



Unlocking Public and Private  
Finance for the Poor

EXECUTIVE SUMMARY

# SOVEREIGN BORROWERS CONFERENCE

23 SEPTEMBER 2021

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



# 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 Developed 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.

The conference reached a number of important conclusions and observations that are summarized below and captured in greater detail in the full report which can be viewed at the link provided below. Speaker and panelist bios can also be viewed in the conference micro app which is available at <https://uncdf.link/sbcapp>.

- ◆ 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.
- ◆ 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.
- ◆ 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").
- ◆ 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.

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- ◆ 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.
  - ◆ 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.

## LOOKING TO THE FUTURE

Going forward, UNCDF will work with partners within and outside the UN system to continue this dialogue by leveraging our convening power and know-how as a hybrid development agency-development finance institution. UNCDF is already exploring tangible pathways of assisting countries to plan for upcoming bond issuances, including helping countries engage with rating agencies to prepare for the rating process so as to secure appropriate ratings. This is being done in tandem with UNCDF's work in helping governments strengthen domestic capital markets through appropriate policies and supporting them to build solid economic conditions that can absorb and sustain debt through strengthened market systems. Finally, UNCDF is reviewing collaborations to scale the use of labeled bonds to drive down the cost of sovereign bond issuances for LDCs.



→ Read More at <https://uncdf.link/sbc>



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