



Unlocking Public and Private  
Finance for the Poor

REPORT

# SOVEREIGN BORROWERS CONFERENCE

23 SEPTEMBER 2021

GENERAL ASSEMBLY  
76<sup>TH</sup> SESSION  
HIGH-LEVEL MEETINGS



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**UNCDF Sovereign Borrowers Conference Report<sup>1</sup>**  
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<sup>1</sup> The Report is authored by Mahesh Kotecha, CFA, based on a recording of the Conference, with editorial assistance of Dr. Roger P. Nye, and a review by the speakers as well a UNCDF team led by Casper Sonesson and Laura Sennett. Any errors or omissions remain a responsibility of the author. The Conference was moderated by Mr. Kotecha and was made possible with the extraordinary support of the UNCDF, in particular, the Executive Secretary Preeti Sinha and her able team coordinated by David Mikhail and including John Sankara, Mamadou C Barro, Paul Martin, Esther Pan Sloane, Kasmawati Ahmad, and Jessieca Aduca.

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**Moderator: Mahesh Kotecha**, Founder and CEO, Structured Credit International Corp (SCIC), UNCDF Advisory Council Member

### **Aim of the Conference:**

- To explore three critical areas of development finance with the potential for further enhancing sovereign capital market access for developing countries
- To find solutions to overcome low and falling credit ratings for better market access
- To determine the role of the UNCDF in helping members in this area

### **The Issues**

According to estimates of industry practitioners who participated in UNCDF's Sovereign Borrowers Conference, African sovereign borrowers have raised some \$20 billion in the capital markets in 2021, including the landmark €500 million SDG bond by Benin in July and a \$4 billion Nigerian financing in September, bringing African sovereign issuance over \$175 billion during the past decade with over \$125 billion of that still outstanding.<sup>2</sup>

However, Sub-Saharan African (SSA) sovereigns had their ratings fall from B+ to B on average due to COVID-19 and related factors. The pandemic has raised poverty globally for the first time in two decades. Low vaccination rates and weak economies risk the achievement of the 17 sustainable development goals by 2030. Therefore, this conference aims to increase engagement among global capital market participants and developing countries to address at least two key challenges: (1) achieving better credit ratings and access to bond markets and (2) bridging the gap between real and perceived risks in order to reduce the cost of capital.

### **The Conclusions**

The conference reached a number of important conclusions.

- First, while some speakers noted that the spreads for 'B'-rated African sovereign bonds currently exceed spreads on other similarly rated sovereign bonds by 70 bps on average (and ~ 100 bps on another measure), even higher premia are seen outside of Africa (e.g., for El Salvador and Pakistan), reflecting differentiation by the markets among similarly rated countries, based on perceived credit and liquidity risks.

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<sup>2</sup> <https://www.clearygottlieb.com/news-and-insights/news-listing/the-republic-of-benin-in-500-million-inaugural-sdg-sovereign-bond->

- Second, an ECA proposal to reduce high liquidity risks and market spreads on African Eurobonds via a Liquidity Support Facility was discussed in broad terms and received widespread support.
- Third, the rating downgrades in the pandemic period have not been confined to Africa but in the case of S&P and Fitch were exceeded by downgrades in Latin America. Such negative rating actions reflect not only the impact of the pandemic but also the relative economic strength of the country before the crisis began (“initial conditions”).
- Fourth, a number of relatively short-term measures to maintain and improve credit ratings were discussed. These included effective communications, being predictable (doing what you say you will do), and limiting over-reliance on market debt.
- Fifth, international development partners such as the World Bank, USAID and UNCDF expressed willingness to continue to provide assistance to help reduce real and perceived risks via policy advice, technical assistance for capacity building, risk mitigation at the sovereign and the project levels to support bond issues, and assistance on investor relations to communicate the national narrative regularly and effectively.
- Sixth, the heads of the African Debt Management Offices of Benin, Nigeria and Rwanda related their success in controlling and communicating their narrative regularly and effectively with the markets, using liability management and other proactive risk management approaches to debt management, limiting their foreign exchange risks, reducing their refinancing risks, and using labelled bonds and local markets to broaden their investor base. Their Eurobonds have been rewarded with larger size, longer tenors and/or lower spreads in 2021. Cambodia described its deliberate and methodical approach to developing its domestic capital market for the issuance of government debt and to entering the international capital markets in the medium to long term.
- Finally, UNDP related the benefits of using labelled bonds, including SDG bonds. The final keynote outlined the emerging opportunities in Nature Performance Bonds, which in time could rival green bonds.

## **Session #1 Mini-Keynotes<sup>3</sup>: Capital Market Access for LDCs**

### **Speaker #1 Dr. Vera Songwe, United Nations Under-Secretary-General and the 9<sup>th</sup> serving Executive Secretary of the Economic Commission for Africa (ECA)<sup>4</sup>**

Africa's developmental needs are growing and currently outstrip the resources available through concessionary public financing. Access to capital markets will be indispensable if the continent is to achieve the 2030 Agenda for Sustainable Development. Capital market access by African sovereigns has risen steeply in the past decade in response to the exponential growth in development financing needs and use of credit ratings. Nonetheless, the value of Africa's Eurobond issuance is much lower than in other parts of the globe. And yield spreads on Africa's bonds are estimated to be on average higher than economies with similar credit ratings.

Despite progress made over the last decade, African countries are currently suffering persistent credit rating downgrades as they make efforts to effectively respond to the COVID-19 crisis and address macroeconomic and fiscal challenges. Remarkably, notwithstanding the flurry of downgrades, only 6 African countries are in debt distress according to the IMF-WB debt sustainability assessment.

A contributing factor to the African premium is the illiquidity of both their sovereign and corporate bond markets and the existence of significant liquidity premia embedded in their bond returns. Unlike developed countries, emerging market issuers of hard currency debt lack well-functioning "repo" markets to help compress liquidity premia. "Repos" are repurchase agreements to sell and buy back government securities, typically the next day. Supporting the creation of a vibrant repo facility for African sovereign bonds is imperative. I understand this Liquidity Support Facility (LSF) proposed by ECA will be discussed further during the Conference.

Moreover, ECA is supporting the potential for the development of African rating agencies, following such rating agencies in Japan and China. African rating agencies such as GCR, Agosto and Bloomfield, can help build capacity on the continent for local capital market funding so that African countries have a better sense when they meet the big three international rating agencies on how to navigate the rating process. ECA also supports engagement with African countries to help them improve their ratings and their capital markets access.

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<sup>3</sup> All summaries of comments made by speakers have been cleared and approved by the speakers.

<sup>4</sup> As the remarks of Dr. Songwe were difficult to hear owing to signal difficulties, this summary is based on her written statement provided in Annex 1.

## **Speaker #2 Peter Sullivan, Head of Public Sector Africa, Citibank**

Mr. Sullivan welcomes Dr. Songwe's proposal of a Liquidity Support Facility for SSA sovereign debt which could be important and believes that the markets need to develop such innovations.

Citibank has been engaged with African sovereigns on accessing the debt capital markets since Ghana debuted in 2007, after HIPC and MDRI. Many countries followed Ghana into the market including Gabon, Senegal, Côte d'Ivoire, Kenya, etc. In 2020, the market remained open but with the pandemic, SSA sovereigns rightly turned to the official sector for liquidity and pandemic response financing. However, January 2021 saw a return of Africa to the debt capital markets, led by Benin with a €1 billion a dual tranche deal that had 10-year and 30-year tenors. Just this week, Nigeria successfully returned to the market with a \$4 billion issuance and three tranches of 7, 12, and 30 years.

So far this year, there have been eight sovereign issuers from Sub-Saharan Africa returning to the market (issuing a total of \$15 billion) and in some cases, tenors have stretched out to 30 years

My general observations attest to the robustness and resilience of SSA sovereign markets:

- Out of the eight countries that issued this year, five included a liability management component that allowed the sovereigns to refinance existing bonds and to push out maturities of the bonds, in some cases out to 30 years. Normally one would see liability management participation rates (i.e., the portion of the current bonds outstanding that are redeemed) of between 40% and 60% of existing bond holders, but in Africa we witnessed rates between 65% and up to 85% (in the case of Rwanda).
- There was strong demand throughout the year for both U.S. dollar and euro issuances with order books coming in between 2x to 5x in the case of Kenya.
- This strong demand has allowed a reduction in the initial price targets on average from between 25 to 50 bps and in the case of Senegal by up to 62.5 bps. We have been able to (i) upsize the amount of financing in one case by \$1 billion, (ii) achieve longer maturities up to 30 years, and (iii) realize historic deal size, most recently, in the case of Nigeria which in mid-September issued \$4 billion, the largest by any SSA sovereign.
- We have also experienced a number of firsts for African issuers in the market in 2021: (i) there was a first zero coupon bond issued by an emerging market sovereign: Ghana

was able to preserve short-term liquidity with the deferral of interest payments under the zero coupon; (ii) a first SDG international sovereign issuance in Africa by Benin, which realized a “greenium” - a market term for reduction in premium against its estimated secondary trading price - of ~ 20 bps.

- We also saw reduction of over 1% in the financing cost for Rwanda.

I think the general observations lead to some key takeaways:

- That investors are committed to Africa;
- The liability management exercises evidence the growing sophistication of African sovereign issuers in managing their debt profile, which is a huge plus;
- Investors see this proactive risk management being done by the debt management offices in Africa as reducing refinancing risk and reducing short-term liquidity needs for repayment of principal;
- In all cases the issuer was able to realize lower coupons and longer maturities with higher participation rates by investors;
- This is solid evidence that the market wants to keep capital working on the continent.

I think the resilience, the large demand and the range of offerings demonstrate that Sub-Saharan Africa is becoming an established asset class for emerging markets fixed-income investors who are now targeting specific asset allocations for the region. This is why we see the reduction in the overall cost of funding even against a fairly adverse economic backdrop.

African issuers have shown a proven ability to innovate and work with investors to structure and issue securities that meet their particular needs and objectives. This will and should include green and sustainable financing going forward.

Lastly, I would say that despite obvious drawbacks of virtual roadshows, they do allow greater participation and engagement by both issuers and investors. In some cases, issuers have been able to reach over 100 investors with their focused credit narrative and have been able to position themselves with a greater array of senior officials to present the sovereign.

It is this communication and disclosure perspective that I would like to touch on to conclude my comments.

Sovereign credit ratings are a starting point for most investors as they use consistent and comprehensive methodologies on a both the qualitative and the quantitative basis. Ratings provide the means for establishing a useful comparative set of peers. However, if ratings were the only or even major credit indicator, there would be very little difference in spreads within a specific rating subcategory which we know isn't true. So for most investors, ratings are a guide on where to begin their due diligence and research and analysis but then investors go far beyond that.

In my experience, investors do differentiate among issuers (even with the same rating), and I think there are three key actions that SSA sovereign issuers can take to achieve preferential pricing from investors.

1. Issuers need to “own” their narrative and they should not allow third parties to control it whether it is the rating agencies or the official sector.
2. Issuers need to support that narrative with accurate and timely data. Data is the new oil and they need to monetize data through proper disclosure to achieve better pricing. The construct of green and sustainable finance requires greater data capture and disclosure, which does represent a significant opportunity for African sovereign issuers going forward.
3. Issuers need to communicate the narrative consistently and regularly. They need to tell investors what they have done and what they are going to do. They need to say what the challenges are and how they will be addressed.

We see that investors have richly rewarded issuers that do what they say they would do. In other words, it enhances their predictability and investor confidence, reduces perceived risk and therefore achieves better pricing.

**Speaker #3 Oliver Eweck, Head of Africa Public Sector, JPMorgan Chase**

I have several key messages. First, a simple calculation shows that there is a slight African premium of about 100 bps, but when you look within the African sovereign issuer group itself, there is a wide range of 360 basis points between Rwanda and Ghana. Second, there is no material pricing benefit from social bonds so when a country is looking to issue a social bond, it

should do it for the right reason and not because of the price and benefit. Third, MDB guaranteed sovereign bonds (whether partially or fully guaranteed) are difficult to scale up but for different reasons. Finally, it is important when using proceeds of new bonds to retire old bonds to remember that indices have minimum size requirements with which the issuer must comply to benefit from the better pricing that typically results from the bonds joining an index.

First, to see if there is an “African premium”, I looked at comparably rated sovereign peers in and out of Africa. When you do the calculation, it shows that there is a slight African premium for SSA sovereign markets of ~ 100 basis points, but when you look within the African issuer group itself, there is a wider range of 360 basis points between – for example – Rwanda and Ghana. For B-rated African countries, the spreads ranged from 497 bps Rwanda to 857 bps for Ghana or a difference of 360 bps. Outside Africa, the range was from 397 for Romania to 787 for Belarus or 390 bps. But the lowest yield in Africa is about 100 bps wider than lowest outside of Africa.

What I mean is that a country that has been performing very well is able to shrink the premium. When you come to accessing the market, I believe that yes, African sovereigns have access to the markets. But investors like benchmark issues and prefer dollars with tenors of 10-15 years. You have one outlier in a Ghana issue for 50 years. What is important now for African countries is that they keep that access to the market and reduce the cost.

Second, on the question of ESG bonds’ pricing and other benefits, there is no material pricing benefit from social deals as social bond “greenium” is estimated between zero and five basis points, but there is no scientific data for that. So when a country is looking to issue social bonds, I believe that they should do them for the right reasons and not because of the price benefit. But with such bonds, they can gain a better quality book, with a wider investor base and more long-term investors rather than hedge funds.

Third, on the question of the role of MDBs as credit enhancers of sovereign bonds, we believe that first and foremost, MDBs are there for the policy angle for African countries that need to improve their macroeconomic performance, as better pricing depends on quality public sector management and MDBs can enhance capabilities to do that. So, the policy-based loans of multilaterals can go a long way towards addressing such challenges.

Several attempts have in fact been made to develop MDB-guaranteed sovereign bonds: for example, Argentina guaranteed bonds in 1999 and IDA’s partial guarantees of Ghana 15-year bonds in 2015. But there is no real investor appetite for partially guaranteed sub-investment grade assets at low yields. Rather, the bond markets demand 100% guarantees which do not

work for the SSA sovereigns who would give up concessional or low-cost MDB loans if they were to use their MDB country limits for such guarantees.

Nor do 100% guarantees work for MDBs as it uses up their limited lending capacity which they can use instead for loans. Finally, MDBs fear that the trading levels of bonds they guarantee 100% taint the spreads on the MDB's own bond issues. The MDB partial guarantee product thus does not work for investors in bonds but is more suited to loans. In sum, partial and the fully guaranteed sovereign bonds are both products that are difficult to scale up.

Finally, noting that the Benin bonds were in the Euro index and the Rwanda bonds were in the dollar index, Olivier cautioned DMOs that it is important to ensure when engaging in liability management that those bonds meet the minimum size of the index in order to enter and/or remain in it.

### **Session #2 Mini-Panel: LDC Credit Rating Trends and Outlook**

**Speaker #1 Aurelien Mali, Vice-President, Senior Credit Office, Moody's Investors Service**

**Speaker #2 Jan Friederich, Senior Director, Fitch Middle East and Africa Sovereign Rating**

**Speaker #3 Roberto Sifon-Arevalo, Managing Director, Chief Analytical Officer, Sovereign and International Public Finance Ratings, S&P**

**Question: Why have there been so many downgrades (e.g., Ghana, Zambia, Ethiopia) and so few upgrades (Benin and Côte d'Ivoire in 2021)?**

**Aurelien Mali, Moody's**

At Moody's, we think the pandemic is more an "emerging markets" crisis or even a "frontier markets" crisis. It should not be surprising that the pandemic has most impact on the vulnerable LDCs as they have less capacity to withstand the shock and deal with its aftermath. The pandemic has also exacerbated for SSA the preexisting trends such as the "accumulation of public sector debt", often with an increasing share being non-concessional. This is why IBRD identified 76 countries as the most vulnerable for the G-20's Debt Service Suspension Initiative (DSSI) as countries most impacted by the pandemic. Generally, these countries are also the ones that have experienced the most negative rating actions.

**Roberto Sifon-Arevalo, S&P**

I agree that the health pandemic was the most important reason for the spate of negative rating actions. While the crisis hit all countries, the rating actions were negative for the poorest

countries, especially if they were in weak positions at the outset of the pandemic with a reduced flexibility to mitigate the impact.

Back in early March 2020, when widespread lockdowns started, we said in a webinar that the impact would be particularly hard for emerging markets overall rather than for one or another continent or region. In fact, when you look at S&P's rating downgrades during the period, 41% were in Latin America versus 32% in Africa, and if we include negative rating outlooks and downgrades, then the African share of negative rating actions falls to 28% from 32%, with 20% in Europe.<sup>5</sup>

One silver lining sometimes has been the pre-pandemic position of the country. There were 11 SSA downgrades or negative outlooks during the period but only in a few cases did they fall more than one-notch. Generally, there was only a one-notch downgrade or a change in outlook, Zambia being an exception. This is partly because African fragilities were already reflected in their low ratings pre-pandemic. But it was also because the initial conditions of the African countries pre-crisis limited larger negative rating actions.

### **Jan Friederich, Fitch**

Fitch in 2021 actually upgraded two African sovereign ratings. So the question for Fitch is: "why so many downgrades in 2020?"

For sub-Saharan Africa, one could consider several credit metrics. For example, the debt to GDP ratio in our estimates has not deteriorated more in SSA than elsewhere and yet there were many downgrades. So this argues that it is really the preexisting conditions -- and a relatively

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<sup>5</sup> Dr. Songwe's prepared remarks (see Annex 1) indicate that: "Overall, 56 percent of African sovereigns experienced a downgrade in 2000 - this figure rises to 62.5% if Kenya and Mauritius - downgraded in the first half of 2021 – are included" based on Afreximbank's Chief Economist Hippolyte Fofack report at: <https://www.project-syndicate.org/commentary/africa-credit-rating-downgrades-hurt-economic-development-by-hippolyte-fofack-2021-08?barrier=accesspaylog>. Cambridge University's Bennett Institute Working Paper entitled "Sovereign credit ratings during the COVID-19 pandemic" dated July 22, 2021 at Table 1 on p. 31 cites the following data as percent of Sovereigns from IMF region Sub-Saharan Africa (SSA) and Latin America and Caribbean (LAC) that received negative revisions from each agency during the period 30 Jan 2020 to 31 Mar 2021: SSA downgrades from Fitch 73.68% (LAC 88.89), SSA from S&P 68.42% (LAC 69.57%), and SSA from Moody's 68% (LAC 59.09%). So only Moody's showed higher negative rating actions for SSA than LAC. Fitch showed substantially higher downgrades for LAC than SSA. S&P showed only marginally (1.12%) higher downgrades for LAC than SSA (see [https://www.bennettinstitute.cam.ac.uk/media/uploads/files/Sovereign\\_credit\\_ratings\\_during\\_the\\_COVID-19\\_pandemic.pdf](https://www.bennettinstitute.cam.ac.uk/media/uploads/files/Sovereign_credit_ratings_during_the_COVID-19_pandemic.pdf)).

high prior vulnerability that can vary from case to case -- that explain a relatively high number of downgrades.

- East Africa had a high emphasis on infrastructure-driven growth with a resulting accumulation of debt (e.g., in Kenya, Uganda and Rwanda)
- Other countries (e.g., much of CEMAC, Angola and to some extent Nigeria) had relatively high exposure to oil or other commodity price volatility and some countries had not fully absorbed the impact of the previous oil price shock in 2014-2015.
- Then there were some countries (e.g., South Africa) which came into the crisis with a low level of GDP growth and therefore had low buffers.

More generally, a key differentiating factor that Fitch considers in assigning sovereign ratings is how countries have adjusted following shocks in the past. In particular, we look at the measures the country takes to reverse the damage. We place particular importance on comparing actual performance against different vintages of government forecasts. If there are exogenous shocks, we take that into account in assessing deviations from forecasts. But where there is no big external shock but promises of fiscal consolidation and debt reduction fail to materialize time after time, credibility is reduced. A good example is Côte d'Ivoire, which has built credibility over time with prudent fiscal management by showing the ability to meet plans even when thrown off course to some extent by shocks. This is very important.

**Question: Can you pick one or two of the recurring risk factors where you see a potential silver lining or continuing risks?**

**Aurelien Mali, Moody's**

One could look at "revenue generating capacity" which is very important to see how a country can stabilize its debt.

When we compare the "ratios of interest or debt to revenues" for SSAs over time, it is much higher during the pandemic than it was pre-pandemic. So there is less fiscal space to support the economy, invest in infrastructure and ESG issues (where the social risk is going up), etc.

The capacity to increase revenues steadily and efficiently is very important as it helps stabilize debt, improve the fiscal position and support investment and growth at a time of economic fragility. The revenue loss also points to some vulnerabilities including the true scarring of the economy in particular in the informal sector, which is significant in SSA.

## **Roberto Sifon-Arevalo, S&P**

I agree that revenues are important. If you look at the ratio “interest on debt to revenues”, you find six African countries among the highest ten.

We also look at the “debt to GDP” ratios. Just to give you some statistics, if you look at the ten sovereigns with the highest debt to GDP ratios, the group includes five African countries (including Nigeria at the bottom at 7.5%). Others also in the group are Congo, Ethiopia, and Ghana, whose ratios are a little higher, but they still have quite low levels of revenues to debt.

Policy credibility is also very important but at the end of the day the execution of policy is the key to see the results. This is a very difficult thing to deal with now with the massive health crisis, the worst time for sovereigns. But it is also important for a country to show commitment to the process, to signal with small steps that gain a country credibility. The big issue is whether the country has institutions with the capacity to execute reform policies.

**Question: Perhaps you can address how important it is to have a fiscal policy standard? UEMOA (West African Economic and Monetary Union) has standards for debt and deficits and they seemed to have helped two countries from the region – Benin and Côte d’Ivoire – get upgrades.**

## **Jan Friederich, Fitch**

I interpret that as the question: “do fiscal rules matter”? We are generally skeptical of such rules as they sometimes last just until the next shock and then fall away, as historical examples often show. Rather, we prefer to see what policy makers say about what they plan to do and then see what they actually do. Investors will understand if deviation from plans is from exogenous shocks or if the country has real difficulty in reining in expenses or increasing revenues. The process of setting out plans and actually trying and achieving them is more important to Fitch than fiscal rules by themselves. On the other hand, rules can sometimes help by anchoring public expectations.

### Session #3 Mini-Panel: The Investors Perspective: Benin, Ghana and Zambia

#### Speaker #1 Scott Mather, CIO U.S. Core Strategies and Managing Director, PIMCO

There are a few thoughts that I wanted to share with respect to ratings and the importance of ratings. Of course, ratings are the language of our institutional investors.

**First, ratings are critically important as the** guidelines and the flexibility these investors give us to manage their portfolios, which are critically dependent on ratings. But as in Africa we are talking sub-investment grade rated issues, there is a limited set of investors that would allow us to cross over into that territory. So while ratings are critically important, we also do our own internal ratings and analysis with a more idiosyncratic approach when we invest in sub-investment grade issues. It is really a case-by-case analysis on behalf of our clients.

Second, while all the traditional risk factors are important, one of the most important for our internal credit view is “resilience”. We look at the history of how a country responds to shocks and project forward because while we do not know when the next shock will come, we do know that shocks come with regularity. So, in internal credit assessments we ask: does the country have internal processes, institutional credibility and good relationships with International Financial Institutions (IFIs) to help them navigate a crisis. That is very important to us in our internal determination of the ratings trajectory.

Third, there is a massive “chicken and egg problem” that leads to the “excess risk premium” in Africa. The markets in African paper are very illiquid with very thin trading. That is one of key the reasons why spreads are higher than they otherwise would be, given their ratings trajectory. It is this lack of liquidity that keeps a lot of investors away who might otherwise invest. That needs to be tackled in some way. There is an excellent proposal that Dr. Songwe of ECA mentioned on liquidity support in her opening remarks. I will provide some details.

Fourth, there is a tremendous opportunity of for African issuers with respect to issuing sustainability linked bonds, in which I include green bonds as a subset. There is a broad opportunity in labeled bonds, the fastest growing investment segment globally, namely, sustainability-linked instruments. Many issuers cannot just issue standalone “green bonds” because perhaps they do not have the “use of proceeds” projects that are that large. But when you include those projects along with other social spending related for example to health care, education and all the other things that governments are doing, and outline Key Performance Indicators (KPIs) and present the package it in terms of a labeled bond format, then there is a tremendous growth opportunity there for African issuers. The reason why I think it could be so

powerful is because there are so many institutional investors around the world looking to devote more of their portfolios in that area.

So once again it is not just the “greenium” or the small premium an issuer gets by issuing a labelled bond. Some say the “greenium” is small but think about it. There is a big network effect: if you bring in new investors who get familiar with investing in the country then they could also crossover and maybe invest in the rest of the capital structure that is not labeled. So to the extent that you can pull down the yield curve, if you will, you can pull in spreads tighter across the yield curve by bringing in this new class of investors as you have the opportunity to tap into a much larger demand for sustainability-linked instruments in the world than there is supply.

So we should not look at this in terms of reducing spreads on just one bond but in terms of lowering the yield curve over time by bringing in a new class of investors, by issuing one labelled bond, improving liquidity, lowering sovereign borrowing costs, improving debt sustainability, improving the ratings trajectory, and thus creating a virtuous circle.

Fifth, I want to mention Dr. Songwe’s powerful idea of a Liquidity Sustainability Facility. I will not go into all the nitty gritty here as UNECA has excellent papers and presentations on it. The LSF would bring great benefit to Africa that most of the developed world markets offer for investors in their markets which dramatically lowers developed country borrowing costs by dramatically improving liquidity. The idea is to bring in a functioning “repo” or “repurchase agreement” market for African sovereigns so investors can access that and they can repo their bonds and bring in a new class of investors and compress spreads. It is very easy to look at developed markets to see how that works but it has never been really on offer for African sovereigns.

LSF can be more powerful for Africa than the repo markets are for the developed world because of actual and potential special advantages for sustainable development bonds, green bonds and other labelled bonds, which could further compress the spreads for bigger savings. You can get special terms from people who want to invest in those instruments and so maybe that the two to five basis points of “greenium” that people talk about could become (say) 50 basis points, if the facility works the way it should. I encourage people who are interested in that to definitely take a look at it. ECA is working with IFIs and MDBs. Basically, everyone sees the idea’s power as it is a missing piece of “the global financial architecture”, as some central bankers that we talked to have stated. So it could be very powerful. Though implementation may require some capital, perhaps via a portion of the unallocated pandemic SDR allocations, or otherwise, the risk to that capital is likely small.

## **Speaker #2 Kevin Daly, Investment Manager, Aberdeen Standard**

I will mention some things that run counter to some points that have been made as I have had the opportunity to hear other speakers.

Aberdeen manages just over \$20 billion in emerging markets debt and of that we have an excess of \$2 billion invested in Africa in a mixture of hard currency sovereigns, local currency and corporate debt. In terms of my experience, I have been investing in Africa going back to 2007, when Ghana was the first country to come to the Eurobond market. At one point or another we have been pretty actively involved in every single African country which has issued bonds. So I am pretty well versed and I travel extensively to the region.

First, when I look at the Sub-Saharan Africa today, I think back that a lot of the efforts were undertaken behind the scenes last year by various individuals and organizations to discourage the likes of the World Bank President among others from including Eurobonds in the DSSI, as having investors forego interest as a part of DSSI would have been very detrimental to the continent. We have heard all the comments today on Africa regaining market access this year, and you have seen deals being done on average 2x to 4x times oversubscribed. That just shows you where we are today. Had we seen Eurobond debt deferrals last year, Africa would have been shut out of the markets for the foreseeable future. That is a very important point to make because as we know, there is only so much official sector support that can be provided to these countries. The private sector is going to be the one that has been there and will have to provide a lot of the debt financing going forward. So that was the situation last year, and we are in a better place today.

Second, on this Africa premium issue, if we look at the average current sub-Saharan Africa Eurobond spread, now it is about 630 bps. If you look at the average Emerging Markets single B spread, it is about 560 basis points. So there is – if you want to call it that – an Africa risk premium of ~ 70 bps. But you do need to back into those numbers because there are a number of countries in Africa which have much lower risk premiums.

- We can look at the B-rated credits like Côte d'Ivoire and Senegal and recent issuers like Rwanda for instance which are countries with average spreads well below 600 bps.
- And if we also look at some non-African, non-DSSI-eligible single-B rated countries, like El Salvador, Sri Lanka and Tunisia, we see extremely high, distressed credit spreads. So high risk premia are not just an SSA issue per se.

When I look at the countries that we are currently invested in, I would say the one that is of the most concern right now is Ghana. We were heavily invested there in the past. I like the clarity that the government provides investors which is very good in terms of their investor outreach effort. But this is a country which issued \$3 billion last year before the pandemic broke loose. This year they have come to the market with another \$3 billion, and they said they want to do another \$2 billion with an ESG label. But just because it has ESG label on it does not mean that investors are going to be jumping up and down to buy the issue.

- The average credit spread on Ghana right now is at 750 basis points, which is well above the average, and if you look at some SSA peers, like Kenya being a good example, Ghana is anywhere between 230 bps to 250 bps higher.
- Kenya has similar debt levels and similar fiscal challenges, but Kenya is not as dependent on the external capital markets as Ghana is. So in many ways, Ghana is starting to flash for many investors an early warning signal because of its high dependence on external financing.

So to me, this is a sign that the market is differentiating among individual African countries.

- For example, we saw the terrific success of Nigeria a few days before the Conference with a \$4 billion issue, the largest single African sovereign issue. Yes, there were three different maturities, but it was the largest SSA financing taken together. I was not surprised because there has always been very good demand for Nigeria.
- In contrast, Rwanda came to the market earlier this summer. We were a pretty big holder of the existing 2023 bond. We tendered those bonds and bought the new issue which was issued well inside of Kenya. It now trades about 150 basis points tighter than Kenya. Why is that? Rwanda is not that much stronger as a credit than Kenya, but it is the market technicals. There is a view that Rwanda is not going to be dependent on the capital markets as much as a Kenya or Ghana.

So the market is differentiating among the SSA credits out there.

- Benin is another case which came to the market early this year with the 10-year and the 30-year bonds. They bought back the existing debut Eurobond which was a seven-year issue and a couple of months ago they came with an ESG issue which was priced on top of where the existing 10-year bonds were trading. While we own Benin, we did not take up the ESG issue because there was no additional credit premium involved. So, we passed on that. But

it shows the success Benin has had. Their clarity with investors is very good. Minister Wadagni was very articulate and thoughtful on the road shows with investors.

- Benin was not the first to use ESG label, but it was the first to come out and say openly in May or June last year that they were against using the DSSI. If you look at the wide SSA risk premia last year, much of that was when the market was quite concerned that we would have deferrals on Eurobond coupon payments. Once the message got out that SSA sovereigns were generally not going to be doing that, you saw risk premia start to decline and many of these countries therefore would have had market access late last year, but they waited until this year to come to the market.

Finally, the last comment I have to make is that if I look at some SSA credits and compare them say to Egypt, we find that Egypt, which came to the market last week with a \$3 billion issue, trades wider than Kenya and both these countries trade tighter than Pakistan. So it is not just the African risk premium here that we need to think about.

There is an issue in overall credit risk premia that attach to a low-income country due to the risk of a debt metrics deterioration, with higher fiscal deficits or higher debt dependence and thus a higher premium, but many investors are prepared to invest in these countries.

#### **Follow-up Discussion: Scott Mather on the LSF**

Many official institutions want the private sector to share the burden, and the answer is the Liquidity and Sustainability Facility to incentivize more investment. LSF is not only for African countries but also all emerging markets in the world. The reason is you have to incentivize people who want to invest there to invest more, and you have to incentivize those who have never invested there to invest there for the first time, and that is what this facility would do.

LSF would create much more liquidity, bringing in a whole new class of investors. We can go through all the mechanics. You get a new group of crossover investors that all of a sudden are willing to invest in a place. Maybe they have not had much experience investing in Africa, but they will because the terms will become much more attractive. Then, it would improve SSA paper's liquidity dramatically. Market participants know this is the case.

I have talked to all major policy makers, IFIs, and central bankers around the world at the highest levels. No one can find any fault in the proposal. We have talked about using the unused developed country SDRs which are sitting by idly and there could be other mechanisms.

This is the way to get the private sector to take more risk, and it does not risk public sector funds, at least materially which is the point.

### **Follow-up Discussion: Kevin Daly on G-20's DSSI and Common Framework**

I think a lot of the issue with DSSI is that the countries did not fully understand the upside and downside risks. A lot of countries were seeking legal advice on whether this would trigger default clauses in their bank loans. Others thought this might taint their reputations. My view was if the country has a coupon deferral on instruments which are not: (i) in the public domain, (ii) rated by rating agencies; (iii) going to trigger a downgrade of your ratings to SD; (iv) going to trigger forced selling of Eurobonds, then it might be a useful facility for countries to use to seek some sort of relief in the short term - perhaps for three years – being that DSSI was a deferral of interest not reduction of the principal.

But the issue of private sector “burden sharing” caused confusion in the market. I was involved in a lot of discussion on what we saw as the pros and cons of DSSI. My comment was that it is not my decision whether you want to defer your Eurobond coupon payments. I can just say these are the ramifications if you do so. The message I was trying to get across began to be understood and once that confusion declined, the risk premiums started to fall pretty markedly.

And you know last year we had the G-20's Common Framework, and again there was some confusion around that. Ethiopia's MOF first said they would use it and then said they would back away from it. So on Ethiopia and Chad the processes have been very slow. The concern the private sector has is that investors do not have a seat at the table because of the way the restructuring process works:

First, the countries put together Debt Sustainability Assessments (DSA) with the IMF to come up with a number for what the appropriate haircut is to stabilize their debt. Then they negotiate with their bilateral creditors to agree to the new terms for their official (non-MDB) debt. Then then they come to the private sector for relief.

So, the private sector is pretty much at the back of the queue and that is something which we feel is not appropriate because we are extremely important creditors, and we will be important going forward; so why not involve the private sector from the start? That is why Chad and Ethiopia restructurings are dragging on.

Let us see how it works with Zambia which has said they want to use the Common Framework. It could work in their favor with the new administration coming in. The new President Hakainde

Hichilema (HH) has said they are going to treat all creditors fairly which is an important step because as you know the Chinese are as large a creditor if not larger than the Eurobond creditors. A lot of those Chinese loans are opaque. We never get to see what the terms are. We would welcome greater clarity not only on the restructuring process but also increased transparency on these restructurings going forward.

We hope the Common Framework will work, but so far it has not been a smooth sailing process.

Before concluding, let me say this on what UNECA and Scott have been proposing: What is great about LSF is that it is a way of “crowding in” the private investors into Africa whereas what was proposed by G-20 last year DSSI would have had a “crowding out” effect had there been a deferral of coupon.

#### **Session #4 Mini-Panel: Borrower Perspectives on Ratings and Markets**

##### **Speaker #1 Mr. Arsene Dansou, Director General Caisse Autonome d' Amortissement Debt Management Agency Republic of Benin**

Thanks for giving me an opportunity to talk about what we did and what we are doing in Benin to build a new story. Many of earlier speakers have said that issuers need to tell a good story, and that we need to do what we promised to do. That is what we have been doing for the past five or six years in Benin.

We identified the challenges to our development and then we put in place a program composed of reforms and investment to fix our development challenges. With that we built a story and a track record with the markets, implementing reforms on fiscal consolidation, revenue collection, transparency on the use of revenues and on use of the proceeds of the Eurobond issues. From that we built a sustainable debt track record which gave confidence to all our partners including the investors.

For the last five years, we also built very strong relationships with our investors and with the rating agencies with whom we regularly share information on how things are going in Benin. In particular when the COVID-19 crisis came, we tried to not lock down all the economy but instead we set a sanitary corridor around the 15 cities where we had high risks of contamination. We also made available the necessary protection to the population so the economy could continue working and growing and the resilience that we had built over time

before the crisis also helped a lot as well. So those are the key factors that helped Benin get the upgrade from Moody's and to keep our rating from S&P as well.

The relationship with the investors was also a very key factor for us because from our first debt issuance in 2019, we kept discussing with investors, sharing with them information on how Benin is doing and also how we have been investing the funds received from them in the projects we promised to invest in. That transparency was key. And for our government it is very important to keep our word, not only to talk about our best hopes but also show positive actions on what we have been promising to the market.

You know the border with Nigeria has been closed for about one year and this started prior to the COVID-19 crisis. But given the fact that Benin has been working to diversify its economy and bring more formality in businesses, there was no significant impact from the opening of the border on the real economy. The impact was mostly social for the population living alongside the border, which is about 780 kilometers, where we have population with the same cultures and sometimes the same families living on both sides of the border. So, having had a strategy of diversification, we could handle easily the closure of the border. When the border was opened at the end of 2020, it did not bring any specific impact on how Benin was handling the crisis or on the economy, but it eased social contact across the border.

**Speaker #2 Ms. Patience Oniha, Director General, Public Debt Management Office, Federal Republic of Nigeria**

Thank you for inviting me. It has been very helpful to get perspectives of other speakers and from my counterpart from Benin. Let me say I am glad I am speaking after the recent \$4 billion of Nigerian bonds had been issued as there are a lot of factors for their actual rather than expected success.

As you know, we are rated by three rating agencies, two of which have stable rating outlooks. Moody's is on negative outlook, but there is another rating review session with them soon which we are looking forward as the concerns they cited for the negative outlook are now beginning to reverse, namely, crude oil prices and production which affect our FX reserves and revenues. So we hope the outlook returns to stable.

What accounted for the success of the Eurobond? And I should say success despite the impact on the markets during a default by a major Chinese entity. Essentially, we started this journey to the international markets in January 2011 and from that time onwards we have built relationships with investors. Engaging with them is a major part of what we do in the DMO.

We have had some non-deal road shows, but when investors come to visit we are always available to meet with them at very senior levels to answer their questions. We also communicate with them periodically. As the dialog keeps going, they know the Nigerian story well and there is hardly a major surprise. In that process, we have had some investors who have been with us for a long time. I certainly would put Kevin Daly of Aberdeen in that category. He has been to Nigeria several times and we have met on a number of roadshows offshore. So we tell investors we are available to answer their questions and then whatever it is we provide periodically becomes really like an update. The rating is useful but the investors also know that our story is that of a commodity-dependent economy.

I want to be sure to comment on one important point that I believe Scott Mather talked about, which is on “resilience”. Nigeria is one of those countries that has been through a number of shocks though it has always remained resilient. We went into a recession in 2017 and we came out of it. Last year we had contraction from the pandemic like most countries. The Q2 2021 figures just released show that we are growing again with GDP rising 5% year-on-year. So there is clearly resilience even through low oil prices and the pandemic.

We know that we need to diversify our sources of revenues, raise the level of our gross revenues, diversify the economy, and build infrastructure. These are all a major focus of the government. Many positive actions have been taken to improve Nigeria from where and we have presented these to the investors.

So, if you ask me what did we do differently this time, we had a bit of an advantage.

First, we had not been in the market since November 2018 and as we had not been in the market for nearly three years there was some scarcity value. We had also redeemed our debut Eurobond in January 2021 with ten years coming quickly. So, I would say, there was demand for the Nigerian sovereign. Also, several local banks who had followed the government to issue new Eurobonds in the market had stayed away in the past two years or thereabouts because of COVID-19 and other issues, so there was demand not only for our paper but for a Nigeria exposure. So there was this rarity factor we heard of from the market which said it is good to have us come back. And also the market had been expecting the issue because we had been talking about it.

Second, we broadened the international transaction advisory group to get the volume to \$4 billion. We typically work with two book runners but this time we got four because we felt that volume justified it: J P Morgan, Goldman Sachs, Standard Chartered and Citibank. So having

that team work together to reach all the investors helped improve on the investor marketing. We had two days of rigorous investor meetings and it was virtual. We had over 350 investor meetings. Subscription requests exceeded \$12 billion from 278 investors and we allocated \$4 billion.

Third, we appointed for the first time a Nigerian book runner, Chapel Hill Denham, as we wanted to build local capacity. All were appointed on a competitive basis. For the first time we had a virtual domestic road show (one time) and got 167 investors. In 2018, domestic investors took up only \$25 million but this time the level of interest totaled \$680 million and we allocated \$400 million to domestic investors, which included locally based MNCs.

**Speaker #3 Ms. Stella Nteziryayo, Head of Public Debt Management, Debt Management Facility, Rwanda**

It is an honor to be asked to speak on the recent Rwanda Eurobond issue. Indeed, there were changes in the rating outlook for Rwanda from Stable to Negative from S&P and Fitch. From our perspective it was not surprising because, like the rest of the world, Rwanda continues to respond to the negative impact of the COVID-19 on the population and on the economy, which has led to the increasing deficits and debt levels.

So how did we manage despite the rating actions to achieve a successful Eurobond issue?

First, it is important to understand why the deficit has been increasing, because obviously that is why the rating outlook was changed to negative. It is also important to understand how it is being financed and how debt is being managed. This is what we really tried to articulate clearly and present to the investors during the roadshow so that they understood the story. Most of the investors of course do their own assessments in addition to looking at the ratings. They listened to our story and we also took the opportunity to explain things for them that might not have been clear to them.

One of the most important points in the road show was that if you look back at the history of debt sustainability, over the past eight years Rwanda has been able to maintain a Low Debt Sustainability Assessment (DSA) level. It was only in 2020 that due to the impact of COVID-19, the DSA status shifted from Low to Moderate. This of course is something which is not unique to Rwanda.

Despite this shift in DSA, Rwanda does not face debt service pressures mainly because a large share of the debt is made up of concessional loans. This is also the reason why Rwanda did not

apply for the DSSI. In the past it has chosen to take commercial debts only when we have profitable projects that could generate US dollars to support repayments of the dollar Eurobonds.

This debt composition story was one of the main messages we were trying to get out to investors and I think they got that clearly. But we also understand that concessional loans going forward are going to be very scarce, and we need to have a mix of both concessional and commercial borrowing and thus be in the market. The idea is that Rwanda is going to be investing massively using concessional loans in basic infrastructure so it has projects generating profit in dollars which can support our debt in the market.

This is why we went on the market in 2013 and this is also partly why we went again in 2021 because we wanted to invest in projects which are exports oriented to increase our very small export base – a key vulnerability of Rwanda in the pandemic.

Also liability management was a key goal as Peter Sullivan mentioned; so we retired 85% of our existing Eurobonds, which is a part of the reason why we increased the size of the bonds so we could retire as much debt as possible.

So to conclude, first, as for the 2013 Eurobonds so for the 2021 issue, we went to the market to fund good projects. And second, we increased the size for liability management. On size, there has to be a story that serves a purpose and is not just for the sake of a lower spread on the issue. In 2013 we chose not to go to a larger size for a lower cost as we did not have sufficient profitable projects. Instead, we paid a higher price of 6.65% for a smaller issue of \$400 million to stay within our capacity to use the proceeds. This time we were able to do a large benchmark issue.

**Speaker #4 H.E. Pen Thirong, Under Secretary of State, Ministry of Economy and Finance, Cambodia**

Thanks to UNCDF for inviting Cambodia to speak as we are in the learning process towards a first time issuance of government securities. For more than two decades already, Cambodia has borrowed only concessional loans from its external partners. We have always been very cautious in managing our public debt through strict implementation of the following five key principles:

- We borrow at our capacity

- We borrow only highly concessional loans
- We borrow only for priority sectors meaning to support long-term sustainable growth, for infrastructure sustainable growth and productive sectors
- We use the loans in effective, efficient, transparent, and accountable manner and such loans must also be used sustainably
- The fifth principle applied in recent years is to use loans for high quality infrastructure projects by adopting inclusiveness, green finance, and with the goal of resilience to climate change, etc.

Based on these five principles, our debt has been managed sustainably with low risk. The new law on government securities has just been adopted by our legislative body in December last year. Based on this law, we have developed a preliminary policy framework on development of government securities, and this preliminary policy framework will be approved before the end of this month by our Prime Minister. Then, we will publish the measures for the first time issuance of government bonds locally in 2022, if needed for good public investments and other government priority measures. So in the short to medium term, we will still use concessional loans from our development partners, although we just graduated from low-income countries to lower middle income countries in 2015.

In addition to the preliminary policy framework, we are also preparing a comprehensive policy framework for the development of government securities which includes medium and long-term policy measures. This means that although we do not plan to access the international capital markets, we will prepare ourselves to be ready to issue sovereign bonds in the international market in the future, perhaps in 5 to 10 years from now.

In the medium- to long-term policy measures, we will also continue to learn from the market to improve institutional capacity, credit rating for example, and to improve the individual capacities, knowledge and knowhow, for example on how to access the international capital markets in addition to the domestic markets where we may issue next year. This is our strategy on public debt domestic and international, and so we still need support from our stakeholders including UNCDF and others.

## Session #5 Mini-Panel: Mini-Keynote: Possible Solutions

### Speaker #1 Lakshmi Shyam-Sunder Vice President and Chief Risk Officer, World Bank

Thank you for inviting me to this very interesting conference. It is very timely and very important. We are facing an environment of very large financing needs in the context of COVID-19. At the same time, we are confronting the issue of very high debt levels in most of these countries and legitimate concerns about debt sustainability. These concerns were voiced before the onset of COVID-19 and are now even more pressing,

- A recent report from the IIF mentioned the very high record levels of debt some \$296 trillion and the rapid increases since the pandemic. Of course, a large part of this increase was accounted for by the advanced economies. But total debt across emerging markets ex-China stands at a record \$36 trillion.
- As many of the speakers have noted, access for most of the emerging markets tends to be more challenging, especially for the lower income countries. In the beginning of the COVID-19 pandemic, for example, we saw a traditional flight to quality highlighting the volatility of capital flows. And countries continue to face difficulties in terms of tenor, size and pricing. Despite an historically low level of interest rates, risk premiums for many countries are still quite substantial. reflecting sometimes genuinely higher risk and sometimes the perceptions of higher risk as well as some risk aversion on the part of bond investors, especially now, with expectations of rate increases in advanced economies.
- There is of course also a concern on the high reported debt levels. Actual sovereign defaults as you noted did pick up last year; there are concerns over debt transparency as some of the earlier speakers mentioned; and there is increased complexity in the restructuring process, especially with the changes in the creditor landscape.
- Now in this context multilateral development banks play a key role in providing funding and net positive flows to the poorest countries in the world as we are a more stable source of lower cost, long maturity funding. This is of course due to our own balance sheets and strong AAA ratings which enable us to borrow at a low cost in the global capital markets and on-lend at low cost to such countries even during times of crisis.
- In addition to this intermediation role, however, entities such as World Bank also help in other ways to enable countries improve their access to capital markets.

I will describe three ways in which we have engaged in this regard. This includes: first, advisory and technical assistance; second, the guarantees that we have issued, and third, some specialized interventions that enable indirect access and introduce countries to the capital markets.

- Let me start with the first engagement: advisory work, which is an important component of World Bank country interventions, which go beyond just financing. We do this advisory work at two levels; first, at the broad macroeconomic and debt management support levels and second, on the actual process and mechanics of approaching the capital markets.
- In terms of the advice on surveillance and assessing the macro and financial fundamentals, we try to help the country authorities build their own capacity for establishing their macroeconomic, fiscal and institutional frameworks which some of the successful borrowers have clearly indicated are crucial to their access. We also help client countries assess consistently the impact of major policy decisions and external shocks. We enable them to take timely policy decisions either on their own or in consultations with the IBRD and the IMF, especially where there any type of lending involved with us.
- We also help the countries assess their own debt sustainability and urge them to look at the composition of their debt, which means not only the level and the trajectory of debt but also the tenors and the currency composition, on which we may want to do more in the future. We engage in capacity building, providing training and assistance to governments in (i) enabling them to do their own assessments, (ii) developing their medium-term debt strategies, and (iii) making their own debt management performance assessments. So overall, our technical assistance and surveillance is aimed at building strong internal fundamentals of the client countries, thus making them attractive to potential international bond investors.
- But the Bank does not limit its advice to macro policy aspects. It is also involved with the process and mechanics surrounding the ability to access capital markets. And maybe I can give you a couple of country specific examples of such technical assistance.
- One is a case of Albania which issued its second international bond in 2015. Here, the Bank provided technical assistance to the government's debt management team on the timing of the issuance, the communication with the markets (the importance of which was emphasized by one of the previous speakers), the preparations for the bond road show, and the execution of the final transaction.

- Another very recent example was Mongolia where, together with the IMF, we did the technical assistance on their liability management operation. The key priority here was the refinancing of the rollover risk that they would face on two bonds that were maturing in 2021 and 2022. Based on this technical advice, Mongolia was able to buy back the old bonds and issue new bonds maturing in 2026, greatly reducing its rollover risk. The size was about \$600 million and they did have to pay a little for the longer maturity but that was appropriate risk management.
- Now we come to the second engagement with which the markets are more familiar and that is the guarantees instrument. And here we operate again at two levels: (a) one is in terms of the guarantees of repayment on general debt obligations, and (b) the other is a guarantee of contractual performance in project finance-type transactions.
- You mentioned Ghana. That was an example of the former where the country issued a \$1 billion transaction in 2015 where the investors benefitted from a \$400 million IDA guarantee, enabling a rating uplift of two notches from both Moody's and Fitch. This also enabled the country to refinance and extend maturity to 15 years. Again, there was a maturity premium, but it is important to recognize that the country would not have been able to access the market at 15 years without the IDA credit guarantee.
- A more recent example is Ukraine, where we issued a policy-based guarantee. Ukraine was completely shut out of the markets for four years and we divided our guarantee into two tranches for a total of \$750,000,000, enabling Ukraine to access the market for about \$1.2 billion in mid-2019, at a time when they would not have been able to issue without this guarantee.
- When we go to project guarantees, we do more of those, and some speakers have said these have greater leverage impact. One example is the Sankofa gas project in Ghana, where we essentially provided a \$500 million guarantee of repayment risk of an offtaker, which was a state-owned enterprise. This is where the market was completely unwilling to take the offtaker risk in a \$8 billion project. So you can see how just a \$500 million guarantee enabled an \$8 billion project to go through. We have done more of these kinds of guarantees, but they tend to be very targeted interventions on a case-by-case basis. And we have also helped extend maturities in some project-specific cases.
- Finally, our third engagement is to offer other types of support where we use some specialized instruments that help introduce a country to the market or help in special cases. One example of this is our CAT bonds or catastrophe bonds, where we will issue a bond in

the market that pays if a certain event occurs, for example a hurricane. This enables a country to rapidly get the access to funds when it needs them, in the event of a crisis. If the country has not previously accessed markets, then the CAT bonds can also allow the market to become familiar with the country.

- Stepping back, if I look at all this experience overall, many of these interventions are case by case and depend very much on the specific circumstances. But if you want something sustainable, as many other speakers have said, it will depend on the fundamentals and the core factors that make a country attractive. So I go back to the themes of governance, institutions, policies, implementation, and living by doing what you say you will do.

In closing, I want to mention two components that are now receiving more attention.

- One is the need to develop full and complete data on debt and transparency in reporting as the debt landscape has become far more complex than it used to be even in the low-income countries, with many new lenders, many new forms of lending, with a lack of adequate information. I suspect this asymmetric information is also contributing to the premiums that we have been talking about.
- This task is very difficult because there are new forms of lending with collateral, and information on these deals is very difficult to get, often because of “non-disclosure agreements” (NDAs) and because sometimes the county itself may not know. So this is very hard nut to crack but doing so is very important not just for IBRD but also for the market. As such undisclosed debt can be very significant in some cases, the matter is of a high priority.
- Another area that is fertile for more exploration is the currency composition of debt and to see whether increased issuance in local currency could help alleviate some of the risks and bring down the premiums and perhaps also create more sustainable borrowing for sovereign borrowers.
- Finally, as has been noted by others. repeated communication, its clarity, consistency and completeness are very important but first one has to get the story right.

## **Speaker #2 Cameron Khosrowshahi, Director, Private Sector Engagement, USAID**

Although I sit at USAID, I represent Prosper Africa in its inter-agency Secretariat, with seventeen different US government agencies. Prosper Africa was launched several years ago and then was relaunched by the Biden-Harris administration. It is devoted to substantially increasing two-way trade and investment between the US and African nations. Our goal is shared prosperity,

solidarity and mutual respect and we are interested in the capital mobilization agenda because we need private capital to succeed in meeting global challenges as public resources in development finance are limited and we need private sector capital. The climate gap, the SDG gap, etc. are in the trillions annually.

- At the same time, we have an opportunity as global investors have never been more interested in faster growing developing markets and in social returns with financial returns.
- The risk return calculation for developing markets often stops them and this is where helping to elevate credit ratings is one promising way to shift that calculation.
- We are learning how to bring the full U.S. government interagency capacity and also our donor partners' capacity to bear on this issue because it is existential.
- We often talk about the risks of investing in developing markets. We should also be talking about the risks of not having sufficient resiliency and investment in developing markets for all of us. We need that balance.
- So we have undertaken at USAID a preliminary report to surface many of the rating enhancing intervention areas you and others speakers have mentioned in both the near and medium-term context. Some are shorter-term measures: improving information flow, data, and communications, which are very much needed. There are expert players in these fields, including the World Bank, the IMF and US Treasury. And then other measures like capital markets deepening and liquidity, which have longer term horizons.
- One of the activities we undertook alongside the World Bank was creating a local investment consortium in Kenya to invest in unlisted assets. The World Bank went in and designed the project and we brought our US institutional investors over to coordinate and co-invest with them. I have to say that the KEPFIC consortium is now gaining the ability to drive more local savings into the local real economy, which is what we need.
- So we are at the beginning of our understanding, and we will rely on our interagency partners, other donors and the development finance community to support us.
- Risk mitigation is another key area as you know that more and more donors are focused on because we need to increase the scale, the speed and the flexibility of how we approach this and move from a transaction-by-transaction approach to more of a wholesale approach using capital markets, for example, as a way to standardize for investors the opportunities that are out there.

- We want to be helpful and additive and ideally partner with investors, credit rating agencies and other donors to improve the system to make it more efficient and transparent for developing countries.
- I listened with interest to what the credit rating agencies were saying about some of the structural weaknesses in places like Africa and the rest of the developing world that made the crisis, the global pandemic crisis, much worse for them in many ways because some of the fundamentals were not there at the beginning of the crisis.
- Are we dynamically scoring these countries? Are we also looking at the other side of the ledger? Are we taking into account the informal sector of the economy? Should the younger populations that can withstand a pandemic be considered an asset and not just a negative? We need to take into account some of the positive aspects of the developing world.

#### **Session #6 Closing Keynote Biodiversity Financing with Nature Performing Bonds**

**Speaker: Dr. Simon Zadek, Chair, Finance for Biodiversity**

- There is now clear evidence in multiple studies by many actors that the very success that we have had in integrating climate risk into financial decision making is of course not surprisingly leading primarily to an increase in the cost of capital to the most climate vulnerable countries in the world that also happen to be the poorest countries in the world.
- Obviously that is not the fault of capital markets or credit ratings, but it is clearly an illustration of the complexity of how we have to think about investment flows in a period where we will be challenged by many new factors such as climate-related volatility and of course the degradation of nature.
- SEB and the World Bank thought of green bonds ten years ago when it was considered odd but it is now a trillion-dollar market and growing.
- So it is worth thinking in a mindset that we have to continually innovate to finance in an increasingly complex and volatile environment.
- I want to talk about one particular piece of it and though we do not know where it is going, it could become very important:
  - Where does “natural capital” fit into sovereign debt markets?

- In what ways and to what extent are we pricing in such “natural capital” risk, both as nature deteriorates and also to take into account the outsized importance of how “natural capital” drives major parts of the economy for many countries?
- So far, not very much: we are beginning to address climate risk challenges and perhaps implicitly beginning to take nature into account but certainly not systematically or explicitly.
- So F4B, UNDP, IBRD, UNCDF, IIF, ICMA, rating agencies and others are now thinking about Key Performance Indicator (KPI) - tied Nature Performance Bonds (NPBs).
- A number of sustainability linked bonds in the corporate space have put the proposition on the table that sustainability can be linked to the cost of capital.
- There has been some talk of nature and climate-linked sovereign debt in the context of debt relief and restructurings.
- And some are beginning to think of KPI-linked sovereign bonds in contrast to green bonds (which can be considered “use of proceeds” bonds).
- An African country is prepared to tie bonds to reducing coal fired power and Pakistan is considering NPBs.<sup>6</sup>
- There are some perhaps mixed precedents in the form of inflation and GDP-linked bonds.
- So there's a need to do something along these lines providing money not just on faith in how it will be used but rather on the actual performance. We have to see how this develops.

### **Session #7 Closing Intervention: Role of UNDP in SDG Alignment of Sovereign Bonds**

**Speaker: Marcos Neto, Director, Finance Sector Hub, UNDP**

- UNDP is thinking about KPI bonds within the larger SDG framework that promotes long term, inclusive and sustainable investments to address global challenges.

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<sup>6</sup> Pakistan is set to issue nature-performance bond of up \$1 billion this year, according to Malik Amin Aslam, a climate-change adviser to Prime Minister Imran Khan. Pakistan has been a heavy user of coal for power generation, yet aims to use greener energy and plant almost 10 billion trees by 2023 (Source: Bloomberg).

- Within this SDG framework, the challenge is to mobilize finance for the SDGs for which the gap has increased with COVID-19 to \$4.7 trillion annually.
- Last year, despite COVID-19, global wealth has increased to \$418 trillion so the gap is only 1.1% of global wealth; the challenge is how to tap this money.
- UNDP has been trying to help by creating a set of “SDG impact standards” of which there are four: (a) for private equity, (b) for bonds, (c) for enterprises, and (d) for DFIs, done jointly with OECD at the request of the DAC..
- The standards connect different actors across the ecosystem through a shared approach to integrate sustainability and the SDGs into decision making.
- The good news is that SDG standards are being picked up by sovereign bond markets.
- We are in conversations with around 30 countries worldwide on green bonds, blue bonds, SDG bonds, with some being KPI bonds (like Pakistan, Uruguay).
- UNDP is working with UNCDF in sovereign and municipal bonds as well.
- In March, 2021, the New Development Bank issued three-year fixed rate \$767 million SDG bonds in China, using SDG Impact Standards and SDG Finance Taxonomy that UNDP developed with China to ensure use of proceeds for SDGs in the requisite framework.
- Just a few months back, Uzbekistan became one of the first countries to issue sovereign SDG bonds with the UNDP providing guidance, some possible solutions and a structure.
- In July 2021, with UNDP support, Mexico issued its second tranche of SDG bonds with a total value of Euro 1.2 billion; UNDP provided an independent second opinion on the SDG linkages of the bonds.
- Another interesting case is Indonesia. A few years back we supported Indonesian government on a sovereign green Sukuk and a retail green Sukuk, together totaling \$3.2 billion, for COVID-19 mitigation and for scaling up national climate action; UNDP role was to design the framework that defines the shades of green, how to structure the pipeline, and we are also doing the impact management and reporting.

- Just ten days ago, Indonesia launched its first SDG bonds for 500 million Euros with 12-year maturity and a yield of 1.351% <sup>7</sup>, which is pretty good for Indonesia; UNDP role was to design the SDG framework, help structure the pipeline and we will work with the government on the impact management and reporting.
- UNDP is working with UNCDF, the UK government and other partners on the issuance of Blue Bonds in 2022; UNDP will help aligning the use of proceeds and deliver SDG wording for the impact framework.
- We congratulate Benin on its SDG bonds – the first in Africa.
- There is a lot of appetite for these types of bonds where we help on the thematic issues, but a lot more needs to be done to mature and grow this market.
- The different taxonomies on green bonds can generate confusion and raise transaction costs with it being easier to identify green or blue or SDG assets in certain areas like climate but more difficult in others, for example in the social area.
- UNDP serves as the Secretariat of the G-20 Sustainable Finance Working Group which will launch a roadmap soon for sustainability finance to advance work on the taxonomies for green, blue and social bonds by providing principles to facilitate interoperability among taxonomies around the world, enabling them to talk to each other and potentially allow such bonds to be issued in different jurisdictions by different countries.
- Another G-20 Working Group priority issue is that many of the tools used in financial vehicles and instruments to align investments with SDG goals do not have “transitional financial considerations.”

The SDG labelled markets are big and can grow, but it is important to maintain integrity of the market. UNDP is talking to 30 governments on this. Both governments and markets want a framework that has integrity, assurance, third party verification to some degree, and standards that are clear in terms of the frameworks, the pipeline and the measurement tools for thematic bonds.

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<sup>7</sup> <https://www.reuters.com/world/asia-pacific/first-indonesia-buy-back-some-global-bonds-after-raising-184-bln-2021-09-14/>

Innovation is the way forward on these issues.

UNDP is happy to work with governments, and we value our partnership with Preeti and the team and I hope this explains the issues, the instruments that have been issued and the regulatory overlay with G-20 that is evolving.

### **Session #8 How can UNCDF help member states?**

**Speaker: Preeti Sinha, Executive Secretary, UN Capital Development Fund**

- Thank you for the Inaugural Sovereign Borrowers Conference.
- UNCDF seeks to serve the 46 LDC's and learn from the other countries to serve them.
- Our priorities and means are reflected in our new strategic framework 2022 to 2025.
- We focus on capital and development; we are a hybrid development and finance agency with an emphasis on capital markets engagement.
- For example, we provide and facilitate finance and offer technical support for SMEs and municipalities to reach the last mile in LDCs.
- We hope to be a financing and structuring agency within the UN and to bring in all the partners on the call today to the benefit of the countries.
- We want to work with the countries to help strengthen their capacity. Thus, it's important that communications, education, and interaction happen first.
- UNCDF will be organizing on-going global roadshows for countries so they can interact with institutional investors and other market players to increase mutual understanding.
- We look to innovate, including in areas such as nature performance bonds and other types of climate and biodiversity finance at the national level where possible.

## ANNEX 1:

**Prepared Speech by Dr. Vera Songwe  
Executive Secretary and Undersecretary General  
UN Economic Commission for Africa, on the importance of capital market access for African  
sovereigns and other borrowers.**

### **Distinguished guests**

Africa's developmental needs are growing and currently outstrip the resources available through concessionary public financing. Access to capital markets will be indispensable if the continent is to achieve the 2030 Agenda for Sustainable Development.

The IMF estimates that at least \$450 billion is required to respond to the pandemic restore low-income countries to their pre-pandemic growth trajectory.

However, the current financial architecture is ill-equipped to deliver the amount of resources required to recover from the pandemic, let alone achieve the SDGs.

The time has come to develop bold and radical financing frameworks that push the boundaries of conventional wisdom and practices.

Africa's development financing needs are daunting. The infrastructure (energy, transport and communication) financing gap is estimated at around **\$130-\$170 billion** annually.

An estimated **\$18-\$30** billion a year will be needed over the next two decades for climate action and climate change adaptation, with nearly \$1 trillion worth of investments and projects ready to be financed<sup>8</sup>.

Africa's estimated annual financing gap on health is **\$66 billion** and, about **\$39 billion** a year (UNESCO) is needed over 2015–2030 to achieve SDG 4 on inclusive education in Africa.

**Capital market access by African sovereigns has risen steeply in the past decade in response to the exponential growth in development financing needs.**

These efforts were bolstered by low interest rates in the US stemming from the Fed's quantitative easing policy and improved macroeconomic fundamentals.

**Indeed**, the total value of Eurobonds issued by African sovereigns between 2018 and 2019 exceeds the value of all bonds sold from 2003 to 2016.

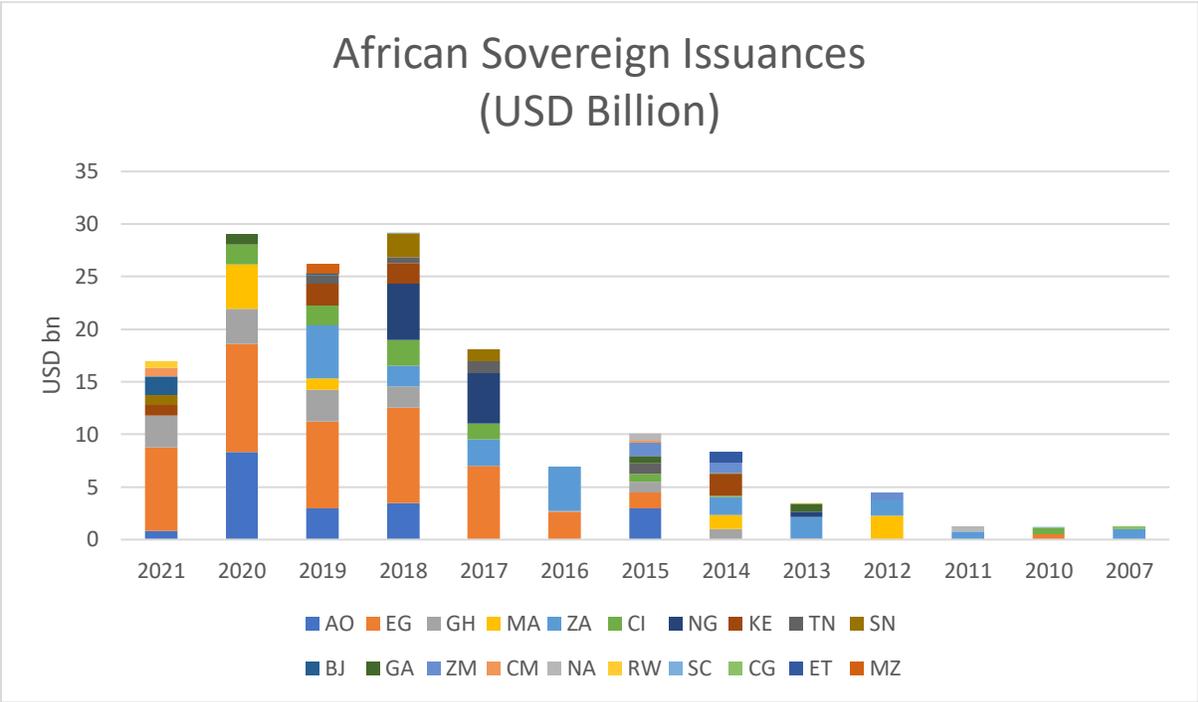
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<sup>8</sup> [https://www.uneca.org/sites/default/files/fullpublicationfiles/ERA\\_2020\\_mobile\\_20201213.pdf](https://www.uneca.org/sites/default/files/fullpublicationfiles/ERA_2020_mobile_20201213.pdf)

The rise in Eurobonds in Africa started with Seychelles in 2006, followed by Congo, Ghana and Gabon in 2007.

As more African countries gained access to capital markets, non-concessional debt assumed growing share of Africa’s debt profile.

Currently, at least 22 African countries have participated in international bond issuances.

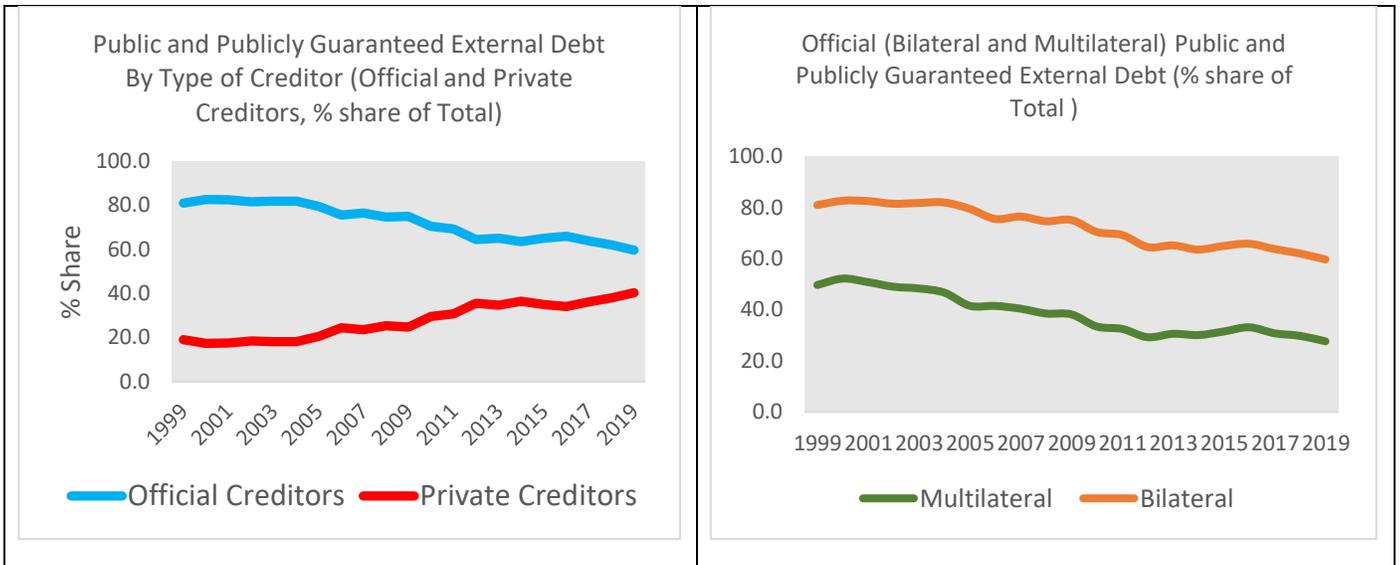


Source: Bloomberg, Sep 2021

Note: African Countries covered 20

Private and official debt increased by 436 percent and 67 percent, respectively, between 2000 and 2019.

As a result, private debt as a proportion of Africa’s total debt more than doubled from 17 percent in 2000, to 40 percent in 2019, while official debt declined from 83 percent to 60 percent of total debt in the same period.



Source: International Debt Statistics, World Development Indicators, World Bank 2021.

The value of public and publicly guaranteed bond issuances increased by 1,170 percent between 2000 and 2019 tripling the bond share of Africa’s total debt from 4.9 percent to 17 percent in the reference period.

Nonetheless, the value of Africa’s Eurobond issuance is much lower than in other parts of the globe.

During the period January to September, 2021, African countries issued almost US\$17bn of Eurobonds compared to the total emerging market sovereign issuance of \$109 billion during the same period.

Going forward, the value of bond issuances will be influenced by the coupon rates associated with such issuances.

**Distinguished guests,**

**The cost of borrowing on capital markets has been prohibitive, contributing in part to the relatively lower value of African sovereign bonds and the risk of elevated debt vulnerabilities going forward.**

Yield spreads on Africa’s sovereign bonds are higher than economies with similar non-investment grade credit ratings.

For example, if you compare BB+ rated Morocco’s 10-year bond issued in September 30, 2020 the coupon was 2 percent versus Greece’s coupon of 1.5 percent a 10-year bond with a BB-

rating issued on 18th, June 2020. The yield spread for Morocco of 234.6 basis points was 122.5 bps higher than Greece's 112.1 basis points (Source Bloomberg).<sup>9</sup>

## **Credit Downgrades**

Despite progress made over the last decade, African countries, are currently suffering persistent credit rating downgrades as they make efforts to effectively respond to the COVID-19 crisis and address macroeconomic and fiscal challenges.

Financing of recovery efforts in Africa has led to an avalanche of credit rating downgrades which have: i) stifled the flow of financial resources to the continent; ii) overinflated the cost of existing debt; iii) prevented governments from pursuing debt restructuring even as part of multilateral programs for fear of further downgrading.<sup>10</sup>

As an example, according to a report published in an article by Afreximbank Chief Economist Hippolyte Fofack the 3 rating agencies downgraded the Government of Ethiopia following the official announcement that it will seek debt assistance under the G20 Common framework for debt treatment beyond DSSI.

In addition to Ethiopia only Chad and Zambia are participating in the scheme, out of 25-eligible African countries.

Yet, Ethiopia's Debt distress risk rating remains unchanged since the pre-covid era.

Overall, 56 percent of African sovereigns experienced a downgrade in 2000 - this figure rises to 62.5% if Kenya and Mauritius - downgraded in the first half of 2021 – are included.<sup>11 12</sup>

The series of downgrades have been accompanied by a glut of negative reviews of the ratings outlooks for African countries.

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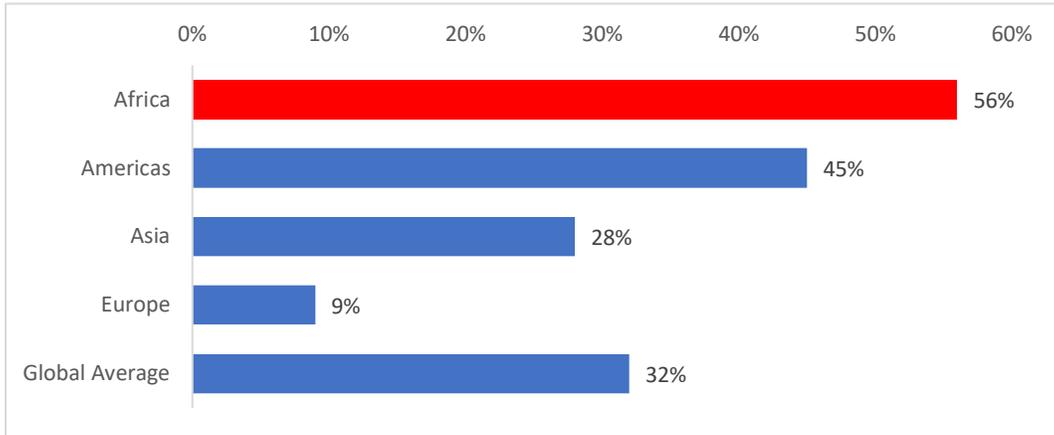
<sup>9</sup> "According to bankers, the spreads on EU government bonds that are eligible for purchase by the ECB under its Public Sector Purchase Programme (PSPP) are artificially depressed. A better benchmarking for African premiums is by comparing bonds of countries outside the EU, as has been done in the Banker and Investor panels. But the spread compression on EU government bonds reinforces the case for the proposed Liquidity Support Facility.

<sup>10</sup> <https://repository.uneca.org/ds2/stream/?#/documents/805d5c33-fd8e-479e-ac9e-dc903eded785/page/2>

<sup>11</sup> <https://www.project-syndicate.org/commentary/africa-credit-rating-downgrades-hurt-economic-development-by-hippolyte-fofack-2021-08?barrier=accesspaylog>

<sup>12</sup> Data cited by the speaker from S&P shows lower rating downgrades for countries in Africa than for those in Latin America.

**Countries downgraded as a result of COVID-19 in 2020 by Region  
(% of countries downgraded by at least one of the big-3 rating agencies)**

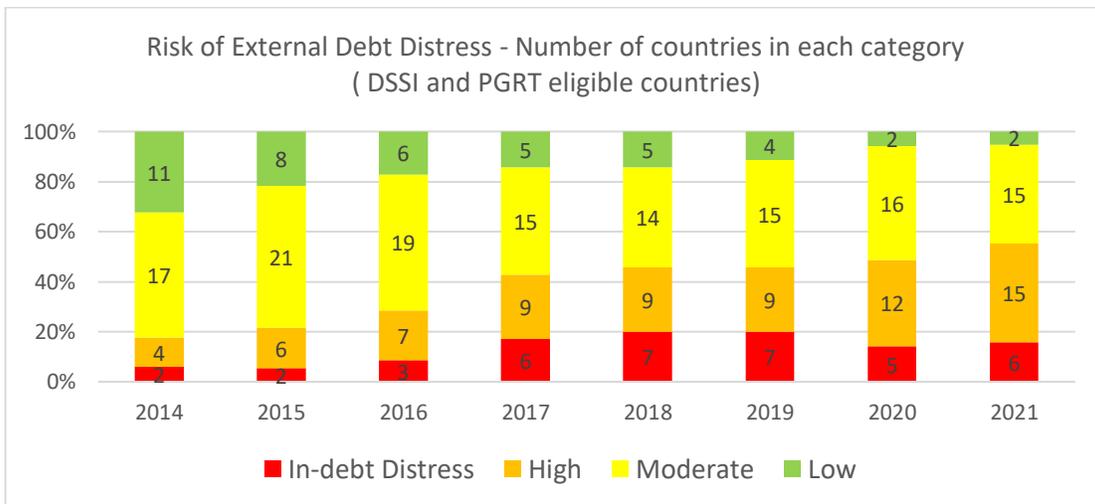


If this rate of downgrades continues, Africa may emerge from the pandemic with over 90% of its sovereigns rated below investment grade which can trigger disproportionately negative effects. (Morocco and South Africa rated to junk grade).

**Debt Sustainability Assessment**

Remarkably, notwithstanding the flurry of downgrades, only 6 African countries are in-debt distress according to the IMF-WB debt sustainability assessment:

**Debt Sustainability Assessment**



Source: IMF/WB Debt Sustainability Analysis Under the Joint Bank-Fund Debt Sustainability Framework for Low Income Countries (LIC-DSF)

**Distinguished guests,**

**Repo markets can reduce the liquidity premia associated with African sovereign bonds, reduce debt service costs, improve fiscal buffers and mitigate credit downgrades.**

A contributing factor to the African premium is the illiquidity of both their sovereign and corporate bond markets and the existence of significant liquidity premia embedded in their bond returns.

Unlike developed countries, emerging market issuers of hard currency debt lack well-functioning repo markets to help compress liquidity premia.

As you are all aware, almost all developed market issuers benefit from extensive and well-functioning repo markets which enhance the liquidity and attractiveness of sovereign debt and other financial assets and contribute to lowering borrowing costs.

The US repo market, for example, is approximately \$4.5 trillion in size, while the European repo market was estimated at about EUR 7 trillion in terms of outstanding repo contracts (ICMA) in 2018.

**Distinguished guests,**

**Supporting the creation of a vibrant repo facility for African sovereign bonds is imperative.**

It is in this context that the Liquidity and Sustainability Facility is being proposed.

The facility seeks to create a repo market for under-served sovereign bonds with an initial focus on Africa.

The LSF seeks to enhance the liquidity of African sovereign bonds by enabling these securities to be used as collateral to access affordable short-term loans.

These repo loans could be financed by reallocating a portion of unutilized Special Drawing Rights provided to countries around the world by the International Monetary Fund to the LSF.

By offering preferred repo rates on green bonds, the LSF can channel capital into green investments such as climate resilient infrastructure and renewable energy with proven high rates of return.

In South Africa, for example, green projects are projected by UNECA to create 250% more jobs compared with equivalent funding for fossil fuel-based alternatives.

With less than 1 percent of global green bond issuance emanating from Africa, this is an under-tapped opportunity.

**Fellow guests,**

I am confident that this event will advance our collective efforts to make capital markets more affordable for African sovereigns while channelling resources to finance lucrative sustainable development initiatives in Africa.



Unlocking Public and Private  
Finance for the Poor

## EXECUTIVE SUMMARY

African sovereigns raised about \$20 billion in the capital markets in the first three quarters of 2021 including the landmark €500 million SDG Bond by Benin in July and \$4 billion financing by Nigeria in September, bringing such issuance of African sovereigns to \$175 billion over the last decade with over \$125 billion of this still outstanding. The COVID-19 pandemic's adverse economic impacts heighten the urgency for a discussion on the role of global capital markets in SDG achievement for humanity and the planet, especially in developing economies. The Sovereign Borrower's Conference, organized by UNCDF at a time of falling credit ratings for sovereigns in SSA, aimed to increase the engagement, interaction, and dialogue among global capital market participants and developing countries (including the Least Development Countries (LDCs)). Moderated by Mahesh Kotecha, Founder and CEO, Structured Credit International Corp (SCIC) and UNCDF Advisory Council Member, the conference provided a platform for institutional investors, rating agencies, and governments to discuss real and perceived risks and to design and enhance workable pathways for greater access to capital markets.

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GENERAL ASSEMBLY  
76<sup>TH</sup> SESSION  
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