

# Policy Paper

## **Eurobonds, Debt Sustainability in Africa and Credit Rating Agencies**

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Cover: In the last 10 years, African countries have achieved significant progress in developing their infrastructure.  
(Martin Thaulow/Good people)

This policy paper was drafted by Liwaaddine Fliss, Programme Management Officer  
Office of the Special Adviser on Africa (OSAA)  
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## Contents

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<b>I. INTRODUCTION .....</b>	<b>4</b>
<b>II. THE CHANGING STRUCTURE OF AFRICAN DEBT: RISING SHARE OF COMMERCIAL CREDITORS.....</b>	<b>5</b>
<b>III. CREDIT RATING AGENCIES AND FUTURE ACCESS TO INTERNATIONAL CAPITAL MARKETS.....</b>	<b>8</b>
<b>IV. DEBT AND INFRASTRUCTURE DEVELOPMENT.....</b>	<b>13</b>
<b>V. CONCLUSIONS.....</b>	<b>16</b>
<b>REFERENCES .....</b>	<b>18</b>

# I. Introduction

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1. The achievement of the Sustainable Development Goals will depend upon countries being able to sustain their economies and having access to additional financing resources, especially in the international capital markets, in order to fulfil their growing financing needs. The current levels of resources mobilized domestically and externally by African countries are not sufficient to meet the development aspirations of the African people encompassed in Agenda 2063. For example, the Brookings Institution estimates the Sustainable Development Goal financing gap in sub-Saharan Africa at \$256 billion per annum (Asmal and others, 2020). In addition, the continent loses \$88.6 billion per annum in illicit financial flows due to tax evasion and avoidance and base erosion and profit shifting (United Nations, 2020b). As such, the continent faces a large savings-investment gap that could be filled through the sustained injection of foreign capital. It is against this backdrop that African countries have sought access to international bond markets.

2. While African countries continue to work on increasing domestic resources, including by deepening their capital markets, greater access to affordable international private capital will be critical to mobilizing financial resources for investment in productive sectors and structural transformation in Africa. The investment decisions of private creditors, however, are guided by the opinions produced by the credit rating agencies (CRAs)<sup>1</sup> on the credit worthiness of sovereign debt and their assessment of the default risk.

The pandemic increased the continent's vulnerabilities and exacerbated the weakness of fiscal positions. In fact, in 2020, African Governments spent between 1 per cent and 7 per cent of their gross domestic product (GDP) on stimulus packages (United Nations, 2020a). As a result, the risk of debt distress has intensified, and many countries have experienced downgrades of their sovereign credit ratings. This has reignited and reopened the debate<sup>2</sup> on the role and impact of CRAs on the future access of countries to international capital markets.<sup>3, 4</sup>

3. The present policy paper is aimed at assessing the above-mentioned role of CRAs and the impact of downgrading on selected African countries that have issued Eurobonds<sup>5</sup> between 2000 and 2021. It analyses the shift in Africa's debt structure towards an increased share of private financing and the associated risks and opportunities, with a particular focus on Eurobonds. It also examines the rising concerns about Africa's debt sustainability, especially in relation to the upcoming Eurobonds wall of maturities and the risk of debt default. It assesses the performance of the investment of debt proceedings in infrastructure development and the relationship between public expenditure, governance and borrowing. In conclusion, it provides recommendations to maximize financing opportunities and sustain future access to international capital markets as African countries emerge from the pandemic and build forward better.

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<sup>1</sup> Reference to credit rating agencies (CRAs) throughout the paper are mainly related to Fitch, Moody's, and Standard and Poor's (S&P) Global Ratings.

<sup>2</sup> Misheck Mutize, "Assessing the impact of COVID-19 induced rating downgrades on Eurobond yields in Africa", *African Review of Economics and Finance*, vol. 13, No. 2 (December 2021).

<sup>3</sup> African Business, "Credit rating agencies' harsh stance is hurting Africa", 8 October 2020.

<sup>4</sup> Daniel Pelz, "Are ratings agencies hurting Africa's economies?", *Deutsche Welle*, 12 March 2019.

<sup>5</sup> Angola, Benin, Cameroon, Côte d'Ivoire, Democratic Republic of the Congo, Egypt, Ethiopia, Gabon, Ghana, Kenya, Mauritius, Morocco, Namibia, Nigeria, Rwanda, Senegal, Seychelles, South Africa, Tunisia, United Republic of Tanzania and Zambia.

## II. The changing structure of African debt: rising share of commercial creditors

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4. **Africa's debt is growing but is still low compared to other regions.** Africa's average debt-to-GDP ratio fell from 81 per cent in the year 2000 to 40 per cent in 2009 as a result of the drastic conservative macroeconomic policies that were pursued, combined with a decade of strong growth and debt relief efforts. However, the ratio then rose from 40 per cent to 61 per cent over the period 2010-2019, before further accelerating to 71 per cent in 2020, making Africa the region with the fastest accumulating debt.<sup>6</sup> The latter is considered low compared to the average of developed countries (105 per cent). For instance, Japan registered a debt-to-GDP ratio of 254 per cent in 2020.<sup>7</sup> The accumulation of debt, which is still well below the averages of the debt crisis of the 1980s and 1990s, has raised concern about Africa's debt sustainability, especially in view of the changing composition of its debt. Africa's growing financing needs to support growth, structural transformation, industrialization and diversification, as well as investments in social sectors, against the backdrop of declining official development finance, has heightened the continent's reliance on international capital markets.

5. **Africa's debt structure is changing rapidly, borrowing from private creditors has increased, and African countries have limited access to Eurobond markets.** The share of commercial borrowing in Africa's public external debt has risen over the years, from 27 per cent in 2011 to 52 per cent in 2020 (see figure I), with much of it in the form of Eurobonds. The share of commercial borrowing varies from one group of countries to another. Almost half of the external public debt of South Africa, Egypt, Morocco and Nigeria is commercial, while the commercial debt stocks of the 17 African countries<sup>8</sup> account for a third of their total debt. The rest of the countries have no access to international capital markets and most of

their debt is official. Over the next four years, 53 per cent of the external debt payments of Ethiopia and Zambia will be due to private lenders, while 24 per cent will be due to China, 16 per cent to multilateral institutions and 7 per cent to other governments.<sup>9</sup>

6. **Eurobond debt is increasing the exchange risk volatility of certain countries.** Since Eurobonds are issued in foreign currencies, countries are exposed to an exchange rate risk that could exacerbate their vulnerabilities. Unlike domestic debt, external debt cannot be inflated away and local currency depreciation causes an increase in the country's debt and makes debt in the foreign currency more expensive to service (such as in the case of Angola in 2019, where the public debt-to-GDP ratio went from 89 per cent in 2018 to 110 per cent in 2019, following the devaluation of the kwanza) (Smith, 2021). Almost 60 per cent of Africa's public debt is external and, on average, more than 20 per cent of government revenues are consumed by debt servicing, thereby reducing the fiscal space of countries and diverting scarce resources away from development. For example, between 2018 and 2020, some African countries, such as Egypt, Ghana and Zambia, dedicated 44 per cent, 42 per cent and 35 per cent of their respective government revenues to debt servicing. In addition, national and subregional African capital markets are not developed enough to enable countries borrow in their local currencies and reduce their financial fragility.

7. **Access to Eurobond markets by African countries is increasing, and many of them are now active participants.** When the first batch of African countries, led by South Africa in 1995, followed by Mauritius in the same year, then Morocco and Tunisia, in 1996 and 1997, respectively, accessed the international capital market, there was a growing optimism that

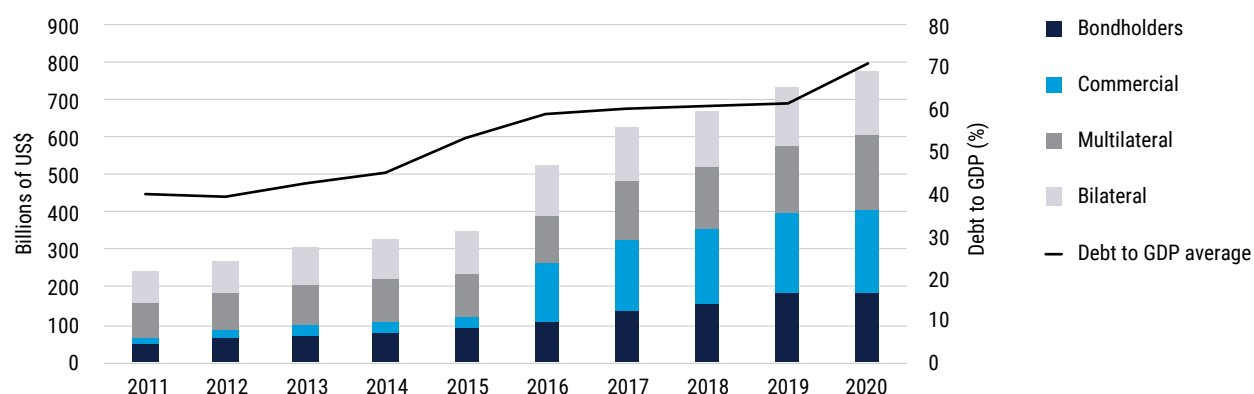
<sup>6</sup> World Bank, International Debt Statistics 2022 (Washington, D.C., 2021).

<sup>7</sup> Ibid.

<sup>8</sup> Angola, Benin, Cameroon, Côte d'Ivoire, Democratic Republic of the Congo, Ethiopia, Gabon, Ghana, Kenya, Mauritius, Namibia, Rwanda, Senegal, Seychelles, Tunisia, United Republic of Tanzania and Zambia.

<sup>9</sup> See Jubilee Campaign Debt, "Private lenders main recipients of debt payments from crisis countries", 9 February 2021.

**FIGURE I**  
**COMPOSITION OF AFRICA'S EXTERNAL DEBT, 2011–2020**



*Source:* Calculated based on the World Bank, Fiscal Risks Database, available at [www.worldbank.org/en/programs/debt-toolkit/fiscal-risk](http://www.worldbank.org/en/programs/debt-toolkit/fiscal-risk); and World Bank, *International Debt Statistics 2022*.

capital markets would become familiar with African Eurobonds and access to much needed additional resources for development would be facilitated and granted. More African countries breached the cap and issued Eurobonds, but the trend was slowed by the global crisis in 2008. Beginning in 2014, there was a considerable increase in bonds issuance and many countries came back to the market and became frequent participants (see figure II). By September 2021, the total outstanding Eurobonds reached \$136.2 billion and almost 57 per cent of the stock is held by only four countries: Egypt, South Africa, Morocco and Nigeria (see figure III).

#### 8. Eurobonds offer more flexibility and policy options to countries but pose underlying risks.

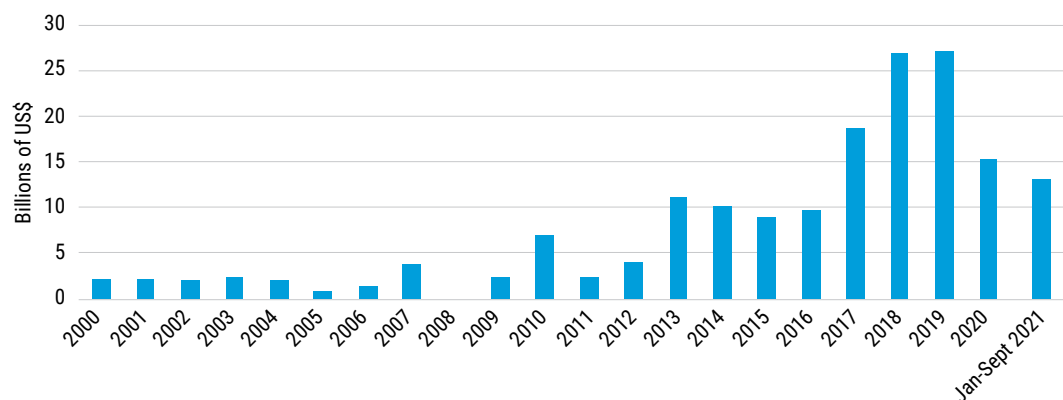
The appetite of many African countries for issuing Eurobonds was motivated by the fact that these instruments can quickly mobilize resources and provide liquidity for larger fiscal space and investment choices to countries, without any of the intrusive policy conditions attached to multilateral and bilateral borrowing. Although issuing Eurobonds has its own advantages (providing access to long-term funding; increasing access of the local private sector to international

finance; lowering debt servicing costs, strengthening macroeconomic discipline, transparency and pushing for structural reforms), it also poses risks and challenges (Mecagni and others, 2014). Opting for excessive issuing of Eurobonds could increase the risk of fiscal indiscipline and irresponsible borrowing as a result of lack of governance and accountability.

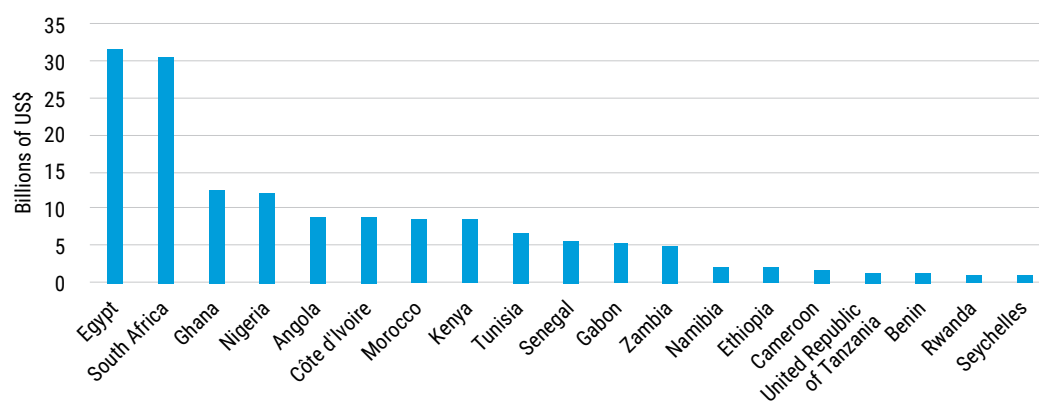
#### 9. Long-term maturities reduce the short-term default risk, but 10-year Eurobonds will result in a wall of maturities in the next two years.

African Eurobonds maturities are most commonly issued for 10 years, but since Egypt issued its first 30-year paper in 2010, other countries, including Côte d'Ivoire, Ghana, Kenya, Angola, Nigeria and Senegal, have done the same. The spike in Eurobond issuance with 10-year maturities, which started in 2013, is now resulting in a wall of sovereign debt repayments due in 2024 and 2025 (see figure IV). Of greater concern is that most repayments for the next two years are expected to be made by oil-importing countries that are exposed to the risk of fluctuation in oil prices and therefore of putting more stress on their budgets and ability to honour payment commitments.

**FIGURE II**  
AFRICAN SOVEREIGN EUROBONDS, 2000–2021

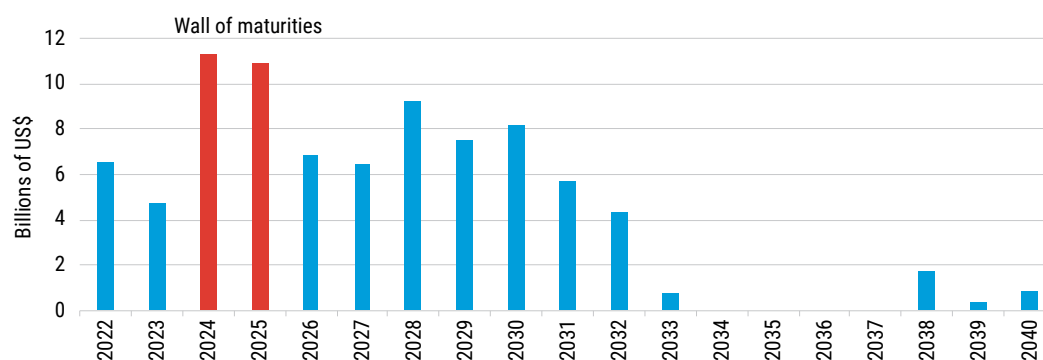


**FIGURE III**  
CUMULATIVE STOCK OF EUROBONDS ISSUED (BY COUNTRY), 1995–2020



Source: [www.bloomberg.com](http://www.bloomberg.com).

**FIGURE IV**  
AFRICAN SOVEREIGN EUROBONDS MATURITIES, 2022–2040



Source: [www.bloomberg.com](http://www.bloomberg.com).



### III. Credit rating agencies and future access to international capital markets

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10. **Honouring the Eurobond maturing debt facilitates the return to the capital market.** Success in issuing the debut Eurobonds and paying back maturing debt is critical to ensuring future access to international capital and is considered by the market as an indication of a country's seriousness and efforts in managing its own debt. Many African countries paid back their matured debut Eurobonds debts,<sup>10</sup> successfully returned to the market and issued Eurobonds with lower interest rates. But this is only feasible when market conditions are favourable and rates are reasonable. For example, in 2019, Kenya opted for further borrowing to pay back its remaining debut Eurobonds debt through issuing new coupons.

11. **Rating downgrades could increase the risk of debt repayment default.** When a country decides to return to the market after its sovereign rating has been downgraded by the credit agencies, it will have difficulty in accessing international capital. In addition, the lack of adequate levels of hard currency reserves, which can act as buffer during difficult times, increases the fragility of an economy and exposes countries to a high risk for debt repayment default. For example, Seychelles (in 2008) and Mozambique (in 2017) defaulted on the payment of their Eurobonds but later issued new Eurobonds and exchanged them with bondholders. Countries are also exposed to political risks that affect their capacity to pay back their debt. Such was the case when, in 2011, Côte d'Ivoire defaulted on coupon payment following post-election violence but later reimbursed investors for the missed coupons (Smith, 2020a) by issuing additional bonds up to \$186.76 million in exchange for the remaining arrears to be paid between December 2012 and December 2014 (Mecagni and others, 2014).

12. **Active debt management should be the norm among African countries, especially those with access to international capital markets.** The passive debt management style, where countries wait

until their debt matures to issue new Eurobonds, has become the exception among African countries, since it restrains the opportunities to mobilize more financial resources and heightens the risk of lack of repayment. The return to the capital market by countries was motivated by the fact that they needed to establish a track record of frequent borrowing and take the opportunity presented by favourable market conditions to refinance old debt with lower rates, thereby extending payment maturities and, as a consequence, reducing rollover risks. The active debt management approach is being implemented by many countries. For example, in 2019, Côte d'Ivoire issued Eurobonds in the amount of 1.7 billion euro and used part of the proceedings to buy back its debt maturing in 2024 and 2025. However, if access to the capital markets is hindered by, among other factors, a downgrade action by CRAs, a country's options in terms of debt management would be limited.

13. **Building the capacity of national debt management offices is critical.** The availability of Eurobonds as debt instruments may also generate a new set of debt management challenges related to their debt profile, and many African countries lack the adequate capacity. Countries will need to pay more attention to their debt management performance. The creation of a centralized debt management office, equipped with the required expertise and tools, able to conduct the necessary simulations and effectively communicate with the markets, is considered a critical step towards maintaining sustainable debt levels and ensuring a better rating for their sovereign credit.

14. **There is an African premium on global debt, which is costly and contributes to deepening the vulnerabilities of African countries.** Since Eurobonds are issued through commercial terms, the interest rates, terms of bond and coupon payments are determined by market conditions (Mutize, 2021). Eurobonds usually have higher rates, shorter maturities and higher

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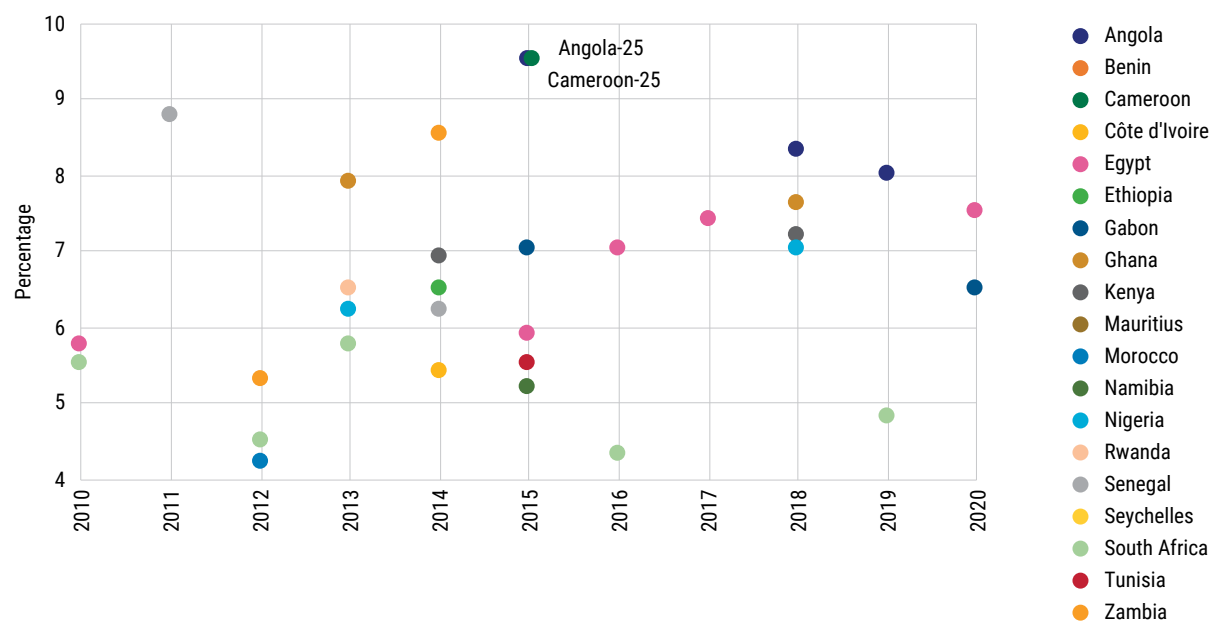
<sup>10</sup> These countries are South Africa (2019), Ghana and Gabon (2017), Nigeria (2018) and Kenya (2019).



coupon payments, which make them more expensive than the terms of concessional loans. African Eurobond interest payments are high (see figure V) and are also more expensive compared with Eurobonds issued by other countries. Taken together, the foregoing raise the question of the existence of an “African premium” on global debt markets (Smith, 2020b). In fact, the premium was estimated to be 2.9 percentage points higher than that of other non-African countries with a similar macroeconomic situation.<sup>11</sup> The premium resulted in a net loss of \$2.2 billion to African Governments on outstanding obligations related to the \$42.5 billion in Eurobonds issued between 2006 and 2014. Since 2015, the value of African sovereign Eurobonds almost tripled, reaching \$119.6 billion, which may have increased the net loss to African countries exponentially. The cost of the premium, in addition to the illicit financial flows leaving the continent, deprives countries of the critical resources needed to achieve the Sustainable Development Goals and positively affect people’s lives.

15. **African Eurobonds yields are very sensitive to downgrades by credit rating agencies.** African Eurobonds are also more expensive than the average Eurobond issued by emerging markets (Smith, 2020b). The high-risk perception attached to African bonds is mainly fuelled and driven by poor sovereign credit ratings (Smith, 2021). Since African bonds are perceived to be risky, they are classified as high yields and investors continue to scramble for these bonds (Mutize, 2021), which are usually oversubscribed. It has also been established that, in general, the yield spreads of sovereign bonds are significantly affected by credit ratings (Larraín, Reisen and von Maltzan, 1997) and that there is a correlation between downgrading and increase in yields (Sy, 2002), particularly in the African context. When a borrower’s rating is above investment grade, it has been demonstrated that bond yields are relatively insensitive to downgrades, but when the rating is at the junk status, they become very responsive even to small downgrades (Ferri, Liu and Stiglitz, 1999). New research (Ruske and Alagidede, 2021) suggests that over the period 2014–2019, on average, close to a third of rating actions directly

**FIGURE V**  
COST OF AFRICAN 10-YEAR EUROBOND ISSUANCES, 2010–2020



Source: Based on African Development Bank, African Economic Outlook 2021 (2021).

<sup>11</sup> Michael Olabisi and Howard Stein, “Sovereign bond issues: do African countries pay more to borrow?”, *Journal of African Trade*, vol. 2, Nos. 1–2 (December 2015).

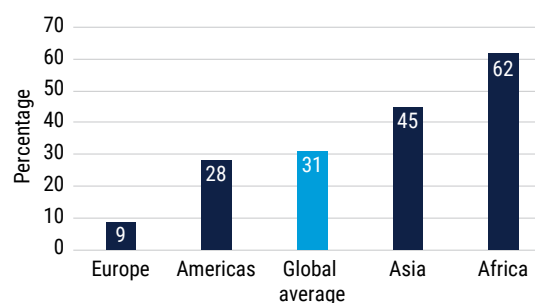
affected bond yields in the eight African countries studied. Private investors are consumers of information and are relying more than before on credit rating agencies' pre-announcements. For that reason, rating actions are more likely to follow rather than drive the Eurobonds yields market. Whether through the issuance of pre-announcements or rating actions, which are usually predicted by investors (since most pre-announcement assessments are later confirmed by rating actions), CRAs continue to have both a direct and an indirect impact on the Eurobonds market.

**16. Avalanche of rating downgrades of African countries.** Since the beginning of the pandemic, 20 of the 32 African countries rated by CRAs have been downgraded or given negative outlooks by at least one of the three major CRAs.<sup>12</sup> The majority of those countries (93 per cent) are now at junk status, with most classified as being at high credit risk or at very high credit risk. In comparison with other regions, Africa's downgrades (62 per cent) are disproportionately higher than the global average of 31 per cent (Fofack, 2021b) (see figure VI).

**17. Since the start of the pandemic, the issuing of Eurobonds has been a quick-fix solution.** The fiscal pressure put on African countries as a result of the coronavirus disease (COVID-19) pandemic pushed some countries to pursue the path of issuing Eurobonds in order to mitigate the negative effects of the pandemic and quickly mobilize resources to support economic activity and vulnerable groups. Since 2019, all the African Eurobonds issued<sup>13</sup> were used on non-productive short-term recurring expenditure to support budget deficit and bond refinancing (Mutize, 2021).

**18. Biased judgment of the credit rating agencies and the fear of downgrades hindered official debt relief efforts.** African countries continue to deal with the dilemma of making difficult policy choices between mobilizing and using liquidity to relieve the urgent burden brought about by the pandemic and servicing their debt, while facing the threat of being

**FIGURE VI**  
DOWNGRADES BY THE MAJOR CREDIT RATING AGENCIES, 2020–2021



Source: Hippolyte Fofack, "The ruinous price for Africa of pernicious 'perception premiums'", October 2021.

downgraded by CRAs. African countries lack the luxury of using the monetary and fiscal instruments that are available to developed countries in order to support their economies. The European Central Bank is using the 1.85 trillion euro pandemic emergency purchase programme to stop an unwarranted rise in debt financing costs<sup>14</sup> and, by the end of 2020, the United States Federal Reserve had purchased \$3.5 trillion in government securities.<sup>15</sup> During the pandemic, advanced economies were benefiting from very low interest rates—even negative rates in real terms—on the international financial market, which enabled them to extend large monetary and fiscal stimulus packages and keep their debt servicing costs at historically low levels. But African yield spreads remained high, increasing borrowing costs for African countries and the risk of debt overhang.<sup>16</sup> The double standards applied by CRAs in reacting to countries' policy announcements to fight the pandemic confirm the nature of the biased assessment of African debt. While the European Union aid package was favourably received by CRAs, financial stimulus packages announced by African countries to bolster their economies, as well as the international debt relief initiatives, triggered threats of rating downgrades. In February 2021, Fitch downgraded the sovereign rating of Ethiopia from B to CCC, expressly referring to the

<sup>12</sup> Fitch, Moody's and S&P Global Ratings: together, they control 95 per cent of the credit rating business.

<sup>13</sup> Bonds were issued by Benin, Côte d'Ivoire, Egypt, Gabon, Ghana, Kenya and Morocco.

<sup>14</sup> See [www.ecb.europa.eu/mopo/implementation/pepp/html/index.en.html](http://www.ecb.europa.eu/mopo/implementation/pepp/html/index.en.html).

<sup>15</sup> Richard H. Clarida, Burcu Duygan-Bump and Chiara Scotti, *The COVID-19 Crisis and the Federal Reserve's Policy Response* (Washington, D.C., Federal Reserve Board, 2021).

<sup>16</sup> International Monetary Fund (IMF), *World Economic Outlook: A Long and Difficult Ascent* (Washington, D.C., 2020).

country's adherence to the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative as the reason. The Debt Service Suspension Initiative and the Common Framework were meant to give more fiscal space and time for countries to navigate through the uncertainty brought about by the pandemic. The initiatives apply only to official bilateral debt owed to members of the Group of 20. While the private sector was strongly encouraged to participate in the initiative, no commercial creditor has joined owing to the absence of incentives for relief, and yet the downgrading of Ethiopia's rating was maintained. Ethiopia's request for treatment under the Common Framework, which, among other things, might include private debt restructuring but with the mechanism for such a restructuring not having been defined, might have contributed to increasing the likelihood of default risk. Though the rating action was triggered by a forecasted potential risk identified on the impact of the country's private debt, it was not readjusted when the risk was dismissed. In the case of Gabon, the downgrading by Fitch of its sovereign rating from B to CCC was based on the expected impact of falling oil prices on widening the country's deficits and hampering its capacity to honour commitments to external creditors. Although oil prices have since increased to above pre-crisis levels, Gabon is yet to receive an upgrade in its credit rating.

19. **Downgrades have cascading effects, mainly on foreign direct investment.** While CRAs rush to downgrade sovereign ratings, evidence shows that it takes an average of seven years for a downgraded developing country to regain its previous rating (African Peer Review Mechanism, 2019). One of the cascading effects of the downgrades in the context of the pandemic was the 18 per cent decrease in foreign direct investment flows to Africa, from \$46 billion in 2019 to \$38 billion in 2020 (United Nations, 2021b), and the reversal in capital flows, particularly in South Africa, where its net non-resident portfolio outflows from bonds and equities exceeded \$9.7 billion in 2020, representing 3.26 per cent of its GDP (Fofack, 2021a).

20. **There is a need to consider questioning the credibility of credit rating agencies.** The increasingly biased perception of CRAs towards African countries, fuelled by the lack of transparency and deficiency in the robustness of their rating methodologies – weight



Traders on the floor of the Ghana Stock Exchange in Accra. (Jonathan Ernst/World Bank)

of objective versus subjective indicators – continues to undermine confidence in the quality and accuracy of the ratings. While access to international capital markets is taken for granted by developed countries, CRA downgrades influence market trends and investors' decisions, thereby contributing to increased borrowing costs for African countries (African premium on global capital markets) and ultimately blocking access to vital financial resources. Therefore, there is a need for African countries to engage in a global dialogue on reforming CRAs with a view to achieving the Sustainable Development Goals.

21. **The need to draw lessons and evaluate the implications of policy choices.** Based on recent experience, African countries need to prioritize honouring their private debt, since any default could result in the blocking of their access to international capital. In addition, they need to thoroughly examine the terms of debt relief initiatives and the implications thereof on

their rating before deciding to join, since any attempt to renegotiate private debt could be classified by CRAs as a default risk. By adopting sound debt management strategies and strengthening the governance of their institutions, African countries could mitigate future payment default risk and showcase their ability to honour commitments and confirm their status as frequent borrowers.

22. African countries also have a responsibility in contributing to the risk perception. African countries need to increase the dialogue with CRAs by providing access to quality and up-to-date information and data on the country's efforts in managing and stabilizing its debt. Such information will enable CRAs to appreciate the real risk rather than relying on subjective estimations. Ensuring sustainability and the continuity of information flows, along with strengthening the

capacity of national governmental experts to maintain strong channels of communication with CRAs, is critical to addressing information asymmetries (African Peer Review Mechanism Continental Secretariat, 2020b). Countries need to communicate better with the market and use every opportunity to provide the essential information that can better guide the decision of investors and therefore contribute to lowering the perception of risk. In cases where the judgment of certain CRAs on the risk profile of a country is controversial, the country could openly criticize the decision and substantiate it with the relevant data. Such an approach could raise questions in the medium term concerning the credibility of the major CRAs, as well as of their methodologies and the tools used, and could push investors to diversify their sources of information by searching for more credible information that better reflects the reality of the risk.

## IV. Debt and infrastructure development

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23. **Most of Africa's debt was directed to infrastructure investment.** Africa's rise in external indebtedness was not matched by sufficiently robust GDP growth (less than 2 per cent on average between 2010 and 2020). Much of Africa's sovereign debt has been used to finance infrastructure projects, totalling over \$600 billion in loans since 2013 (Ras-Work, 2021). Some countries opted to partly use Eurobond proceedings, which are short-term debt, so as to finance infrastructure projects that are of a long-term nature. This discrepancy in managing debt is compounded by the failure of some African countries to adequately use debt to develop their infrastructure (see figure VII).

24. **Mixed performance with different levels of borrowing among countries.** Over the past 10 years, the top performing countries on the Africa Infrastructure Development Index<sup>17</sup> achieved significant progress in developing their infrastructure, while keeping their debt-to-GDP ratio within acceptable levels. The remaining countries adopted a more conservative approach in controlling their debt stocks, which slowed down the development of their infrastructure. Since 2011, the borrowing levels of Angola, Gabon and Zambia increased exponentially, but with negligible impact on the quality of their infrastructure (7.6 per cent change in the index ranking). It would appear that those countries have inefficient investment strategies with respect to the proceedings of borrowing, which have resulted in a "vicious debt cycle" (see figure VIII).

25. **Institutional governance of public spending matters and has a significant impact on a country's infrastructure development performance.** It is vital to explore and interrogate the possible linkages and relations between infrastructure development and the institutional governance of public spending. Using the World Bank governance indicators as a basis,<sup>18</sup> the performance of Angola, Zambia and Gabon on all the

governance indicators was very low compared with the average in sub-Saharan Africa (see figure IX). The data suggest that there is correlation between the limited improvement in the quality of infrastructure in those countries and their low governance ranking, and that there is therefore a need to further investigate the causes of leakages in their public spending. Weak infrastructure governance institutions and structures in those countries may have had a negative impact on the efficiency of their public investments. Official development assistance could play a catalytic role in strengthening governance and institutional development and supporting the mobilization of domestic resources in those countries. It is no surprise that the countries that are ranked highly on all governance indicators also managed to achieve commendable progress in developing the much-needed infrastructure for the structural transformation of their economies.

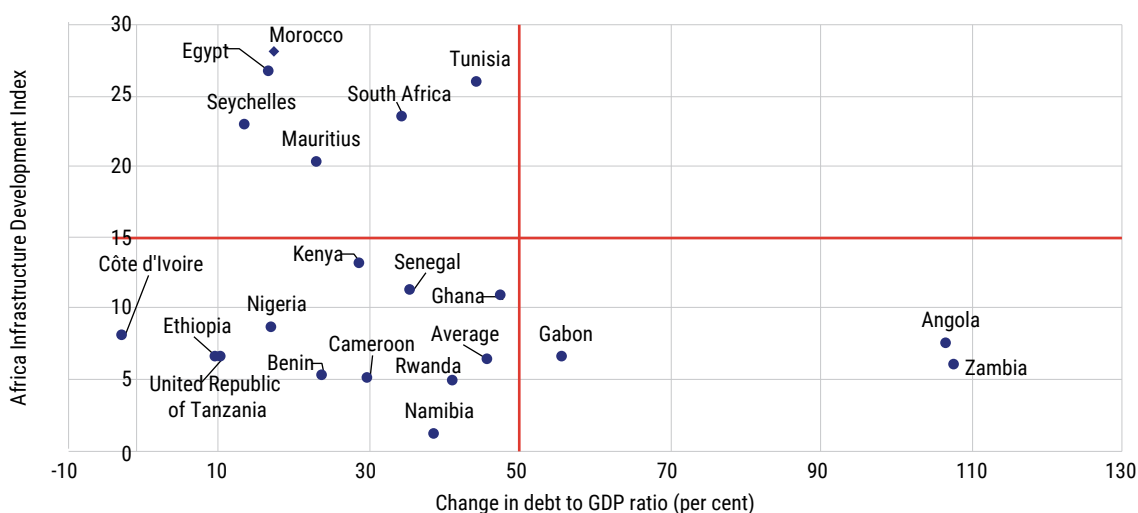
26. **Strengthening the institutions for infrastructure governance reduces inefficiency losses and increases the return on investment.** An analysis by the International Monetary Fund (IMF) shows that by strengthening the institutions for infrastructure governance, low-income developing countries could reduce inefficiency in public spending and halve their losses, which are estimated at 53 per cent of the potential returns on their infrastructure investments (Schwartz and others, 2020). The poor quality of public expenditure, especially when financed by sovereign external debt, combined with weak governance, could further aggravate the debt situation, given that wrong investment choices to fund poorly selected and executed projects may lead to recurring borrowing with longer maturities (Mecagni and others, 2014). For example, Ethiopia and Kenya used Eurobonds to fund projects that have failed, such as the megaprojects in the sugar industry and the Standard Gauge Railway, respectively.

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<sup>17</sup> Egypt, Seychelles, Morocco, South Africa and Tunisia. Those five countries managed to substantially develop their infrastructure by increasing their debt-to-GDP ratio by an average of 25 per cent.

<sup>18</sup> The Worldwide Governance Indicators (WGI) reports aggregate and individual governance indicators for the following six dimensions of governance: Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption.

**FIGURE VII**  
DEBT AND INFRASTRUCTURE DEVELOPMENT, 2011–2020

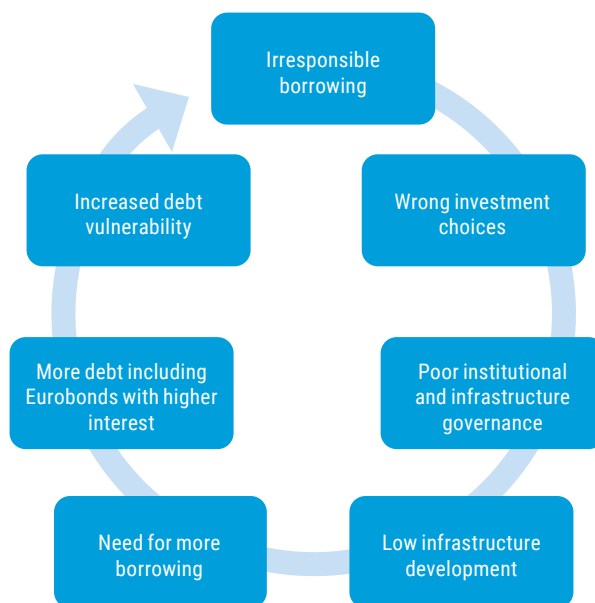


Source: Adapted from Gregory Smith, *Where Credit is Due: How Africa's Debt Can be a Benefit, Not a Burden* (London, Hurst Publishers, 2021).

Both countries had to borrow again to cover outstanding debt payments resulting from the unsuccessful projects (Mutize, 2021).

27. Taking into consideration the significant infrastructure financing needs, estimated at \$130 billion to \$170 billion annually (African Development Bank, 2018), African countries need to pay special attention to reducing inefficiencies in public spending and strengthening their infrastructure governance, especially in the COVID-19 context, in which countries are facing limited fiscal space and increased public debt.

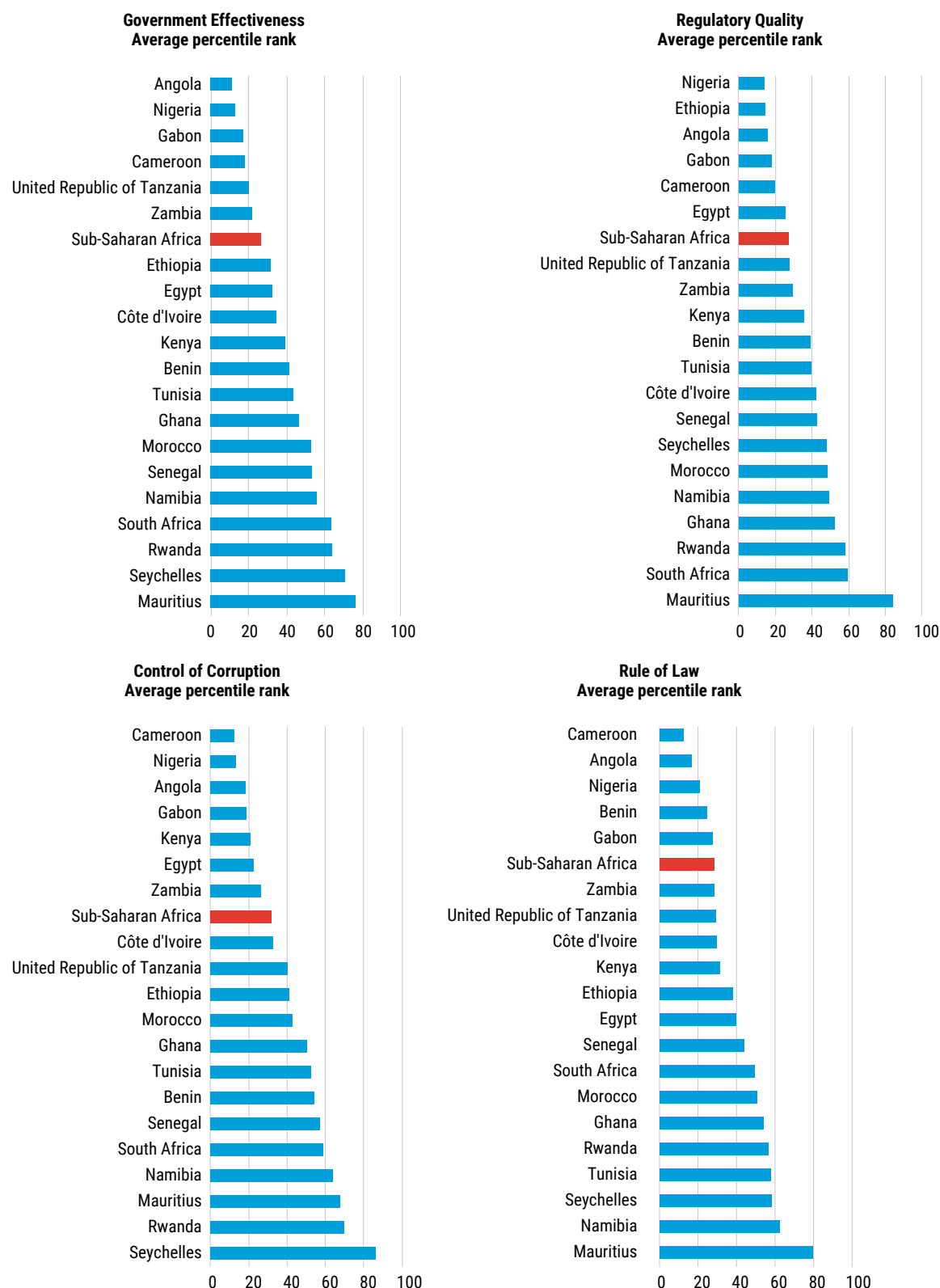
**FIGURE VIII**  
VICIOUS DEBT CYCLE





**FIGURE IX**

**PERFORMANCE AGAINST WORLD BANK GOVERNANCE INDICATORS, 2020**



Source: World Bank, Worldwide Governance Indicators database, available at <https://info.worldbank.org/governance/wgi/Home/Reports>.

## V. Conclusions

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28. The quest by African countries to attract more financial resources to close their sizeable financing gap and support their structural transformation has heightened the continent's reliance on international capital markets. The increased share of private borrowing in the composition of the debt of African countries is expected to grow, especially in the context of the additional stress on their budgets as a result of the pandemic. Owing to the flexibility in using the proceeds from Eurobonds, compared to official debt, there was a considerable increase in Eurobond issuance, starting in 2014, and many countries became frequent participants. That shift led to a massive trend of borrowing that will result in a wall of maturities in 2024 and 2025. However, the avalanche of downgrades of the sovereign credit of most of the African countries rated by the major credit rating agencies during the pandemic has endangered their access to the international capital market. In fact, the biased judgment of CRAs and the downgrades could increase the risk of debt repayment default and have cascading effects, mainly on foreign direct investment. In addition, African Eurobonds yields are found to be very sensitive to downgrades and the vulnerabilities of African countries are also deepened by the African premium on global debt that increases the cost of borrowing.

29. During the pandemic, the official debt relief efforts were hindered by the downgrades and many countries were not able to take advantage of those initiatives. Taking into consideration the above-mentioned factors, there is a need to consider questioning the credibility of CRAs, while recognizing that African countries also have their own part of responsibility in contributing to the high-risk perception. While many African countries have managed to invest the proceedings of debt in developing their infrastructure, it has been established that those countries that have failed to do so are having major problems with respect to the institutional governance of their public spending. Thus the need for strengthening the institutions



A road in Rwanda. Much of Africa's sovereign debt has been used to finance infrastructure projects. (Martin Thaulow/Good people)

for infrastructure governance to reduce inefficiency losses, increase the return on investment and avoid becoming trapped in a vicious debt cycle.

30. Responsible borrowing and converting its proceedings into productive investment that can boost the economy and create growth and decent jobs is the way to transform debt from a burden into a financing solution and a contribution towards changing the African narrative. Global debt levels have increased all over the world, especially since the financial crisis, and Africa's part of that debt was very small. In relative terms, Africa has a problem of low levels of revenue generation, mobilization and investment, rather than a debt problem. The continent needs to generate higher inclusive, sustainable and transformative growth and mobilize more domestic resources, while continuing to reduce inefficiencies at all levels and sectors, fighting illicit financial flows and improving its governance. Realizing the long-awaited, deep, structural transformation that will give fiscal and financial policy spaces to governments to manoeuvre during shocks and crises is the solution for achieving strengthened resilience and building forward better.

Indeed, sub-Saharan Africa would require financing in the amount of \$290 billion, between 2020 and 2023, for a strong recovery.<sup>19</sup>

31. Focusing only on managing the so-called debt burden will further drag African countries into the poverty trap and therefore, priority should be given to mobilizing additional domestic resources that are predictable and sustainable, while responsibly investing the proceedings of debt. Access to international capital markets on favourable terms should also continue to be a priority for African countries. In doing so, African countries should lead the discussion and dialogue with CRAs, within and outside of the United Nations system, on reforming CRAs with a view to achieving the Sustainable Development Goals.

32. In this context, recalling the recommendations of the Secretary-General set out below<sup>20</sup> could not be more relevant:

- Consider having an open conversation with international financial capital market participants, as well as with the credit rating agencies, regarding the risk of credit rating downgrades for countries, especially in Africa.
- Advocate the adjustment of the methodologies of major CRAs to consider issuing long-term ratings alongside traditional ratings, that could boost long-term productive investments in the Sustainable Development Goals and enhance the long-term debt management of countries.
- Consider other mechanisms that would allow countries to access the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative without creating stigma or compromising the credit rating of the beneficiaries, including funds and other instruments within existing institutions.

33. Recognizing the responsibility of African countries in dealing with CRAs and managing their debt, the following recommendations of the African Union (African Peer Review Mechanism Continental Secretariat, 2020b) should be highlighted and recalled:

- African countries need to increase dialogue with CRAs and provide access to quality and up-to-date information and data on the country's efforts in managing and stabilizing its debt. Ensuring the sustainability and continuity of information flows, along with strengthening the capacity of national governmental experts to maintain strong communication channels with CRAs, is critical in addressing information asymmetries and reducing the perception of risk.
- Call upon African countries to strengthen their capacity to better structure their sovereign bonds at medium to long-term tenor and low yields and take advantage of the market's favourable terms.
- African countries need to start implementing the long-awaited reforms to deepen their domestic and subregional capital markets. While embarking on the reform of their fiscal systems, African countries should leverage domestic private sector financing, including by tapping into the growing pension and insurance fund market and ensuring sustainable sources of financing that could help countries navigate through difficult times and be resilient to crisis.

<sup>19</sup> IMF, *Regional Economic Outlook: Sub-Saharan Africa – A Difficult Road to Recovery* (Washington, D.C., 2020).

<sup>20</sup> United Nations, "Liquidity and debt solutions to invest in the SDGs: the time to act is now", March 2021.

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