, as part of the eurozone, does not borrow in a reserve currency of its own, and must rely on the European Central Bank’s credibility. In the 2010–2012 euro crisis, Italy’s bond yields spiked above 7% at times due to market fears, forcing EU interventions. The U.S., with similar or higher debt ratios, never experienced such a bond run – investors actually *flocked* to U.S. bonds in every crisis (2008, 2020). Another comparison: Japan’s gross debt is above 230% of GDP, much higher than the U.S.’s, but Japan’s situation is unique in that ~90% of its debt is domestically held (and the Bank of Japan owns around half of outstanding JGBs). Japan’s yields remained ultra-low due to this captive audience and aggressive monetary easing; however, the yen is not a global

reserve on par with USD, so Japan cannot externalize its debt in the same way. It faces other constraints (like eventual inflation or yen depreciation). The U.S. combines the best of both worlds: global external financing on cheap terms, and the ability to pay in its own currency. As Landau (2025) observes, this amounts to a “global social contract” where the world tolerates U.S. deficits (and even relies on them for safe assets and liquidity), while the U.S. in turn anchors the system – albeit in an asymmetric manner (Landau, 2025). The privileges include the ability to impose financial sanctions (as seen recently, where access to the dollar and Treasuries can be denied, wielding immense pressure on target countries)(Landau, 2025). No other country currently has that reach, because no other country’s currency and debt are so universally used.

Safe Asset Regime and Low Neutral Rates:

Our findings support the safe-asset theory’s claim that the regime has kept global interest rates (“neutral” rates) lower than they would otherwise be (Landau, 2025). In the 2010s, despite rising public debts, servicing costs for many advanced economies fell, partly because global savings chased the limited supply of safe government bonds (U.S., German, Japanese). Even now, as inflation has prompted rate hikes, the demand for Treasuries and Bunds remains strong in relative terms – the yield on U.S. 10-year bonds, while higher than a few years ago, is still moderate given inflation and debt levels. However, the March 2020 turmoil did reveal fragility: even the U.S. Treasury market saw a liquidity strain, prompting Fed intervention (Eisenbach & Phelan, 2022). That incident raised questions about whether there is a threshold of U.S. debt beyond which its safe asset status could erode. Some analysts warn that if U.S. fiscal trajectory isn’t stabilized in the long run, or if political dysfunction (like debt-ceiling standoffs) spook investors, the safe-haven halo could dim (Smith, 2025; USDT, n.d.). For now, though, our evidence aligns with the view that *the global safe-asset regime privileges the U.S. Treasuries in such a way that the usual market disciplining mechanisms are softened*. In effect, the world *governs itself* to an extent by flocking to the safety of U.S. debt, thereby financing U.S. hegemony.

In summary, the first finding is that sovereign debt is not just high in aggregate, but *strategically distributed*: the U.S. as a reserve issuer carries immense debt with relative impunity and influence, whereas many smaller or less privileged states struggle under far less debt. This disparity sets the stage for

understanding the leverage in negotiations and institutions, to which we turn next.

4.2. IMF Governance – A Structural Tilt Toward Creditor Control

The International Monetary Fund is ostensibly a cooperative institution of 190+ countries, but in practice its governance is heavily weighted by financial contributions (quotas) and geopolitical arrangements dating back to Bretton Woods. Our analysis confirms that the U.S. and European countries maintain a de facto duopoly over IMF decision-making. The IMF quota formula (based on GDP, openness, etc.) gives the U.S. about 17.4% of quota share, translating to 16.5% of actual voting power after adjustments (Tan, 2024). The EU collectively holds around 25–29% (depending on whether one counts all EU states or just the eurozone) (BWP, 2023). As noted, an 85% majority is needed for the most critical votes (e.g. amendments to the Articles of Agreement, quota changes, new membership admissions). Therefore, the U.S. alone can block any such action, and the EU bloc can do the same if voting together (BWP, 2023). This is not a speculative conclusion but explicitly acknowledged in policy discussions (Crabb, 2023). For instance, a recent Atlantic Council brief on IMF reforms points out that aligning quotas with today’s economy would require lowering the U.S. share to ~14.9%, which the U.S. would resist since dropping below 15% means losing its veto (Tan, 2024). Unsurprisingly, quota reforms have been stalled or modest, with the U.S. Congress often a hurdle. In December 2023, the IMF Board approved a quota increase that preserved the existing shares (an “equiproportional” rise)(Tan, 2024) – effectively sidestepping shifts that would empower China or others (BWP, 2023).

What does this imbalance mean in practice? One consequence is that key leadership positions and strategic decisions tend to align with U.S.-European preferences. A clear example was the European debt crisis: the IMF bent some of its own rules (regarding debt sustainability) in 2010 to allow large loans to Greece, Ireland, Portugal – arguably to protect the eurozone’s stability (and European banks) (BWP, 2023). Many analysts saw the heavy influence of Europe (backed by the U.S.) in orchestrating that response, whereas standard IMF criteria might have called for earlier debt restructuring. Conversely, countries out of favor with the U.S. have sometimes faced delays or tougher terms. Historical studies showed that nations voting with the U.S. at the UN got better IMF treatment (Thacker 1999), suggesting a

geopolitical influence. More recently, during the COVID-19 crisis, the IMF did extend unprecedented support (like rapid financing and an issuance of \$650 billion in Special Drawing Rights), moves broadly welcomed. Yet even in the allocation of SDRs, the bulk by design went to rich countries (since SDRs are given in proportion to quotas) – a structure that critics say should be amended if the IMF is to truly aid the neediest.

For low-income and developing countries, the skewed governance means limited voice and bargaining power. They depend on the IMF in crises but cannot significantly sway its policies. As the Bretton Woods Project notes, “*while most likely to borrow from the IMF, [low-income countries] have limited influence to determine the frameworks for policy advice and conditionality attached to their loans*” (BWP, 2023). The same source highlights that this often results in *stringent fiscal consolidation policies* (like privatization and social spending cuts) being prescribed, with adverse impacts on poverty, inequality, and human rights documented (BWP, 2023). In our research, we found that IMF staff do increasingly talk about inclusive growth, gender, climate, etc., but the *structural power* – the baked-in bias toward austerity and creditor assurances – is still evident in many programs.

The introduction of new major players, especially China, is testing the IMF’s governance adaptability. China’s quota share is only 6.4%, far below its ~18% of global GDP (PPP) (Tan, 2024). Calls to raise China’s share have met resistance because that would dilute the West’s control and possibly require the U.S. to lose its veto (BWP, 2023). This tension comes at a time when China has become the largest bilateral creditor to developing countries, which complicates debt crisis resolutions. The IMF cannot restructure debt in Zambia or Sri Lanka without China at the table, for example. We have observed in case studies like Zambia’s debt restructuring (2020–2023) that progress was slow until a breakthrough in 2023 after protracted negotiations involving China. The Common Framework (a G20 initiative to include non-Paris Club creditors like China in debt restructuring) has so far been sluggish – partly because of disagreements between Western and Chinese approaches (the IMF/World Bank have bristled at China’s requests to include multilateral debt in haircuts, etc.). This suggests a looming question: will the existing governance order bend to accommodate new powers, or will it entrench, possibly prompting the new powers to form alternative

institutions? Already, the BRICS countries are expanding their cooperation and even floated ideas of a BRICS reserve fund or currency arrangement (though that’s in early stages). The IMF’s legitimacy is at stake, as noted by observers: failing to reform quotas to reflect current realities undermines the Fund’s credibility (BWP, 2023).

From the perspective of *soft governance*, the IMF’s structure means that the norms and policies it propagates often carry the imprint of its major shareholders. This can be benign when it promotes global stability, but it can also be a channel for subtle coercion. For example, when an IMF program requires cutting fuel subsidies or public jobs, that may be economically justified, but it is also conveniently aligned with a liberal market ideology congenial to Washington and Brussels. Debtor governments often have little choice but to comply, effectively letting the IMF (and by extension its dominant members) guide their policy – a clear instance of sovereignty being ceded in exchange for financial rescue. We interpret this as *institutionalized soft governance*: it doesn’t take the form of a direct order from one country to another, but the end result (policy change in the debtor country) is akin to what an external governor might impose, achieved through the intermediation of the Fund’s rules and conditionality.

4.3. Conditionality’s Human Impact – Distribution, Inequality, and Sovereignty

Our third major finding digs into the consequences of the IMF’s policy prescriptions in debtor nations, tying back to the notion of *debt as governance on the ground*. The evidence is quite compelling that IMF program conditionality has often had regressive social impacts, although outcomes can vary depending on the types of conditions and country context. A 2022 study by Biglaiser and McGauvran, analyzing 81 developing countries over 1986–2016, found that IMF arrangements with structural reform conditions (privatizations, deregulation, etc.) led to significantly higher poverty rates, whereas programs focused on short-term stabilization (macro targets like deficit reduction without micromanaging structural changes) had a more neutral poverty effect (Biglaiser & McGauvran, 2022). The mechanism is clear: structural conditions frequently involve *contractionary measures* in the short run – e.g. shedding public sector jobs, removing subsidies, opening markets to competition that may displace local industry – which tend to hurt employment and low-income households (Biglaiser & McGauvran, 2022). Our review of

literature finds a strong consensus on certain dimensions: income inequality tends to rise during and after IMF austerity programs (Lang, 2021; Forster et al., 2019; Biglaiser & McGauvran, 2022), and labor's share of income often falls as labor market "flexibilization" is implemented (wages suppressed, job security reduced) (Biglaiser & McGauvran, 2022). Forster et al. (2019), for instance, documented that IMF-advised fiscal consolidation and liberalization reforms were associated with gains for the top decile of the income distribution, while the bottom quintile's share declined (Biglaiser & McGauvran, 2022). These findings align with anecdotal observations: the burdens of austerity (reduced public services, higher VAT taxes, layoffs) fall disproportionately on the poor and middle class, whereas the benefits (improved investor confidence, debt repayments) accrue to creditors and asset owners.

Consider the case of Ghana in 2022–2023. Facing a severe debt and currency crisis, Ghana turned to the IMF and secured a \$3 billion Extended Credit Facility program. Conditions included fiscal consolidation (cuts in spending, new taxes), monetary tightening, and restructuring of domestic debt. In the short term, Ghana experienced skyrocketing inflation (over 50%) and a currency depreciation before stabilizing. Reports from civil society noted that austerity measures constrained investment in public services and hit low-income communities hardest, exemplifying the proverb "*the borrower is slave to the lender*" (Prov. 22:7) in real life. The government had to make politically unpopular choices (like raising VAT, eliminating fuel subsidies) in order to unlock IMF funds – decisions that were effectively made under the duress of financial necessity rather than normal democratic deliberation. This underscores the ethical tension: are such measures the price of prudent economics, or are they coercive impositions that undermine a society's duty to care for its vulnerable? The biblical norm of Jubilee (Lev. 25) would suggest that periodic debt forgiveness is preferable to perpetual austerity. Yet, in modern practice, we rarely see full debt jubilees – instead, the norm is to demand adjustment from the debtor.

Another striking example is Sri Lanka, which defaulted on its external debt in 2022 and entered an IMF program in 2023. Sri Lanka's crisis was marked by severe shortages (food, fuel, medicine) and social unrest. The IMF program aimed to restore stability but required tough fiscal measures (raising taxes, cutting energy subsidies) and restructuring debt with creditors. While necessary to rebuild reserves, these conditions

also meant additional hardship in the short run for a population already in distress. Sri Lanka's sovereignty was clearly curtailed: it had to accept IMF supervision of its economic policies as a condition for bridge financing. In public discourse, many Sri Lankans lamented that their economic destiny was now in the hands of external actors (the IMF and creditor nations like Japan, China, India who formed a creditor committee). The parallel to earlier eras of colonial or great-power influence was not lost – except now it was through debt contracts and conditionality rather than gunboats.

Our findings do note that not all conditionality is uniformly bad, and some programs have had positive outcomes. For instance, when conditionality is limited to macro-stabilization (say, committing to reduce inflation or phasing out an overvalued exchange rate) and coupled with social safeguards, countries can emerge stronger without dramatic increases in poverty. During COVID-19, the IMF even encouraged increased social spending and temporarily suspended some usual conditions. In some recent cases (e.g., the 2016 IMF program in *Jordan*), the IMF built in protections for health and education spending. This shows that the IMF is not monolithic and has evolved. However, the overarching pattern is that sovereign debt crises often result in a transfer of adjustment costs onto the debtor population. Creditors rarely take losses until things are at a breaking point, whereas ordinary citizens start feeling the pain through austerity early on. The HIPC Initiative in the 2000s was a recognition that forcing the poorest countries to repay unsustainable debt was both cruel and futile – and it did result in large debt cancellations for 30+ countries. Even so, as our research highlights, many of those countries have again accumulated unsustainable debts by the 2020s. For example, *Zambia* reached the HIPC completion point in 2005, but by 2020 it defaulted again, owing to a commodity price slump and heavy new borrowing (especially from China and bond markets). This raises concerns that the current system lacks a durable solution for cyclical debt problems. There is no permanent *sovereign bankruptcy mechanism* or routine jubilee; relief is ad hoc and often comes too late. In the interim, indebted nations limp along under creditor-approved programs that may not prioritize long-term development or equity.

From an ethical standpoint, one can argue that such a system violates principles of justice and human dignity. Leviticus 25 instituted Jubilee every 50 years in ancient Israel – a radical resetting of debts and liberation of bond-servants – to prevent the

entrenchment of generational poverty and loss of liberty. Deuteronomy 15:1-2 similarly called for debt cancellation every seven years among Israelites. While those were specific religious-legal commands, the spirit behind them is the idea that debt should not be allowed to permanently enslave or dispossess people; there must be a release or reset to restore equality and community. Translating that to the international sphere: one could argue for systematic mechanisms to wipe out unpayable sovereign debts (especially for poor nations) on a regular basis, rather than making them endure years of austerity for debts that everyone knows cannot be fully repaid without crippling the society. The concept of odious debt (debts incurred by illegitimate regimes that shouldn't morally bind the populace) also comes to mind in some cases, yet there is no formal process to address that in today's frameworks.

In practice, what we see is *coercive debt structures* where the leverage creditors hold – through the threat of withholding financing or market access – compels debtor governments to implement policies that may be against their own political promises or even constitutional provisions (e.g., cutting pensions, which has been struck down by courts in some countries but demanded by IFIs). The borrower's *de facto* subservience to the lender validates the ancient warning of Proverbs 22:7: “*the rich rule over the poor, and the borrower is slave to the lender.*” This is “soft governance” in the sense that it is achieved by financial dependency rather than direct political rule, but for affected populations it can feel quite hard.

4.4. Toward a Post-Dollar Multipolarity? Foresight on Safe Assets and Sovereignty

Looking ahead, our research canvassed discussions about the future of the dollar-centered system. There is growing speculation that the world may gradually move toward a more multipolar currency order, in which the U.S. dollar's dominance is reduced in favor of a basket of major currencies (euro, RMB, perhaps others) or new digital currencies. Some drivers of this include geopolitical shifts (e.g., U.S.-China strategic rivalry prompting diversification away from the dollar), technological innovation (digital currencies that could reduce frictions of using multiple currencies), and the sheer scale of U.S. debt (raising questions about sustainability). Landau's (2025) *hypothetical scenario of a world with no dollar safe asset* is instructive (Landau, 2025): he predicts that without the dollar anchoring, interest rates globally would be higher and more volatile, liquidity would fragment, and countries might erect more capital

controls to defend themselves (Landau, 2025). Essentially, a multipolar or *acephalous* (headless) system could be more unstable unless new frameworks emerge.

Sectoral governance trends in African higher education reinforce the same pattern: where new algorithmic infrastructures scale quickly, policy sophistication lags, and ethical enforcement remains uneven. In a continent-wide synthesis, Sangwa, Ngobi, Ekosse, and Mutabazi (2025) document wide disparities in institutional AI governance maturity, with early adopters (e.g., South Africa, Nigeria, Rwanda) moving faster than regulatory frameworks can harmonize practice. Their proposed phased, Ubuntu-informed governance model shows how value-laden design choices travel from macro architectures into organizational rules, training, and audit regimes. As digital currencies and programmable payments evolve, these findings caution that “plumbing” choices at the core of the monetary system will diffuse across sectors unless *ex ante* safeguards, auditability, and human-centered oversight are embedded (Sangwa et al., 2025).

A likely near-term path is not a swift currency replacement but a shift in the rails that settle value. Programmable CBDCs operating over ISO 20022 and supervised by AI-driven regtech could enable granular, condition-based controls on cross-border liquidity, widening the repertoire of soft governance tools available to reserve issuers and IFIs. Evidence from Sangwa and Mutabazi (2025b) documents concrete design patterns, from wallet-level rule enforcement to transaction-level metadata that enables real-time eligibility checks. Technical options outlined by the BIS make such interoperability feasible across jurisdictions, while the European Data Protection Supervisor cautions that poorly bounded programmability can erode financial privacy and civic freedom. The implication for this article is direct: institutional power may soon operate through standards and software as much as through quotas and conditionality (Sangwa & Mutabazi, 2025a; Bank for International Settlements, 2022; European Data Protection Supervisor, 2023).

At present, however, no true alternative safe asset of comparable depth and acceptance exists. The euro area tried to create one through greater fiscal integration (e.g. EU “eurobonds” issued for COVID recovery), but the euro still lacks a unified fiscal backing and its international usage is about 20% of reserves. China's renminbi, despite the country's

economic size, is constrained by capital controls and limited trust in its governance; only ~3% of global reserves are in RMB. Thus, our findings echo Landau: *there is no credible alternative to the dollar as a global store of value given current prerequisites* (Landau, 2025). Only if the U.S. severely mismanages its privilege (for instance, an actual default on Treasuries due to political impasse, or runaway inflation eroding their value) could a quicker erosion occur – an outcome that would be catastrophic for the global system as well. More likely is a gradual diversification at the margins: increased use of regional arrangements (like Asian Currency swaps, BRICS's New Development Bank lending in local currencies, etc.), and perhaps, in the more distant future, the advent of central bank digital currencies (CBDCs) that could ease cross-border payments in non-dollar currencies. We note that already some oil trade is being invoiced in yuan, and countries like Brazil have agreements with China to settle trade in their own currencies. These developments bear watching as they have implications for safe asset demand: if, say, Saudi Arabia were to hold a greater portion of reserves in yuan or euro instead of Treasuries, that chips away at dollar primacy.

For sovereign debt governance, a multipolar world could mean no single lender-of-last-resort (like the Fed's role in crises) and potentially a more fragmented safety net. It could also mean multiple power centers – e.g., an Asian Monetary Fund led by China, rivaling the IMF. Debtor countries might then have more options to shop around for help (already, some turn to Chinese swap lines or Gulf state aid as alternatives). While choice could empower borrowers, it might also lead to governance arbitrage where discipline is weaker and overall debt gets worse (if multiple creditors lend freely without coordination, a debtor could become over-indebted more easily). There's also a risk of *debt diplomacy* from new creditors: some accuse China of “*debt-trap diplomacy*,” though evidence is mixed. Certainly, Chinese loans have fewer overt conditions on governance (China doesn't typically demand policy reforms; it often focuses on securing repayment via collateral or strategic assets). This contrasts with Western-led loans that come with policy strings but no collateral. From a sovereignty standpoint, some countries might prefer Chinese-style deals (no lectures on how to run the economy), but they may end up pledging critical assets (like ports, mines) as security, which is another form of loss of sovereignty if things go wrong.

Our foresight analysis suggests that if the international community does not develop more cooperative and fair debt resolution mechanisms, sovereign debt crises could become more protracted and politicized in a multipolar context. The impasse in Sri Lanka's debt talks in 2022–23, or Zambia's slow progress until this year, reflect tussles between Western and Chinese creditors. A collapse of the U.S.-led order without a ready replacement might see more such gridlock. Therefore, one of our recommendations (detailed in the conclusion) is to strengthen multilateral frameworks that include all major creditors (old and new) and establish clear rules for burden-sharing in debt relief. Without that, we fear that debtor nations will face even greater difficulty navigating between competing great powers, each pulling them in different directions financially and politically.

Finally, we reflect on risks to sovereignty. Sovereignty in the 21st century has always been constrained by interdependence, but debt is a particularly underappreciated vector of influence. It can quietly erode a nation's independence long before the public recognizes it. One risk is the erosion of democratic governance: when externally mandated economic decisions are at odds with the electorate's will, it can breed cynicism, instability, even regime change. We've seen massive protests in countries from Greece to Argentina to Lebanon when austerity bites; sometimes governments fall. There is an ethical imperative to address this: global financial governance should not consistently trump domestic social contracts. The biblical tradition's call for periodic debt forgiveness was as much about restoring social harmony as about economics – it prevented the creation of a permanent underclass of debtors. In our context, that underclass could be entire nations that remain marginalized and beholden to creditors. Ensuring that sovereign borrowing and lending are conducted responsibly, and that when mistakes happen the resolutions are just and prompt, is vital for a more equitable world order.

5. Conclusion and Recommendations

The article demonstrates that reserve-currency finance, IMF voting rules, and program conditionality form an interlocking machinery of soft governance. The unified model yields testable claims about convenience yields, agenda power, and distributional intensity, and it offers an ethical template for program design that different traditions can affirm. The United States, as the primary supplier of safe assets, enjoys

unparalleled advantages that allow it to wield financial power without direct coercion. The structure of IFIs like the IMF embeds an imbalance that grants the U.S. and allies effective control (or veto) over key decisions, while debtor nations often relinquish a degree of sovereignty when they enter programs. Conditionality, in turn, acts as the micro-level tool through which policy changes are implemented in exchange for financial relief, producing significant social consequences and raising moral questions about who bears the burden of adjustment.

Actionable Recommendations: In light of these conclusions, we propose the following policy measures and reforms:

(i). **Rebalance IMF Governance (Quota and Voice Reform):** The legitimacy of the IMF – and by extension the international monetary system – requires that its governance adapt to the current economic realities. We recommend accelerating quota reforms to increase the representation of emerging economies, especially those like China, India, and Brazil, whose contributions to world output have grown. While this may be politically challenging (as it could reduce the U.S./EU share), even incremental steps are vital (BWP, 2023). One approach could be to raise basic votes (which benefit smaller members) and/or develop a double-majority voting system (requiring both weighted and unweighted majorities for key decisions) to ensure broader support. Additionally, the tradition of the IMF and World Bank leadership selection should be opened beyond U.S. and European candidates to instill confidence that these institutions serve all members impartially. Over the next decade, if these reforms are not made, alternative arrangements will likely gain traction, fragmenting global financial governance. Thus, embracing change proactively will help preserve the IMF's central role while making it more democratic.

(ii). **Enhance the Design of Conditionality with Social Safeguards:** Conditionality must be reimaged so that it does not simply enforce austerity at all costs. We urge the IMF and creditor governments to incorporate explicit social protection floors in program design – for example, protecting minimum expenditures on health, education, and anti-poverty programs (BWP, 2023). The IMF has started some moves in this direction (like its “social spending floors” in certain programs), but these should be universal best practices. Moreover, structural conditions should be limited and carefully justified in terms of growth and equity impact. Rather than dozens

of intrusive conditions, programs should focus on a few key macroeconomic targets and reforms that are crucial to recovery, giving more policy autonomy to the government on how to meet those targets. For instance, if fiscal consolidation is needed, the composition (whether through tax vs. spending, and whom to tax or what to cut) should be left to domestic debate to the extent possible. This respects sovereignty and allows tailoring to local values (e.g. a country might choose higher wealth taxes rather than cutting subsidies to the poor – a choice they should be allowed to make). Ex-post, program success should be evaluated not just on macro outcomes but also on poverty and inequality indicators, with negative deviations prompting course corrections. Creditors also should recognize that overly harsh conditions backfire – sparking social unrest that can derail both the program and the country's stability. In sum, *conditionality should be a tool for reform, not a punitive device*, and it must align with the broader goal of sustainable, inclusive growth.

(iii). **Establish a Sovereign Debt Workout Mechanism:** One glaring gap in the international financial architecture is the absence of an orderly, institutional process for sovereign debt restructuring. We recommend the creation of a *Sovereign Debt Forum or Tribunal* under the auspices of the UN or a reformed IMF, which can bring all creditors (bilateral, multilateral, private) to the table and fairly adjudicate debt reduction when a country is insolvent. This could draw on proposals like the long-discussed Sovereign Debt Restructuring Mechanism (SDRM) which was floated by the IMF in the early 2000s, or newer ideas from UNCTAD and civil society. Key features should include a stay on enforcement (so creditors cannot litigate or seize assets while a restructuring is negotiated), majority voting to bind all creditors (to prevent holdouts vulture funds from sabotaging deals), and impartial assessment of what debt load is sustainable for the country (perhaps by an independent panel of experts). By institutionalizing Jubilee-like principles (debt relief when debts are unpayable), this mechanism would inject a measure of compassion and rationality into what is currently an ad hoc and often inequitable process. It would prevent situations where countries delay necessary defaults because of fear of chaos (as happened in Venezuela, or currently some suspect in countries like Ethiopia or Suriname). Instead, the process would be more like a Chapter 11 bankruptcy – an orderly path to restore solvency while equitably distributing losses. Importantly, such a mechanism must involve *new creditors like China, Gulf states, and bondholders* on equal footing – a

challenge, but inclusion is the only way to reflect today's creditor landscape (BWP, 2023). If successful, this could reduce the geopolitics in debt crises: rather than a tug-of-war, all parties submit to a common forum's decision.

(iv). **Diversify the Global Safe Asset Supply**

Cautiously: To address the structural reliance on the U.S. Treasuries, the international community could explore ways to *gradually diversify safe assets*. One avenue is through IMF Special Drawing Rights (SDRs) – expanding their use and possibly backing an SDR-denominated bond issuance that could act as a neutral safe asset. Regional development banks or the World Bank could also issue more debt to fund global public goods (like climate investments), which might be considered relatively safe (with implicit backing from shareholder governments). The eurozone's move to joint debt issuance for recovery funds set a precedent that European bonds can be safe assets if politically backed – continuing on that integration path (e.g. a permanent eurobond) would create a second pillar of safe assets besides the U.S. dollar. However, these should complement, not abruptly replace, U.S. Treasuries. A sudden loss of confidence in Treasuries would be destabilizing; instead, the goal is a *more resilient multipolar system* over time, where no single country's missteps can crash the entire system. Multicurrency arrangements (like more swap lines between major central banks to provide liquidity in each other's currencies during crises) can also help. Essentially, the world should prepare for a scenario where, in a decade or two, the U.S. may not be as dominant – by strengthening financial cooperation among other blocs now. This includes fostering local currency bond markets in emerging economies so they are less reliant on foreign currency debt, reducing one source of vulnerability.

(v). **Integrate Debt Justice Norms into Global Governance:**

Finally, and perhaps most unconventionally, we recommend integrating some ethical guidelines into how debt agreements are structured. This could take inspiration from the *biblical concept of Sabbath and Jubilee* – not in a literal theological sense, but as a societal principle of periodic relief and fresh starts. For example, loan contracts (especially official bilateral loans) could contain clauses for *contingent relief* – akin to a Sabbatical year – such as automatic moratoria or interest forgiveness if a country is struck by a severe shock beyond its control (natural disaster, commodity price collapse, etc.). Some climate-related debt swaps incorporate this, like “hurricane clauses” that pause debt service when a

hurricane hits. Extending such practices would embody mercy in finance. Creditors, including private ones, could also adopt voluntary code of conduct pledges, agreeing to collective action and not to obstruct necessary restructurings (some efforts along these lines exist, but stronger commitment is needed). The notion that “*with great power comes great responsibility*” applies: the U.S. and other dominant powers should practice stewardship in their financial leadership, using their influence not just to secure their own position but to ensure the system benefits all and does not become predatory. A concrete step could be re-launching a dialogue on *odious debts* – perhaps setting up an impartial body to examine and forgive debts that were incurred by regimes in corruption or against the people's interest. This is contentious, but even a one-time initiative to write off demonstrably odious debts (say, debt incurred by apartheid South Africa or other dictatorships) would send a powerful message that legitimacy matters.

Foresight and Enduring Relevance:

Implementing the above recommendations would help move the world toward a more just and stable debt governance regime, which is crucial as we face the next decade. As we look ahead, several trends will shape sovereign debt issues: climate change (bringing new strains and the need for “green debt swaps”), potential shifts in the balance of economic power (e.g., by 2030, Asia's GDP share will be even higher), and the technological changes in currency and payment systems (perhaps altering how capital flows). Our analysis is designed to be enduringly relevant by focusing on fundamental political-economic structures rather than transient crises. Whether the dollar retains its throne or slowly shares it, the principles of responsible lending, fair burden-sharing, and protection of the vulnerable will remain paramount.

Study Limitations: This study's secondary design inherits data gaps, including incomplete coverage of bilateral lending. I mitigate this by triangulating IMF and World Bank sources with AidData and the CARI database where feasible, and by specifying transparent identification for the proposed tests. The absence of original estimation in the main text becomes a springboard. Future work will compile hand-coded loan-contract panels to resolve creditor-level heterogeneity, enabling sharper adjudication between Paris Club and Chinese modalities.

In closing, sovereign debt can no longer be viewed as a mundane accounting issue – it is a key

arena where questions of power, governance, and morality intersect. Our hope is that this article contributes to a more holistic understanding and sparks dialogue across disciplines. A world in which debt is used not as a tool of domination but as an instrument of mutual development – where lenders lend responsibly and borrowers borrow wisely, and when things go wrong, solutions are cooperative and compassionate – is an ideal to strive for. Achieving that in the coming decade will require learning from past failings and boldly reforming the institutions and norms that structure sovereign debt. The old proverb is right that the borrower is a servant to the lender, but perhaps through enlightened reforms, we can ensure that this servitude is temporary and the relationship becomes one of partnership rather than bondage. As in the Jubilee year, liberation from debt can unleash new beginnings – for individuals, nations, and the global community.

Conflict of Interest: The authors have no conflicts of interest to disclose.

Funding: This manuscript was prepared entirely through the authors' own efforts and resources; no external funding was received.

Author Contributions (CRediT taxonomy):

Conceptualization: S. Sangwa. **Methodology:** S. Sangwa. **Investigation:** S. Sangwa and P. Mutabazi. **Data curation:** S. Sangwa. **Formal analysis:** S. Sangwa. **Visualization:** S. Sangwa. **Writing – original draft:** S. Sangwa. **Writing – review and editing:** S. Sangwa and P. Mutabazi. **Supervision:** P. Mutabazi. **Project administration:** S. Sangwa. All authors meet Taylor & Francis authorship criteria and have reviewed and approved the final version of the manuscript.

Artificial-Intelligence Assistance: The authors employed the generative large-language model ChatGPT (OpenAI GPT-4o, accessed 01 August 2025) for two limited purposes: first, to refine grammar, wording, and stylistic clarity, and second, to expedite the identification of publicly available scholarly sources relevant to the manuscript's themes. A representative prompt was, "Please help me improve the following paragraph to ensure correct English grammar and suggest peer-reviewed studies published since 2020 on this topic." The model did not generate original ideas, data, analyses, or visualizations. All AI-suggested edits and literature leads were manually verified for accuracy, intellectual rigor, and proper

attribution. The authors accept full responsibility for the final content.

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