Debt in Sub-Saharan Africa

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- Following the cancellations of sovereign debt in the early 2000s under the Heavily Indebted Poor Countries Initiative, Sub-Saharan African countries' external debt stocks have increased sharply once again. These debts have increased threefold since 2006, the year that saw the lowest levels following the cancellations.

- The composition of creditors has changed, with private-sector creditors holding a share of sovereign debts which soared by 14 percentage points between 2009 and 2019. This change reflects the increasing number of countries issuing debt securities on international capital markets. Furthermore, China is now the largest bilateral creditor for Sub-Saharan Africa (SSA), holding 62% of the region's bilateral debt in 2019.

- This rapid rise in new debts is a source of severe vulnerabilities because of the complexity of the debt instruments used. The reliance on capital markets has created significant refinancing and exchange rate risks. Furthermore, the lack of transparency surrounding collateralised loans may increase the risk of debt distress and make any potential debt treatments more complex.

- The COVID-19 pandemic has exacerbated pre-existing vulnerabilities. In early 2020, uncertainty and foreign investors' perception of greater risks deprived some Sub-Saharan African countries of access to foreign capital markets, before the situation returned to normal in the second half of 2020. On this occasion, multilateral institutions stepped up and played a countercyclical role by releasing massive emergency funds ($230bn between April 2020 and mid-2021).

- In addition, the Debt Service Suspension Initiative (DSSI), introduced by the G20 and the Paris Club, enabled low-income Sub-Saharan African countries to free up large amounts of liquidity to cope with the pandemic. The G20 and the Paris Club members have agreed for the first time to go beyond a temporary measure and set up the Common Framework for Debt Treatments beyond the DSSI for these countries.
1. A new wave of borrowing with diversified financing sources

1.1 Following the cancellations of debt in the 2000s, Sub-Saharan African countries have incurred massive new debts

In the mid-2000s, the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) had a very significant impact on African countries’ debt stocks. The multilateral debt stock decreased by 43% between 2004 and 2006 and the official bilateral debt stock decreased by 46% over the same period.

Countries that benefited from these cancellations then went on to incur new debt at a steady pace for 15 years. By 2014, their debt stocks matched the peak reached in 2004, before the HIPC Initiative. Their debt then continued to grow far beyond that peak. At the end of 2019, the overall debt of Sub-Saharan African countries stood at $395bn, which is nearly double the amount in 2004 and triple the low point reached in 2006, after the cancellations. The amounts owed by type of creditor have all grown significantly since 2006: by 179% for multilateral creditors, by 123% for bilateral creditors, and by 470% for private-sector creditors.

GDP growth in the Sub-Saharan Africa region did not keep pace with debt growth, which lead to increased debt-to-GDP ratios. The average debt ratio in the region increased from 33.5% between 2010 and 2017 to 50.4% in 2019 and to 57.3% at the end of 2020. In some countries, the ratio is even higher than before the cancellations. This is the case in Mozambique (128.5% of GDP) and Cabo Verde (158.1% of GDP).

1.2 There have been major changes in financing sources

The share of debt owed to official creditors decreased sharply, especially between 2009 and 2014. The share owed to official bilateral creditors fell from 34% to 26% of the total outstanding debt between 2009 and 2019. The share owed to multilateral creditors saw a smaller decrease, from 37% to 31%. On the other hand, the share of debt owed to private-sector creditors increased from 29% to 43% over the same period, as a result of the larger share of bond debt (see Figure 1).

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**Chart 1: Changes in the composition of SSA countries' external public debt between 2000 and 2019 ($bn)**

(2) Multilateral debt is composed of debt owed to international financial institutions (primarily the IMF, the World Bank and regional development banks).
(3) Bilateral debt is composed of debt owed to official bilateral creditors, meaning countries (governments and government institutions, such as export credit agencies).
(5) Ratio of debt to GDP, according to the Regional Economic Outlook, Sub-Saharan Africa (October 2021), International Monetary Fund.
China has become the largest official bilateral creditor.\(^6\) At the end of 2019, overall debt owed to China accounted for some 62% of official bilateral debt, having increased by a factor of 14 since 2006. The debt owed to the Paris Club decreased by 35% over the same period, mainly as a result of the HIPC Initiative. The outstanding amounts have been relatively stable at around €18bn since 2012. The overall debt owed to other bilateral creditors has increased by 76% since 2006, but no single bilateral creditor stands out in particular and the growth of outstanding debt seems to be similar from one country to the next.

The share of debt owed to private-sector creditors increased sharply, following the waves of first-time issuances on the bond markets following the 2008 crisis.\(^7\) Sovereign borrowers from Sub-Saharan Africa (excluding South Africa) issued a total of $46bn in bonds between 2009 and 2018. The countries eligible for support from the International Development Association (IDA, the concessional loan facility of the World Bank) account for 85% of this issuance. This wave of first-time issuers was led by Ghana in 2007. Twelve other countries benefiting from the IDA facility followed Ghana by issuing bonds or accessing other sources of private-sector financing.\(^8\) Only few of these countries account for the bulk of bond issuance. The annual net issuance of Sub-Saharan African countries (excluding South Africa) peaked at $17bn in 2018 (see Figure 2). After hitting a low point in 2020, in the wake of the COVID-19 pandemic, annual issuance posted a fresh increase in 2021. Due to narrow markets for local-currency issuance, most of the issuances are denominated in dollars or euros\(^9\) (see Figure 2). For example, even though issuance in local currencies by Côte d’Ivoire, Namibia, Senegal and Uganda more than doubled between 2009 and 2019, the debt stocks represented by these four countries’ issuance of such bonds stood at an average of only 8.5% of GDP in 2019.\(^{10}\)

![Chart: The Eurobond market in Sub-Saharan Africa since 2007](image)

**Source:** Thomson Reuters Eikon (data from July 2021, excluding South Africa).

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\(^{8}\) International Debt Statistics (2020), World Bank.

\(^{9}\) This perpetuates the “original sin” identified by Barry Eichengreen, Ricardo Hausmann and Ugo Panizza (2002), which is the recurring difficulty or impossibility for poor countries to borrow in their own currency, which exposes them to exchange rate risk.

2. New vulnerabilities

2.1 The risk of debt distress has increased in some countries

Debt service more than tripled in the Sub-Saharan African countries between 2010 and 2019. This change reflects both the increase in debt and the higher interest rates paid to private-sector creditors. The ratio of debt service to public revenue increased, pointing to a major vulnerability in some countries, such as Nigeria, where this ratio stood at nearly 85.5% in 2021 (according to IMF forecasts, 139% of the Nigerian central government’s revenue could be needed to cover the cost of debt service in 2026). This rise in the cost of debt service stems in part from the increase in the average annual interest rate on new loans granted in Sub-Saharan Africa over one year. This rate rose from 2.3% in 2010 to 3.7% in 2019. The higher rates can be attributed mainly to the rise in private-sector interest rates from 3.7% to 6.0% over the same period, whereas the official lending rates remained stable at an average of around 1.8%. Consequently, the number of countries with a low risk of debt distress has declined since 2013, according to the IMF, whereas the number with a high risk of debt distress has risen (see Figure 3).

Chart 3: Percentage of Sub-Saharan African countries at risk of debt distress among LICs, 2008-2020

Source: Regional Economic Outlook, FMI, June 2021.

2.2 Some countries have managed their debt effectively

Some African countries with diversified and resilient economies managed to ride out the recession in 2020. This was the case for Côte d’Ivoire, where the public debt stock remained contained with low inflation. Whereas access to debt markets for some African countries comes at a high cost, others have used Eurobond issuance to raise long-term financing (10 to 30 years) and reduce refinancing risk, while extending the average maturity of their public debt at the same time. This has been the case for recent issuance by Benin (January 2021) and Côte d’Ivoire (February 2021). These deals included debt reprofiling to smooth out future amortisations and buy back previously issued

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(12) LICs: low-income developing countries that are eligible for support from the IMF’s Poverty Reduction and Growth Trust (PRGT).
(13) For example, the yields on the Nigerian government’s issuance of €2.86bn in Eurobonds in November 2018 stood at 7.625% for 7 years, 8.75% for 12 years and 9.25% for 30 years.
Eurobonds. Furthermore, according to Chung and Papaioannou (2020), the enhanced collective action clauses (CACs) included in these international sovereign bonds as of August 2014 are linked to a decline in borrowing costs for issuers with lower ratings and for those with higher ratings as well. CACs and enhanced CACs add value through the implied advantages of an orderly and efficient debt restructuring process.

2.3 Private-sector financing creates new risks for borrowing countries

Turning to the financial markets diversifies the investor base for countries and increases competition between their lenders. There is no consensus about the optimal financing structure for sovereigns at a given level of development any more than there is a consensus about the optimal financing structure for corporations; yet, as a country’s development advances, financing for its external public debt generally shifts from official and concessional financing to non-concessional and competitive financing. This shift stems from mitigation of market failures, as information asymmetry is reduced and the liquidity of the country’s debt securities increases, thereby reducing counterparty risk and, more importantly, making it easier for lenders to exit their exposure. The larger number of lenders automatically leads to a simultaneous increase in the outstanding bonds available and the liquidity of the issuing countries’ external debt. The effect on maturities and yields is more ambiguous for emerging countries. Borrowing costs may at first increase for countries moving away from concessional loans and then fall later, as the liquidity of their bonds increases and their ratings improve.

Greater use of market financing may also lead to major refinancing and exchange rate risks that make public debt less sustainable. The majority of sovereign bonds are "bullet" bonds, where principal is repaid as a lump sum at maturity. This means investors are betting on the future capacity of the country to redeem its debt and on its continuing access to the market. Banks may propose mitigating features to face this concentration risk near maturity with staggered redemption dates and borrowing caps. Many risks may materialise over the life span of a bond to reduce the country’s refinancing capacity, such as an across-the-board jump in yields on international markets. In addition, the dominance of the dollar in bond issuance, despite the fact that most first-time issuers in Africa are more closely tied to the euro, creates exchange rate risk. Depreciation of the domestic currency against the dollar would automatically increase both the interest expense and the relative redemption amount at maturity.

In addition to these risks, the disparate nature of bondholders creates vulnerability. In the event of a default requiring restructuring, issuers may be exposed to the litigiousness of certain bondholders, since governments have no control over who buys this type of debt instrument. Such litigious strategies may exploit

(15) These new clauses include an aggregated voting mechanism that allows a supermajority of bondholders to agree to a debt restructuring that is legally binding on all holders of all series of the bond.
(17) The IMF makes a distinction between the debt sustainability framework for Low-Income Countries and debt sustainability analysis for Market Access Countries – LIC DSF vs. MAC DSA.
(18) The exchange rate risk is also present in other external debt segments denominated in foreign currencies.
(19) Ten sovereign bonds will mature in Sub-Saharan Africa between 2021 and 2024: Ghana ($32m; Sept-22), Zambia ($750m; Sept-22), Nigeria ($500m; July-23); Rwanda ($400m; May-23); Ghana ($253m; Aug-23); Côte d’Ivoire ($141m; July-24); Ethiopia ($1bn; Dec-24); Kenya ($2bn; June-24); Zambia ($1bn; Apr-24); South Africa ($500m; July-24).
(20) In the case of the Côte d’Ivoire bond issued on 10 February 2021, for example, the government proposed repaying the principal in instalments over the last three years specifically to mitigate this risk.
legal loopholes in bond contracts, like those used by "vulture funds" against Argentina and the Republic of Congo. In any event, rapid debt treatments are hampered by the disparate nature of bondholders, which can be a very serious problem in a crisis.

According to the African Development Bank (ADB), at least 20 heavily indebted poor countries faced threats of litigation and actual lawsuits from commercial creditors and vulture funds between 1999 and 2016. With an average of eight lawsuits per year, Africa is by far the region that vulture funds target most often, as the Human Rights Council pointed out in 2015. Using IMF data, the report by the UN body showed that the sums extracted by vulture funds were equivalent to between 12% and 13% of African countries' GDP, noting that these countries "have the lowest rate of winning cases and have disbursed more than 70 per cent of the nearly $1bn awarded to vulture funds as a result of lawsuits".

2.4 Opaque collateralised instruments complicates risk assessment and debt treatments

The use of collateralised debt, which often involves non-transparent contracts, has become widespread in Sub-Saharan Africa in recent years and has enabled countries to incur debt beyond the conventional limits. A debt instrument is said to be collateralised when the creditor has the right to seize specified assets or revenue streams if the borrower defaults. The underlying collateral may be the assets of a State-owned enterprise, commodities (oil, gold, diamonds), or even future revenue streams. The increase of African countries' debt owed to countries that are not members of the Paris Club or private-sector creditors has coincided with the sharp increase in collateralised debt levels in low-income commodity-exporting countries. Rising commodity prices have enabled several resource-rich countries to increase their indebtedness using this type of contract. Despite the difficulty in finding reliable data on collateralised loans, the IMF estimates that their share of sovereign borrowing has grown slightly since 2007, notwithstanding the scale of existing assets used as collateral, nor the structural nature of the projects collateralised in this way. The theoretical analysis postulates that real collateral is preferred for the riskiest investments, which seems to be confirmed by the particularly widespread use of collateralised loans in African countries with credit ratings that are "non-investment grade". Their use is also more widespread among unrated countries than among countries with "investment grade" ratings.

Despite the advantages collateralisation offers for creditors, in terms of better chances of repayment, and for borrowers, in terms of lower interest rates, collateralised debt poses some concerning risks. Securing repayment of a loan with sovereign assets means that the assets will not be available in the event of a shock, thereby reducing fiscal room. In theory, a collateralised loan, which is a commonly used instrument for private-sector financing, could be seen as a pledge of the borrower's assets, which enables the lender to be repaid before the other creditors in the event the borrower defaults ("seniorisation" of the claim).

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(21) These activist investment funds buy up the bonds of various entities, including corporations and governments, at a heavy discount and then obtain repayment at a much higher value. Their aim is to achieve capital gains in debt restructuring deals, or to block restructuring in order to obtain compensation through litigation.


(27) However, creditors' expectations of difficulties in receiving the collateral in the event of a default may reduce the positive effect that collateralisation has on interest rates.
Collateralised loans may skew assessments of the country’s debt sustainability if potential investors do not identify them clearly. Such loans make the country’s capacity for effective management of its debt and governance of its natural resources all the more critical for ensuring greater transparency to manage debt distress risk and disclose it to investors. Borrowing countries may also underestimate the risk of losing control of critical infrastructure in the event of default.\textsuperscript{28} The reporting standards drawn up and disseminated by the IMF are a means of addressing this risk. From the creditors’ point of view, the market for collateralised loans is not very competitive, being essentially made up of sovereign lenders offering loans collateralised by resources,\textsuperscript{29} a few government-owned enterprises and some international commodity traders.\textsuperscript{30} Just two Chinese banks account for 77\% of all resource-backed loans granted in Sub-Saharan Africa and Latin America between 2004 and 2018. This concentration of potential lenders diminishes the bargaining power of the borrowing countries by the de facto elimination of the possibility of calls for competitive bids.\textsuperscript{31}

Once they have been granted, such loans may make debt treatments and the implementation of IMF programmes significantly more complex. In most cases, collateralised loans are contracted by government-owned enterprises, which makes data collection more complex. In the case of the Republic of Congo, for example, the share of external debt backed by oil under a prepayment system was equivalent to 18.1\% of GDP in September 2019, or nearly one-third of total external debt, which stood at 62.3\% of GDP.\textsuperscript{32} In 2019, the IMF made its financial assistance conditional on renegotiation of Congolese debts to three commodity traders. More recently, rising oil prices and the agreements reached with the traders made it possible to move ahead with an IMF programme for the Republic of Congo.\textsuperscript{33} The lack of transparency surrounding the original contracts and the need to conduct separate negotiations make debt restructuring more difficult.

3. Innovative solutions to address vulnerabilities exacerbated by the pandemic

3.1 Some risks materialised during the COVID-19 crisis

The COVID-19 pandemic aggravated vulnerabilities and exacerbated pre-existing imbalances. In June 2021, six African countries were in debt distress and 15 were at high risk of debt distress (see Figure 3). The negative effects that the pandemic had on these countries affected public finance through different channels: shrinking GDP from the direct shock to supply and weaker world demand (which drove down public revenue), falling commodity prices, the need to redeploy expenditures to cope with the pandemic (equivalent to an average of 5.1\% of GDP for these countries, or a quarter of the figure for developed countries), declining international transfers and no access to international capital markets. Greater pressure on budgets came at a time when fiscal space was already very limited or even non-existent. The decline in world demand for commodities hit the foreign exchange reserves of certain oil-exporting countries very hard, weakening their capacity to honour their debt repayments denominated in foreign currencies.

\textsuperscript{(28)} The prime (but so far only) example is China’s seizure of the port at Hambatota in Sri Lanka for failure to repay the loan that financed its construction. This case is regularly cited to fuel suspicions about the seizure of strategic infrastructure in Africa. The Kenyan press regularly cites the port of Mombasa as having been used to collateralise the Chinese loan contracted by the Kenyan government to cover the cost of Phase 1 of the standard gauge railway (SGR) linking Mombasa to Nairobi. A similar case involved the Entebbe airport in Uganda in December 2021. In both cases, the Chinese and national authorities denied these suspicions.

\textsuperscript{(29)} Also known as resource-backed loans (RBLs).

\textsuperscript{(30)} These traders may play a major role. For example, they may be involved both as a lender in the financing of such infrastructure projects (both the initial investment and operations) and as an agent in the sale of the commodities.


\textsuperscript{(33)} Presentation of the programme to the IMF Executive Board is planned for 21 January 2022.
At the start of the pandemic, foreign investors’ perception of greater risk led to a sharp increase in spreads on capital markets, thereby depriving Sub-Saharan African countries of access to foreign capital. The EMBI Global spread, which covers a set of sovereign bonds from emerging countries, provides a good indicator of investors’ risk perceptions with regard to those countries. It stood at 662 basis points (6.62 percentage points) on 23 March 2020, compared to a pre-pandemic level of around 290 basis points. In particular, the EMBI spread for African issuers increased sharply, reaching more than 1,000 basis points on the same date, compared to a pre-pandemic level of around 470 basis points. The risk premiums demanded by investors became too high to enable these countries to obtain financing at a reasonable cost with their issuance. This loss of access to capital markets reflected concerns about public finance management, as well as investors’ general wariness about the impact of the pandemic.

African issuance on international markets resumed in early 2021. Following Côte d’Ivoire’s Eurobond issue in December 2020 and Benin’s in January 2021, other Sub-Saharan African countries (Ghana, Senegal, Kenya, Cameroon) regained access to the market, as spreads narrowed overall. By the end of 2020, the EMBI Global spread had come back down to around 320 basis points and the spread for African issuers stood at around 600 basis points. The latter spread has remained relatively stable since then but is still wider than it was before the pandemic.

3.2 Emergency measures introduced by the international community and enhanced coordination

Multilateral institutions played a decisive role during the pandemic by providing emergency funds. Since the start of the pandemic, the IMF has allocated $17bn to Sub-Saharan African countries, including $15.9bn through emergency financing mechanisms (Rapid Financing Instrument and Rapid Credit Facility).

Between April 2020 and mid-2021, multilateral development banks (MDBs) and the IMF mobilised a total of $230bn. At bilateral level, the French Development Agency (AFD) introduced the "Health in Common" initiative in April 2020 to support the response to the crisis in Africa, providing €1.2bn, including €150m in grants and €1bn in loans. Proparco, AFD’s subsidiary focusing on private-sector development, introduced a special support facility with a public guarantee of €160m that was passed in July 2020. The support for African micro, small and medium-sized enterprises is distributed by the Choose Africa Resilience programme either directly, through Proparco loan guarantees, or indirectly, through the African financial sector, with guarantees for portfolios of loans distributed by banks and micro-finance institutions operating in Africa.

The fragility of African debt led to major progress in multilateral cooperation among bilateral creditors. The Debt Service Suspension Initiative (DSSI) introduced by the members of the G20 and the Paris Club on 15 April 2020 suspends and reschedules service on bilateral debt in 2020, with repayments spread between 2022 and 2024. In all, 73 poor or vulnerable countries (IDA-eligible countries and the least developed countries) are eligible for the DSSI and 35 countries have asked to join and signed a memorandum of understanding to defer total debt of nearly $2.5bn (between May and December 2020). Of the 35 countries joining the initiative, 25 are in Sub-Saharan Africa and have obtained total deferrals of $830m. According to Lang, Mihalyi and Presbitero (2020), implementation of the DSSI reduced spreads by 300 basis points for the eligible countries. This confirms the merits of the initiative. The initiative has been extended twice to include debt service payments due from January to June 2021 and from July to December 2021, before the initiative ends. Between May 2020 and the end of 2021, 42 eligible countries applied to the Paris Club for the DSSI and deferred nearly $4.8bn. Of these 42 countries, 28 are in Sub-Saharan Africa.

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(34) A spread is the difference between two interest rates or two asset prices. The spread between the rate of return on a given asset and that on a benchmark index or asset can be used to approximate the risk premium on the asset. The benchmark used in this case is American Treasury bills.

(35) The JP Morgan Emerging Markets Bond Index (EMBI) Global covers sovereign and public corporation bonds from certain emerging countries that have been selected according to a number of criteria (principal amount in excess of $500m, bonds maturing in 2.5 years or more, etc.).

(36) Borrowing costs after debt relief | VOX, CEPR Policy Portal (voxeu.org)

African countries’ external debt by type of creditor in 2019

The members of the G20 and the Paris Club agreed on a Common Framework for Debt Treatments beyond the DSSI\(^{(38)}\) for more targeted and structural action. The Common Framework recognises that effective relief from current debt vulnerabilities will require strong coordination between creditors. For this purpose, it sets out a common multilateral approach to facilitating debt treatments for the countries eligible for the DSSI by Paris Club and G20 creditors, including China. Treatments need to be based on needs identified under an IMF programme and must be done in a coordinated, orderly manner and with reasonable timeframes, while ensuring broad participation by creditors, including private-sector creditors under the principle of comparable terms. The Common Framework marks a major step forward in international financial architecture since it brings together creditors who have never undertaken joint debt treatments before. To date, three countries – Chad, Ethiopia and Zambia – have officially requested debt treatment under the Common Framework. Chad’s Paris Club and G20 creditors (India, China, Saudi Arabia and France) have formed a creditor committee that held its first meeting on 15 April 2021. At its fourth meeting in June 2021, the creditor committee was able to provide the IMF with assurances.

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How to read this chart: Angola’s external public debt by creditor breaks down into 8% held by multilateral creditors, 2% by the Paris Club, 43% by China, 2% by other bilateral creditors and 45% by private-sector creditors.
of financing, which is a critical step in the debt restructuring process. The IMF Executive Board approved a programme with financing in December 2021. A creditor committee was also set up in September 2021 for Ethiopia. However, discussions between the Ethiopian authorities and the IMF are on hold because of the worsening security situation in the country. An agreement for a Staff Monitored Program (an informal programme not accompanied by financial support) was also reached between the Zambian authorities and the IMF at the end of 2021.

Given the diverse situations in Sub-Saharan Africa, financing for these countries is impeded by the challenge of managing their public debt, through concessional loans (from multilateral institutions in particular, but also African financial institutions) and the development of local financial markets and international investors. This was a major topic at the 18 May 2021 Summit on Financing African Economies and will also be a major topic for the EU-African Union Summit in 2022.
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