TREND WATCH

Sub-Saharan African Sovereign Debt

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1

Greater debt level

In recent years, we have witnessed rising levels of sub-Saharan African sovereign debt. The surge in the debt of many sub-Saharan African countries has sparked concerns about the sustainability of their debt burden, especially against the challenging economic context, the dependency of some sub-Saharan economies on the export of natural resources and adverse movements of interest rates. The foreign exchange risk is a further concern for those sovereigns whose debt is denominated in foreign currency. While the refinancing risk of sub-Saharan African sovereigns is highly heterogeneous, as of 2019 as many as 14-16 sub-Saharan African countries are classified by various international financial institutions as at high risk of debt distress or in distress.

2

Greater non-concessional debt

The structure of sub-Saharan Africa's debt profile has changed markedly over the last decade where we have witnessed a fall in concessional loans and a move towards market-based non-concessional financing. Among the different sources of non-concessional financing, commercial loans were historically the main source of financing among sub-Saharan African sovereigns. In the last ten years, Eurobonds have become a more popular choice of financing for many sub-Saharan African sovereigns, with some issuers tapping the market on an annual basis. The aggregate amount of Eurobonds of African countries (excluding Egypt, Nigeria and South Africa) requiring refinancing in the 2020s totals approximately USD 37.7 billion.

3

Greater complexity

As issuers move towards non-concessional debt with generally higher interest rates than concessional financing, the forms of market-based financing available to them have also become increasingly complex. This could range from commodity prepayment transactions secured on natural resources to securitised instruments supported by guarantees from international financial institutions. While such financing is structured to reduce the interest burden on the issuer, there is a concern that such financial instruments could be more difficult to restructure as we approach more challenging economic times.

4 Greater portion of official debt provided by non-Paris Club lenders

An increasing portion of official sector debt in sub-Saharan Africa is now being provided by non-Paris Club emerging markets lenders. China, for example, has gained prominence in the media recently for being the largest single creditor nation in sub-Saharan Africa, largely through the increase in funding of infrastructure projects as part of the Belt and Road Initiative. As the official sector creditor group changes, coordination among the traditional official bilateral creditors and the new cohort of non-Paris Club lenders would be key in any future restructuring scenario.

5 Greater transparency

The calls for debt transparency as a means of anticipating and preventing debt distress have become increasingly vocal given concerns about potentially hidden debt and also the growing complexity of sovereign borrowing. The IMF and the World Bank are working with sovereigns around the world to improve the quality of data and also processes in recording, monitoring and reporting data. There is no one-size-fits-all solution for this problem; the increase in transparency will require increased and progressive co-operation of various stakeholders including the private sector.

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He represents corporates, sovereigns, funds, and financial institutions, as debtors or creditors in the origination and restructuring of complex financial transactions including leveraged and high-grade syndicated loans, high-yield and investment-grade bonds, derivatives, and securitization transactions. Andrew also has experience in mergers and acquisitions, joint ventures, and strategic investments.

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