Acknowledgements:
This policy brief was written by Ms. Grace Namugambe and Mr. Rogers Tomusange and technically reviewed by Ms. Jane Nalunga.

Introduction
As African countries seek to bridge financing gaps and fuel economic growth, Eurobonds have emerged as an attractive option for accessing external capital. This is especially due to the fact that Eurobonds offer governments greater flexibility in funding allocation and have less conditions attached as compared to concessional loans. However, the growing reliance on Eurobonds has raised pertinent questions about their long-term consequences and the risks associated with their issuance.

What is a Eurobond and how does it work?
A Eurobond is a fixed-income debt instrument (security) denominated in a different currency other than the local one of the country where the bond is being issued. Eurobonds are issued by governments to access global capital markets to secure financing for their fiscal needs. Interest payments on Eurobonds are made periodically to bondholders based on the coupon rate established at the time of issuance. The coupon rate is the fixed interest rate that the government agrees to pay to bondholders throughout the bond’s term. These interest payments are disbursed irrespective of the bondholder’s nationality or location, making Eurobonds an appealing investment option for international investors seeking diversification.

Eurobonds issued by governments have a specified maturity date. This date signifies when the bond’s principal amount is repaid to the bondholders. The maturity period for Eurobonds can vary, ranging from a few years to several decades, depending on the government’s funding requirements and investor demand. Upon reaching maturity, bondholders receive the principal.
amount, thereby concluding the bond’s life cycle. When the agreed interest payment date of a sovereign bond arrives, the issuing country is required to pay the specified amount of coupons to the investors holding the bond. In addition, on the agreed maturity date, the issuing country is required to repay the agreed principal amount of the bond and the last portion of the coupons still outstanding to the investors holding the bond. If the issuer does not pay the coupons or principal on time, the debt will be in default. Overall, a sovereign government that defaults on its debt, or has a clear likelihood of defaulting on its debt, will face several profound consequences, a judgment supported by several historical cases of sovereign debt crises.

When a country declares or shows signs that it cannot pay its external debt, it is likely that its credit rating will be downgraded. As a result, the country will access future loans at high interest rates which if not paid off in time could further lead countries into situations of debt distress. Ultimately, debt distressed countries will have reduced capital inflows and dampened economic activity which could trigger an economic recession.

Experiences and Lessons from African Countries that have made use of Eurobonds

Between 2007 and 2020, 21 African countries accessed international debt markets, many for the first time. The instrument of choice was Eurobonds. Along with this access to the markets came scaled-up lending from bilateral lenders, especially China, and continued access to loans from the multilateral organizations, like the IMF and World Bank.

The stock of African Eurobonds reached $140 billion representing 30% of the continent’s total debt in 2021, having provided governments with a financial boost to their investment in infrastructure, technology, and skills. Longer-dated bonds of thirty years or more have been issued, and countries are issuing in Euro as well as US dollars.

Most Eurobond coupon rates in developed countries are below 2%; in contrast, 10-year Eurobond coupon rates for African countries issued in 2013-2019 were between 4% and 10%, with a slow upward trend, showing that the sovereign bond coupon rates for African economies are higher than usual.

Eurobonds in Rwanda

In 2013, Rwanda raised USD 400 million as it issued its first Eurobond. The Eurobond was an attractive investment owing to Rwanda’s low debt burden, rapid economic growth, stable macroeconomic performance and relative political stability. However, the yield at 6.875%, although lower than expected, was still higher than the yield on other African bonds, including Nigeria (4.1%), Senegal (5.4%) and Tanzania.

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3 Judith Tyson (2022) Rising interest rates are threatening debt sustainability in Africa. Accessed at https://odi.org/en/publications/insights/rising-interest-rates-are-threatening-debt-sustainability-in-africa/#:~:text=This%20represents%200.3%25%20of%20Africa’s,Take%20Ghana%20as%20an%20example
4 Ibid
5 Ibid
The funds were directed towards investment projects including; US$120m for the Kigali Convention Centre and US$80m for RwandAir. US$150m was directed towards completing the Kigali Convention Centre and US$50m to completing the Nyabarongo hydropower station.

Later in 2021, the Government of Rwanda raised USD 620 million from a 10-year Eurobond issuance to finance the country’s COVID-19 recovery, partly refinance the USD 400 million Eurobond debt maturing in 2023 and fund strategic investments in health and agriculture to enable export growth, safeguard environmental protection and mitigate adverse effects of climate change.

In May 2023, with support from the International Monetary Fund, the country set aside $63 million as part of the Special Drawing Rights (SDR) allocation that it received in 2021 as support to fight against the impact of COVID-19 on the economy. Following this, it is notable that by the date of Maturity in May 2023, the country had raised funds to fully pay off its USD 400 million Eurobond. Whereas the payment bore fruits that are expected to keep the country’s national debt at par, it is bound to exert more pressure on the country’s reserves which are not performing well partly due to the prolonged impact of the covid-19 pandemic, the Ukraine-Russia crisis and climate change.

### Eurobonds in Zambia

Between 2012 and 2015, the Zambian government issued three Eurobonds amounting to $3 billion, resulting in an annual interest payment of $240 million. The use of commercial bonds in Zambia’s external debt increased from zero to 46.2% in 2015. Despite initial assessments indicating sustainable debt levels, Zambia faced economic challenges as global copper prices fell sharply in 2015, leading to a downgrade in its sovereign credit rating. With mounting external debt, Zambia encountered difficulties in debt repayment, culminating in a default on Eurobond interest payments in 2020, making it the first African country to default during the pandemic.

As at end-December 2022, Zambia’s total public debt was USD equiv. 32.8bn including interest arrears. Eurobonds accounted for a sizable part of the commercial debt, totaling $3 billion. The Ministry of Finance and National Planning continued to project significant refinancing risks in 2024, 2025, and 2027, as Eurobonds matured in concentrated years.

### Eurobonds in Kenya

In 2014, Kenya successfully issued its inaugural Eurobond, raising $2 billion in three tranches with maturities of five, ten, and 30 years (Republic of Kenya, 2014). This issuance marked Kenya’s entry into the global capital markets and attracted considerable attention from international investors.

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investors. The subsequent years saw Kenya tapping into the international debt markets again, with additional Eurobond issuances in 2018 and 2019, raising $2 billion and $2.1 billion, respectively (Republic of Kenya, 2018; Republic of Kenya, 2019).

Although the Eurobond proceeds have been utilized to support various developmental projects and infrastructure investments in Kenya, aiming to foster economic growth and address critical needs in sectors such as transportation, energy, and healthcare (Republic of Kenya, 2018; Republic of Kenya, 2019), it is notable that part of the funds raised from a Eurobond issuance in 2019 were used to finance a $750 million Eurobond that was due to mature in June that year.

Early in 2023, the Government of Kenya noted that it would tap concessional external loans to fund the KSh259 billion ($2 billion) repayment of its debut Eurobond due in the next financial year starting July 2024.

**Eurobonds in Ghana**

In 2007, Ghana became the first Sub-Saharan country to issue a Eurobond. At that time, Ghana issued a 10-year Eurobond at a 10% interest rate. Since then, the country has continued to amass debt through issuance of Eurobonds to attain resources to finance its expenditure.

The table below shows a summary of Ghana’s outstanding Eurobonds as at the end of 2021.

**Table 1: Outstanding Eurobonds in Ghana as the end of 2021**

<table>
<thead>
<tr>
<th>Instruments</th>
<th>Issuance Date</th>
<th>Maturity</th>
<th>Coupon Rate (%)</th>
<th>Amount Issued (US$’m)</th>
<th>Outstanding Amount (US$’m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-year</td>
<td>April, 2021</td>
<td>2025</td>
<td>0.000</td>
<td>525.0</td>
<td>525.0</td>
</tr>
<tr>
<td>7-year</td>
<td>April, 2021</td>
<td>2029</td>
<td>7.750</td>
<td>1,000.0</td>
<td>1,000.0</td>
</tr>
<tr>
<td>12-year</td>
<td>April, 2021</td>
<td>2034</td>
<td>8.625</td>
<td>1,000.0</td>
<td>1,000.0</td>
</tr>
<tr>
<td>20-year</td>
<td>April, 2021</td>
<td>2042</td>
<td>8.875</td>
<td>500.0</td>
<td>500.0</td>
</tr>
<tr>
<td>6-year</td>
<td>February, 2020</td>
<td>2026</td>
<td>6.375</td>
<td>1,250.0</td>
<td>1,250.0</td>
</tr>
<tr>
<td>14-year</td>
<td>February, 2020</td>
<td>2034</td>
<td>7.785</td>
<td>1,000.0</td>
<td>1,000.0</td>
</tr>
<tr>
<td>41-year</td>
<td>February, 2020</td>
<td>2060</td>
<td>8.750</td>
<td>750.0</td>
<td>750.0</td>
</tr>
<tr>
<td>7-year</td>
<td>March, 2019</td>
<td>2027</td>
<td>7.875</td>
<td>750.0</td>
<td>750.0</td>
</tr>
<tr>
<td>12-year</td>
<td>March, 2019</td>
<td>2032</td>
<td>8.125</td>
<td>1,250.0</td>
<td>1,250.0</td>
</tr>
<tr>
<td>31-year</td>
<td>March, 2019</td>
<td>2051</td>
<td>8.950</td>
<td>1,000.0</td>
<td>1,000.0</td>
</tr>
<tr>
<td>10-year</td>
<td>May, 2018</td>
<td>2029</td>
<td>7.625</td>
<td>1,000.0</td>
<td>1,000.0</td>
</tr>
<tr>
<td>30-year</td>
<td>May, 2018</td>
<td>2049</td>
<td>8.627</td>
<td>1,000.0</td>
<td>1,000.0</td>
</tr>
<tr>
<td>6-year</td>
<td>September, 2016</td>
<td>2022</td>
<td>9.250</td>
<td>750.0</td>
<td>16.0</td>
</tr>
<tr>
<td>15-year</td>
<td>August, 2015</td>
<td>2030</td>
<td>10.750</td>
<td>1,000.0</td>
<td>930.1</td>
</tr>
<tr>
<td>10-year</td>
<td>July, 2014</td>
<td>2026</td>
<td>8.125</td>
<td>1,000.0</td>
<td>1,000.0</td>
</tr>
<tr>
<td>10-year</td>
<td>August, 2013</td>
<td>2023</td>
<td>7.875</td>
<td>1,000.0</td>
<td>148.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>14,775.0</strong></td>
<td><strong>13,119.9</strong></td>
</tr>
</tbody>
</table>

*Source: Ministry of Finance, Ghana*

As at the end of December 2021, the total outstanding balance of Eurobonds issued stood...
at US$13,119.9 million. In December 2022, Ghana defaulted on its international debt obligations as the country struggled with a deepening financial crisis.

However, it is notable that during May 2023, the IMF Executive Board approved SDR 2.242 billion (about US$3 billion) 36-month ECF arrangement for Ghana. This decision is expected to enable an immediate disbursement equivalent to SDR 451.4 million (about US$600 million).

**The Impact of Eurobonds on African Countries**

Although the IMF Regional Outlook Report for April 2023 recognizes a decline of Eurobond issuances in the region from $14 billion in 2021 to $6 billion in the first quarter of 2022, it is likely that with the continued decline in aid budgets to the region, countries are likely to turn to market-based finance. It is thus important to reflect on the short- and long-term impacts of Eurobonds on the economies of African countries as shown below:

**The exchange rate risk of Eurobonds has a continuous effect on the financial position of African countries.**

In contrast to advanced economies, emerging economies in Africa that issue large amounts Eurobonds are susceptible to getting caught in a harmful cycle of debt and exchange rate fluctuations. Developing countries with delayed industrialization often face deficits in their current accounts and have limited domestic savings. As a result, they rely on external investments and the purchase of foreign goods and services to foster their development. To acquire foreign currency, these countries may issue Eurobonds. However, issuing a significant amount of international bonds concurrently raises the risks associated with foreign exchange and potential default, increasing the likelihood of a sovereign debt crisis. As reflected with countries such as Zambia and Ghana, amassment of loans through Eurobonds drains the foreign reserves of countries as they struggle to meet payment deadlines. This forces them into continuous debt cycles until they get into a situation of debt distress.

**Eurobonds pose a financial burden on African governments due to their high costs.**

Eurobonds come with drawbacks such as high interest rates, substantial coupon payments, and shorter repayment periods. This means that governments have a limited timeframe to utilize the expensive funds and must make periodic interest payments. In Africa, the average duration of bonds is approximately 10 years, with interest rates ranging from 5% to 16%. Partly because of this, interest repayment has become the fastest-growing expenditure in the fiscal budgets of sub-Saharan African countries. For example, Kenya, Zambia, and Ghana are paying 22.2%, 27.4%, 44.6% of their collected tax revenue towards interest repayments. This situation is unsustainable and has resulted in further strain on government finances, leading to a failure to adequately invest in critical sectors such as health, education, agriculture, trade, and industry. Furthermore, with the growing effects of the climate change crisis, it is likely that

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11 [https://www.imf.org/-/media/Files/Publications/REO/AFR/2023/April/English/text.ashx](https://www.imf.org/-/media/Files/Publications/REO/AFR/2023/April/English/text.ashx)
countries will not have sufficient resources to direct towards addressing this challenge.

**Eurobonds are not well-suited to the economic development timelines of African countries due to their limited timeframe and concentrated maturity periods.**

Given that the majority of countries that have issued Eurobonds invest in infrastructure projects, it is important to note that these investments require an extended period to complete, sometimes exceeding 10 years before generating substantial returns. This poses challenges in guaranteeing sufficient revenue to repay maturing debts. As a result, bond-issuing countries often need to seek additional valuable foreign exchange or issue bonds at higher interest rates to meet their debt obligations. Market factors, such as low ratings and high risks, contribute to the relatively shorter maturity periods of Eurobonds issued by developing countries compared to bilateral or multilateral loans provided by governments, multilateral banks, and international organizations.

**Eurobonds carry the inherent risk of promoting fiscal indiscipline and irresponsible borrowing due to a lack of governance and accountability measures.**

The absence of restrictions on how the funds can be spent creates the potential for non-productive use of the funds raised through Eurobonds. It is worth noting that African countries that issued Eurobonds between 2019 and 2021 primarily allocated the funds towards addressing budget deficits and repaying maturing bonds, rather than directing them towards projects with sustainable long-term profitability. In contrast to corporate bonds that clearly outline investment usage and future outcomes, Eurobonds issued by sovereign countries do not require the same level of transparency. As a result, investors, who primarily assess the country’s overall macroeconomic condition, do not actively monitor or supervise how the funds are utilized. This level of freedom could allow African countries, particularly those with unstable political and economic environments, to use funds to bridge fiscal gaps or achieve short-term political objectives. Unfortunately, this approach can lead to unsustainable practices and a disregard for investments in productive and profitable ventures that are crucial for long-term development.

**Recommendations**

**Giving the International Financial Institutions (IFIs) the role to enhance the capacity of Eurobond issuing countries**

International financial institutions, such as the IMF and World Bank, can play a crucial role in addressing the hidden risks associated with international bonds and supporting bond-issuing countries in understanding the pros and cons of various financing methods, particularly their long-term developmental implications. It is essential for these institutions to offer greater assistance in the form of transitional preferential loans to countries that were previously classified as Highly Indebted Poor Countries (HIPC) and have vulnerable economic structures. This support can aid in mitigating risks and promoting sustainable development in these nations.

**Implement robust guidelines for comprehensive debt management across various funding sources:**

It is essential for African countries to set up stringent guidelines to govern the utilization of funds obtained through bond issuance. These funds should be strategically invested in productive projects that can generate sustainable income for the issuing countries. This approach creates
a positive cycle where economic growth is enhanced, fiscal revenue is improved, credit ratings are increased, and further financing opportunities become available. It is crucial for countries to avoid falling into a detrimental cycle where bond issuance is relied upon solely to repay existing debt, leading to higher interest rates and a decline in credit ratings. By adhering to such guidelines, countries can ensure responsible and sustainable debt management practices that contribute to long-term economic stability and growth.

**Diversify the currency composition of Eurobond issuances:**
Heavy reliance on Eurobonds denominated in US dollars exposes bond-issuing countries to significant risks associated with the monetary policy of the US Federal Reserve. To mitigate this risk, African countries should explore the possibility of issuing Eurobonds in a variety of foreign currencies. By diversifying the currency composition, the exchange rate risk can be effectively distributed. Moreover, consideration could be made towards advocating for changes in the existing debt architecture rules to enable negotiations of Eurobonds in local currencies. This would help mitigate the impact of exchange rate volatilities, as local currencies may be less susceptible to such fluctuations.

**Adherence to national and regional commitments on prudent debt management**
It is important to note that prudent debt acquisition and utilization is essential in maintaining macroeconomic stability and promoting growth. Therefore, Governments should adhere to National and Regional commitments in place to promote prudent debt management. For example, in East Africa, countries should adhere to the EAC Monetary Union protocol that requires them to maintain a debt to GDP ratio of 50% and further develop a Common Debt Management Framework as a tool to promote harmonized systems for debt management in the region. This will contribute to enhancing transparency and accountability, hence promoting proper utilization of debt.

**Governments should advocate for the establishment of a multilateral debt mechanism**
The establishment of a multilateral debt mechanism is crucial to reform the existing debt architecture and safeguard the sovereignty of countries from creditors. The current process of debt restructuring is disorderly, lengthy, and complex, placing a heavy burden on ordinary citizens who bear the consequences of high levels of indebtedness. It is important to note that powerful creditor countries benefit from the absence of a structured system as it consolidates their power and that of their private companies during debt negotiations. Additionally, debtors face the challenge of navigating through various instruments, creditors, innovations, and conflicting interests, further complicating the debt restructuring process.

Amidst this chaotic situation, there is a pressing need to update debt resolution frameworks to cater to the specific needs of African countries and their populations. This entails setting up a permanent, rules-based multilateral debt resolution framework that ensures fair, timely, and comprehensive debt treatment from all lenders, tailored to the requirements of each country. It is crucial for countries to reach a consensus on a mechanism that is not solely determined by the will of creditors but incorporates the perspectives and interests of all stakeholders. Hosting this multilateral debt mechanism under the United Nations (UN) is essential, as it provides an impartial forum where all nations have an equal voice, ensuring that neither borrowing nor lending institutions...
hold disproportionate influence.

**Conclusion**

In conclusion, the increase in the issuance of Eurobonds by African countries and its impact on debt sustainability on the economy presents a significant challenge to their long-term development. This situation arises from the profit-driven actions of private lenders operating in the international financial market. Given the continued decline in aid budgets to African countries, it is likely that could increasingly turn to market based finances. It is therefore important that stringent measures are put in place by African countries to enhance transparency, strengthen debt management frameworks and foster borrowing responsible borrowing practices. Finally, countries ought to strengthen their Domestic Revenue Mobilisation systems as a means to guarantee access to financing for their development needs.
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(The Conversation, 2021) African governments have developed a taste for Eurobonds: why it’s dangerous: https://theconversation.com/african-governments-have-developed-a-taste-for-eurobonds-why-its-dangerous-165469

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